

CITY OF AUDUBON

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

JUNE 30, 2015

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City of Audubon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clark Kauffman	Mayor	January 2016
Jason Hocker	Council Member	January 2018
Tom Nielsen	Council Member	Resigned April 2015
Teresa Murray	Council Member	January 2018
Robert Jacobsen	Council Member	January 2016
John Whetzal	Council Member	January 2016
Brad Hemmingsen	Council Member	April 2015-January 2018
Joseph Foran	City Clerk	Indefinite
David Wiederstein	Attorney	Indefinite

City of Audubon



Diane McGrain, CPA
Jim Menard, CPA

November 18, 2015

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of City of Audubon, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Continued...

Opinions

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, the aggregate remaining fund information and the discretely presented component unit of City of Audubon as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As disclosed in Note 4 to the financial statements, City of Audubon adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Audubon's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 30 through 34 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015 on our consideration of City of Audubon's internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Audubon's internal control over financial reporting and compliance.

Schroeder + Associates, P.C.

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, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

The City's total receipts for governmental activities increased approximately \$40,000, from fiscal year 2014 to 2015. Note proceeds decreased approximately \$158,000, tax increment financing receipts decreased approximately \$24,000, property tax receipts increased approximately \$60,000, and capital grants, contributions and restricted interest increased approximately \$141,000.

Disbursements of the City's governmental activities decreased approximately \$192,000 from fiscal year 2014 to 2015. Public works decreased approximately \$102,000, general government increased approximately \$176,000 and capital projects decreased approximately \$171,000.

The City's total cash basis net position decreased approximately \$170,000 from June 30, 2014 to June 30, 2015. Of this amount, the net position of governmental activities decreased approximately \$226,000 and the net position of the business type activities increased approximately \$56,000.

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 Cash Basis Statement of Activities and Net Position. 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.
- Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of net pension liability and related contributions.
- Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

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 Statements

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 Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position 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. 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$705,765 to \$479,779. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 269	266
Operating grants, contributions and restricted interest	314	286
Capital grants, contributions and restricted interest	165	24
General receipts:		
Property tax	761	701
Tax increment financing	72	96
Local option sales tax	164	169
Grants and contributions not restricted to specific purposes	5	3
Unrestricted interest on investments	1	1
Note proceeds	-	158
Other general receipts	41	48
Total receipts	1,792	1,752
Disbursements:		
Public safety	460	544
Public works	634	736
Health and social services	-	1
Culture and recreation	252	361
Community and economic development	174	91
General government	291	115
Debt service	217	201
Capital projects	40	211
Total disbursements	2,068	2,260
Change in cash basis net position before transfers	(276)	(508)
Transfers, net	50	-
Change in cash basis net position	(226)	(508)
Cash basis net position beginning of year	705	1,213
Cash basis net position end of year	479	705

Total governmental activities receipts for the fiscal year were approximately \$1,792,000 compared to approximately \$1,752,000 last year. This decrease was due to the decrease in bond proceeds and a decrease in TIF proceeds by the City.

The cost of all governmental activities this year was approximately \$2,068,000 compared to approximately \$2,260,000 last year. This decrease was due primarily to completion of the housing project in community and economic development.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 233	220
Sewer	373	385
Other miscellaneous receipts	47	39
Total receipts	<u>653</u>	<u>644</u>
Disbursements:		
Water	213	197
Sewer	334	329
Total disbursements	<u>547</u>	<u>526</u>
Change in cash basis net position before transfers	106	118
Transfers, net	<u>(50)</u>	-
Change in cash basis net position	56	118
Cash basis net position beginning of year	<u>270</u>	<u>152</u>
Cash basis net position end of year	<u><u>326</u></u>	<u><u>270</u></u>

Total business type activities charges for service receipts for the fiscal year were approximately \$606,000 compared to \$605,000 last year. The cash balance increased approximately \$56,000 from the prior year. The increase was primarily due to an increase in the number of shut offs for the year. The increase in expenses was due to an increase of maintenance and replacement cost for aged equipment at both water and wastewater facilities.

The business-type activities receipts increased by approximately \$9,000. Expenditures increased by approximately \$21,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$479,779, a decrease of \$225,986 from last year's balance of \$705,765. 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 \$163,465 to \$143,785. This decrease is primarily due to unbudgeted expenses from the pool and clean up cost from a dilapidated building in Downtown.
- The Special Revenue, Road Use Tax Fund cash balance increased \$115,574 to \$97,658. The increase is due to fewer projects and more expenses taken out of LOST funds.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$18,853 to \$24,024. The decrease is due to increases in health and dental insurance that was not budgeted completely.
- The Special Revenue, Cemetery Trust Fund increased \$2,006.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$110,170 to \$156,491 due to more expenses for road projects paid out of the LOST fund rather than the Road Use Tax Fund.
- The Debt Service Fund decreased \$87,609 to (\$163,974). The decrease is due to a debt obligation payment not being levied for.
- The Capital Projects Fund cash balance decreased \$39,814 to \$255,424. The decrease is due to the decision to pay for a new truck for the Public Works department out of those funds.

- The Permanent Fund, Cemetery Trust cash balance increased \$6,290 to \$120,127.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased \$2,541 to \$206,038.

The Sewer Fund cash balance increased \$52,682 to \$119,570 due primarily to the sewer rate increase in 2012 and fewer repairs and improvement projects for the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved August 11, 2014 and resulted in an increase in disbursements of \$100,000. The increase was primarily for expenditures relating to the demolition of 310 Broadway. The second amendment was approved May 11, 2015 and resulted in an increase in receipts of \$16,000 and an increase in disbursements of \$350,000. The increase was primarily for Library repairs, pool repairs, and software purchase.

The City’s receipts were \$567,203 more than budgeted. This was due to the LOST funds being budgeted very conservatively and matching funds from IEDA that were not considered.

With the amendments, total disbursements were \$193,436 less than budgeted. The actual disbursements for capital projects were \$65,186 less than the amended budgets due to budgeting for payments for other projects that do not actually happen.

DEBT ADMINISTRATION

At June 30, 2015 the City had approximately \$2,901,000 in long term debt outstanding, compared to \$3,238,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
General obligation notes	\$ 1,679	1,883
Revenue notes	1,222	1,355
	<u>\$ 2,901</u>	<u>3,238</u>

The Constitution of the State of Iowa limits the general obligation debt cities can issue to 5% of the assessed value of all taxable property with the City’s corporate limits. The City’s outstanding general obligation debt of approximately \$1.7 million is below the constitutional debt limit of \$3.5 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates and fees charged for various City activities. The Department Heads submitted their budget requests for the FY 2016 budget and were considered by the Council work sessions to compile the entire 2016 budget along with other factors, including the need for wastewater and water improvements. The negotiations on a new union agreement were also considered.

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 Joseph Foran, City Clerk, 410 North Park Place, Audubon, Iowa 50025.

City of Audubon
Basic Financial Statements

City of Audubon
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2015

	Disbursements	Program Receipts		Net (Disbursement) Receipts and Changes in Cash Basis Net Position			Component Unit
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 460,385	983	18,914	-	(440,488)	-	(440,488)
Public works	633,798	205,950	228,028	-	(199,820)	-	(199,820)
Culture and recreation	251,567	58,325	35,859	-	(157,383)	-	(157,383)
Community and economic development	173,621	-	2,370	165,544	(5,707)	-	(5,707)
General government	291,145	3,615	27,532	-	(259,998)	-	(259,998)
Debt service	217,541	-	-	-	(217,541)	-	(217,541)
Capital projects	39,814	-	-	-	(39,814)	-	(39,814)
Total governmental activities	2,067,871	268,873	312,703	165,544	(1,320,751)	-	(1,320,751)
Business type activities:							
Water	213,582	233,358	-	-	-	19,776	19,776
Sewer	334,083	373,010	-	-	-	38,927	38,927
Total business type activities	547,665	606,368	-	-	-	58,703	58,703
Total Primary Government	\$ 2,615,536	875,241	312,703	165,544	(1,320,751)	58,703	(1,262,048)
Component Unit:							
Audubon Volunteer Fire Department	\$ 88,825	-	82,901	-	-	-	(5,924)
General Receipts:							
Property tax levied for:							
General purposes				426,550	-	426,550	-
Employee benefits				204,164	-	204,164	-
Debt service				129,932	-	129,932	-
Tax increment financing				72,227	-	72,227	-
Local option sales tax				164,152	-	164,152	-
Grants and contributions not restricted to specific purpose				4,924	-	4,924	-
Unrestricted interest on investments				1,407	122	1,529	192
Miscellaneous				41,409	46,398	87,807	-
Transfers				50,000	(50,000)	-	-
Total general receipts and transfers				1,094,765	(3,480)	1,091,285	192
Change in cash basis net position				(225,986)	55,223	(170,763)	(5,732)
Cash basis net position beginning of year				705,765	270,385	976,150	94,693
Cash basis net position end of year				\$ 479,779	325,608	805,387	88,961
Cash Basis Net Position							
Restricted:							
Nonexpendable							
Cemetery perpetual care				\$ 120,127	-	120,127	-
Expendable							
Employee benefits				24,024	-	24,024	-
Street construction and repair				254,149	-	254,149	-
Cemetery trust				54,469	-	54,469	-
Capital projects				255,424	-	255,424	-
Unrestricted				(228,414)	325,608	97,194	88,961
Total cash basis net position				\$ 479,779	325,608	805,387	88,961

See notes to financial statements

City of Audubon
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2015

	General	Special Revenue					Permanent		Nonmajor	Total
		Road Use Tax	Employee Benefits	Cemetery Trust	Local Option Sales Tax	Debt Service	Capital Projects	Cemetery Trust		
Receipts										
Property tax	\$ 403,980	-	193,333	-	-	123,357	-	-	-	720,670
Tax increment financing collections	-	-	-	-	-	-	-	-	72,227	72,227
Other city tax	22,570	-	10,831	-	164,152	6,575	-	-	-	204,128
Licenses and permits	3,615	-	-	-	-	-	-	-	-	3,615
Use of money and property	20,979	-	-	130	-	-	-	-	-	21,109
Intergovernmental	60,364	226,266	-	-	-	-	-	-	165,544	452,174
Charges for service	242,833	-	-	-	-	-	-	-	-	242,833
Miscellaneous	48,042	1,762	4,020	12,645	-	-	-	6,290	2,370	75,129
Total receipts	802,383	228,028	208,184	12,775	164,152	129,932	-	6,290	240,141	1,791,885
Disbursements										
Operating:										
Public safety	359,755	-	100,630	-	-	-	-	-	-	460,385
Public works	168,668	112,454	78,354	-	274,322	-	-	-	-	633,798
Culture and recreation	229,036	-	7,220	10,769	-	-	-	-	4,542	251,567
Community and economic development	8,077	-	-	-	-	-	-	-	165,544	173,621
General government	250,312	-	40,833	-	-	-	-	-	-	291,145
Debt service	-	-	-	-	-	217,541	-	-	-	217,541
Capital projects	-	-	-	-	-	-	39,814	-	-	39,814
Total disbursements	1,015,848	112,454	227,037	10,769	274,322	217,541	39,814	-	170,086	2,067,871
Excess (deficiency) of receipts over (under) disbursements	(213,465)	115,574	(18,853)	2,006	(110,170)	(87,609)	(39,814)	6,290	70,055	(275,986)
Other financing sources:										
Operating transfers in	50,000	-	-	-	-	-	-	-	-	50,000
Total other financing other financing sources	50,000	-	-	-	-	-	-	-	-	50,000
Change in cash balances	(163,465)	115,574	(18,853)	2,006	(110,170)	(87,609)	(39,814)	6,290	70,055	(225,986)
Cash balances beginning of year	307,250	(17,916)	42,877	52,463	266,661	(76,365)	295,238	113,837	(278,280)	705,765
Cash balances end of year	\$ 143,785	97,658	24,024	54,469	156,491	(163,974)	255,424	120,127	(208,225)	479,779
Cash Basis Fund Balances										
Nonexpendable - cemetery perpetual care	\$ -	-	-	-	-	-	-	120,127	-	120,127
Restricted for:										
Streets	-	97,658	-	-	156,491	-	-	-	-	254,149
Employee benefits	-	-	24,024	-	-	-	-	-	-	24,024
Cemetery trust	-	-	-	54,469	-	-	-	-	-	54,469
Capital projects	-	-	-	-	-	-	255,424	-	-	255,424
Assigned for park projects	143,785	-	-	-	-	-	-	-	-	143,785
Unrestricted	-	-	-	-	-	(163,974)	-	-	(208,225)	(372,199)
Total cash basis fund balances	\$ 143,785	97,658	24,024	54,469	156,491	(163,974)	255,424	120,127	#REF!	#REF!

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, 2015

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 233,358	373,010	606,368
Operating disbursements:			
Business type activities	<u>213,582</u>	<u>173,983</u>	<u>387,565</u>
Excess of operating receipts over operating disbursements	19,776	199,027	218,803
Non-operating receipts (disbursements)			
Interest on investments	42	80	122
Miscellaneous	32,723	13,675	46,398
Debt service	<u>-</u>	<u>(160,100)</u>	<u>(160,100)</u>
	<u>32,765</u>	<u>(146,345)</u>	<u>(113,580)</u>
Excess of receipts over disbursements	52,541	52,682	105,223
Other financing sources uses:			
Operating transfers out	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Change in cash balances	2,541	52,682	55,223
Cash balances beginning of year	<u>203,497</u>	<u>66,888</u>	<u>270,385</u>
Cash balances end of year	<u>\$ 206,038</u>	<u>119,570</u>	<u>325,608</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 206,038</u>	<u>119,570</u>	<u>325,608</u>

See notes to financial statements

City of Audubon
Notes to Financial Statements
June 30, 2015

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.

These financial statements present the City of Audubon (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

Audubon Volunteer Fire Department (Department) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Department meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or help by the Department are substantially for the direct benefit of the City of Audubon.

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.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position 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.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund accounts for the tax levy to support City employee benefits.

The Cemetery Trust Fund accounts for non-perpetual care cemetery receipts and disbursements.

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

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of principal and interest on the City's general long term debt.

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

The Permanent Fund – Cemetery Trust is used to report resources that are legally restricted to the extent that only earnings and not principal may be used for cemetery care.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

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 position 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.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies – Continued

C. Measurement Focus and Basis of Accounting- Continued

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the community and economic development, general government and the debt service functions.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2013, to compute the amounts which became liens on property on July 1, 2014. These taxes were due and payable in two installments on September 30, 2014 and March 31, 2015, at the Audubon County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2015 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 \$805,387.

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, 2015

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and notes and revenue notes are as follows:

Year Ended June 30,	General Obligation Bonds		Revenue Notes	Total
	Principal		Principal	Principal
2016	\$ 179,000	\$ 138,000	\$ 317,000	
2017	130,000	142,000	272,000	
2018	135,000	146,000	281,000	
2019	136,000	150,000	286,000	
2020	136,000	154,000	290,000	
2021-2025	713,000	492,000	1,205,000	
2026-2027	280,000	-	280,000	
Total	\$ <u>1,709,000</u>	\$ <u>1,222,000</u>	\$ <u>2,931,000</u>	

Year Ended June 30,	Interest		Interest	
	Interest		Interest	
2016	\$ 34,892	\$ 21,386	\$ 56,278	
2017	31,387	18,969	50,356	
2018	29,672	16,485	46,157	
2019	27,627	13,930	41,557	
2020	25,332	11,305	36,637	
2021-2025	84,770	17,395	102,165	
2026-2027	10,710	-	10,710	
Total	\$ <u>244,390</u>	\$ <u>99,470</u>	\$ <u>343,860</u>	

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

The City has a general obligation debt limit of approximately \$3,521,000 which was not exceeded during the year ended June 30, 2015.

General Obligation Refunding Notes

On October 10, 2012, the City issued \$965,000 of general obligation refunding notes with interest rates ranging from 0.75% to 2.05% per annum. These refunding notes were placed in escrow to refund \$830,000 of general obligation notes issued September 11, 2008, on June 1, 2015. The \$830,000 general obligation note was paid off on June 1, 2015 and the escrow balance was zero at June 30, 2015.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (3) Bonds and Notes Payable - Continued

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 were more than 78 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$1,321,470. For the current year, principal and interest paid and total customer net receipts were \$156,713 and \$199,027, respectively.

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

- a) 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.
- b) 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:

- c) 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's is in compliance with the provisions noted above.

NOTE (4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (4) Pension Plan - Continued

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (4) Pension Plan - Continued

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$45,155.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$127,507. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.003213 percent, which was a decrease of 0.000016 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$16,413, \$9,283 and \$108,749 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (4) Pension Plan - Continued

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 362,436	\$ 127,507	\$ (70,672)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

City of Audubon
Notes to Financial Statements
June 30, 2015

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, 2015, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$10,950

The liability has been computed based on rates of pay as of June 30, 2015.

NOTE (6) Commitments

Cemetery Contracts – The City has contracted for the upkeep of one cemetery through March 2017, for an annual cost of \$10,529, and mowing of another cemetery through March 2017, for an annual cost of \$16,676.

City Mowing Contract – The City has contracted for the upkeep of City grounds through February 2017, for an annual cost of \$13,234.

Water and Wastewater Operation Contract – The City has contracted for operations of the waterworks and wastewater treatment facilities through December 31, 2017 for an approximate annual cost of \$137,000, to be adjusted each April for inflation.

Solid Waste and Recyclables Hauling Contract – The City has contracted for solid waste and recyclable pickup within the City for a monthly cost of \$8,317 through December 2016.

NOTE (7) Risk Management

The City of Audubon is exposed to various risks of loss related to torts: theft, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liabilities for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Audubon
Notes to Financial Statements
June 30, 2015

NOTE (8) Deficit Fund Balance

At June 30, 2015, the City had the following deficit balances:

Special Revenue Fund:		
Urban Renewal Tax Increment	\$	208,225
Debt Service		<u>163,974</u>
	\$	<u>372,199</u>

The Debt Service Fund deficit will be eliminated with collection of property taxes.

The Urban Renewal Tax Increment Fund deficit will be eliminated with the receipts from tax increment financing collections.

NOTE (9) Construction Commitments

As of June 30, 2015, the City has a balance of \$24,730 remaining on an engineering contract for a wastewater facility project.

Other 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
 Other Information
 Year ended June 30, 2015

	Governmental	Proprietary	Net	Budgeted Amounts		Final
	Funds	Funds		Original	Final	to Net
	Actual	Actual				Variance
Receipts						
Property tax	\$ 720,670	-	720,670	708,562	708,562	12,108
Tax increment financing collections	72,227	-	72,227	73,000	73,000	(773)
Other city tax	204,128	-	204,128	40,438	40,438	163,690
Licenses and permits	3,615	-	3,615	5,700	21,700	(18,085)
Use of money and property	21,109	122	21,231	22,700	22,700	(1,469)
Intergovernmental	452,174	-	452,174	34,000	34,000	418,174
Charges for service	242,833	606,368	849,201	919,770	919,770	(70,569)
Miscellaneous	75,129	46,398	121,527	57,400	57,400	64,127
Total receipts	1,791,885	652,888	2,444,773	1,861,570	1,877,570	567,203
Disbursements						
Public safety	460,385	-	460,385	546,880	546,880	86,495
Public works	633,798	-	633,798	698,904	698,904	65,106
Health and social services	-	-	-	1,000	1,000	1,000
Culture and recreation	251,567	-	251,567	215,300	300,300	48,733
Community and economic development	173,621	-	173,621	29,155	129,155	(44,466)
General government	291,145	-	291,145	126,025	286,025	(5,120)
Debt service	217,541	-	217,541	128,198	128,198	(89,343)
Capital projects	39,814	-	39,814	-	105,000	65,186
Business type activities	-	547,665	547,665	613,510	613,510	65,845
Total disbursements	2,067,871	547,665	2,615,536	2,358,972	2,808,972	193,436
Excess (deficiency) of receipts over (under) disbursements	(275,986)	105,223	(170,763)	(497,402)	(931,402)	760,639
Other financing sources, net:	50,000	(50,000)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(225,986)	55,223	(170,763)	(497,402)	(931,402)	760,639
Balances beginning of year	705,765	270,385	976,150	976,704	976,150	-
Balances end of year	\$ 479,779	325,608	805,387	479,302	44,748	760,639

See accompanying independent auditors' report

City of Audubon
Notes to Other Information – Budgetary Reporting
June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 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, two budget amendments increased budgeted receipts by \$16,000 and budget disbursements by \$450,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amended budgeted amounts in the community and economic development, general government and debt service functions.

City of Audubon
 Schedule of the City's Proportionate Share of the Net Pension Liability
 Iowa Public Employees' Retirement System
 (In Thousands)
 Other Information
 Year ended June 30, 2015

City's proportion of the net pension liability	0.003213 %
City's proportionate share of the net pension liability	\$ 128
City's covered-employee payroll	\$ 448
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	28.57%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditors' report

City of Audubon
Schedule of City Contributions
Iowa Public Employees' Retirement System
Last Seven Fiscal Years
(In Thousands)
Other Information

	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	\$ 45	42	43	40	35	32	31
Contributions in relation to the statutorily required contribution	45	42	43	40	35	32	31
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-
City's covered-employee payroll	\$ 478	448	468	456	438	421	431
Contributions as a percentage of covered-employee payroll	9.44%	9.39%	9.15%	8.80%	8.06%	7.54%	7.12%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditors' report

City of Audubon
Notes to Other Information – Pension Liability
Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

City of Audubon
 Schedule of Cash Receipts, Disbursements, and Changes in
 Cash Balances - Nonmajor Governmental Funds
 Year ended June 30, 2015

	Special Revenue		
	Urban		
	Renewal Tax Increment	Housing	Total
Receipts			
Tax increment financing collections	\$ 72,227	-	72,227
Intergovernmental	-	165,544	165,544
Miscellaneous	2,370	-	2,370
Total receipts	<u>74,597</u>	<u>165,544</u>	<u>240,141</u>
Disbursements:			
Culture and recreation	4,542	-	4,542
Community and economic development	-	165,544	165,544
Total disbursements	<u>4,542</u>	<u>165,544</u>	<u>170,086</u>
Net change in cash balances	70,055	-	70,055
Cash balances beginning of year	<u>(278,280)</u>	<u>-</u>	<u>(278,280)</u>
Cash balances end of year	<u><u>\$ (208,225)</u></u>	<u><u>-</u></u>	<u><u>(208,225)</u></u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ (208,225)</u>	<u>-</u>	<u>(208,225)</u>
Total cash basis fund balances	<u><u>\$ (208,225)</u></u>	<u><u>-</u></u>	<u><u>(208,225)</u></u>

See accompanying independent auditors' report

Schedule 2

City of Audubon
 Schedule of Indebtedness
 Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds and notes:									
Equipment	Sept 26, 2007	4.30%	\$ 350,000	\$ 100,000	-	50,000	50,000	4,275	-
Streetscape	Sept 11, 2008	4.88%	1,320,000	85,000	-	85,000	-	4,144	-
Capital Loan Notes	Oct 10, 2012	2.20-2.55%	620,000	610,000	-	5,000	605,000	14,873	-
Refunding Notes	Oct 10, 2012	0.75-2.05%	965,000	930,000	-	20,000	910,000	13,810	-
Essential Corporate Purpose	Aug 27, 2013	3.00%	158,000	158,000	-	14,000	144,000	4,740	-
				<u>\$ 1,883,000</u>	<u>-</u>	<u>174,000</u>	<u>1,709,000</u>	<u>41,842</u>	<u>-</u>
Revenue notes:									
Sewer	Sep 15, 2002	3.00%	\$ 2,066,000	\$ 1,081,000	-	106,000	975,000	18,918	-
Sewer	Dec 12, 2003	3.00%	600,000	274,000	-	27,000	247,000	4,795	-
Total			<u>\$ 1,355,000</u>	<u>-</u>	<u>-</u>	<u>133,000</u>	<u>1,222,000</u>	<u>23,713</u>	<u>-</u>

See accompanying independent auditors' report

City of Audubon
Bond and Note Maturities
June 30, 2015

General Obligation Bonds and Notes

Year Ending June 30,	Equipment		Capital Loan Notes		Refunding Notes		Essential Corporate Purpose		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
									Issued Sept 26, 2007
2016	4.30%	\$ 50,000	2.20%	\$ 5,000	0.75%	\$ 110,000	3.00%	\$ 14,000	\$ 179,000
2017	-	-	2.20%	5,000	1.05%	110,000	3.00%	15,000	130,000
2018	-	-	2.20%	10,000	1.25%	110,000	3.00%	15,000	135,000
2019	-	-	2.20%	10,000	1.45%	110,000	3.00%	16,000	136,000
2020	-	-	2.20%	5,000	1.60%	115,000	3.00%	16,000	141,000
2021	-	-	2.20%	10,000	1.80%	115,000	3.00%	16,000	142,000
2022	-	-	2.20%	5,000	1.95%	120,000	3.00%	17,000	147,000
2023	-	-	2.20%	10,000	2.05%	120,000	3.00%	17,000	148,000
2024	-	-	2.20%	130,000	-	-	3.00%	18,000	135,000
2025	-	-	2.55%	135,000	-	-	-	-	140,000
2026	-	-	2.55%	140,000	-	-	-	-	140,000
2027	-	-	2.55%	140,000	-	-	-	-	140,000
		\$ 50,000		\$ 605,000		\$ 910,000		\$ 144,000	\$ 1,709,000

Revenue Notes

Year Ending June 30,	Sewer		Sewer		
	Interest Rates	Amount	Interest Rates	Amount	
					Issued Oct 15, 1999
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
		\$ 247,000		\$ 975,000	\$ 1,222,000

See accompanying independent auditors' report

Schedule 4

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Receipts										
Property tax	\$ 720,670	661,079	761,984	769,268	826,772	697,584	591,287	502,392	450,807	567,388
Tax increment financing collections	72,227	96,274	43,609	44,681	46,293	128,054	31,636	84,848	144,011	33,901
Other city tax	204,128	208,329	239,838	213,956	230,636	213,365	219,178	204,702	175,273	180,157
Licenses and permits	3,615	2,106	1,562	2,649	2,157	793	466	508	1,583	3,307
Use of money and property	21,109	19,984	20,799	19,717	20,832	27,359	38,248	84,618	58,501	47,753
Intergovernmental	452,174	284,177	251,864	293,306	542,684	447,545	562,377	600,094	254,803	247,524
Charges for service	242,833	244,713	249,426	244,848	243,148	229,816	209,538	196,688	202,272	198,176
Special assessments	-	3,807	3,977	4,645	942	6,007	4,260	20,706	31,377	12,686
Miscellaneous	75,129	74,855	85,270	100,421	55,676	95,015	106,178	120,924	165,709	93,564
Total	\$ 1,791,885	1,595,324	1,658,329	1,693,491	1,969,140	1,845,538	1,763,168	1,815,480	1,484,336	1,384,456
Disbursements										
Operating:										
Public safety	\$ 460,385	544,006	363,821	403,733	350,822	340,427	345,091	487,808	350,862	296,651
Public works	633,798	736,329	776,945	729,120	693,929	859,937	1,031,742	913,310	606,413	553,816
Health and social services	-	1,000	1,000	1,000	-	-	-	1,000	1,000	1,000
Culture and recreation	251,567	361,476	276,730	273,275	247,277	240,922	260,750	265,913	264,595	326,173
Community and economic development	173,621	91,359	49,155	55,436	51,097	43,488	33,881	166,893	159,517	41,794
General government	291,145	114,714	119,546	137,824	302,957	83,128	87,854	89,177	137,370	86,480
Debt service	217,541	200,914	174,547	250,565	253,030	255,225	240,332	114,576	23,635	204,845
Capital projects	39,814	211,210	309,226	-	-	7,656	361,926	1,107,220	-	-
Total	\$ 2,067,871	2,261,008	2,070,970	1,850,953	1,899,112	1,830,783	2,361,576	3,145,897	1,543,392	1,510,759

See accompanying independent auditors' report

City of Audubon



Diane McGrain, CPA
Jim Menard, CPA

November 18, 2015

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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of City of Audubon, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 18, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Audubon's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Audubon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Audubon's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses or significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Audubon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-15 thru I-C-15 to be material weaknesses.

Continued...

omni business centre
42 n 2nd Street
council bluffs, iowa 51503
712•322•8734 / fax 712•322•4699

November 18, 2015
City of Audubon
Independent Auditors' Report

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-D-15 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which 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, 2015 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

City of Audubon's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Audubon's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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.

Schroer & Associates, P.C.

City of Audubon
Schedule of Findings
Year Ended June 30, 2015

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-15 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. Controls over cash receipts at the swimming pool are minimal.

Recommendation – We realize segregation of duties is difficult with a limited number of 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.

I-B-15 Financial Reporting

Comment – During the audit, we identified duplicate payroll liability checks posted to the system resulting in material adjustments to bank balances for outstanding items and payroll expense accounts. There was also a batch of checks misdated January 2014 versus 2015, but were posted to the correct period. We also noted disbursements misclassified as federal funds.

Recommendation – The City should implement procedures to ensure all disbursements are only recorded once and that outstanding items on the bank reconciliation should actually be outstanding. Also, transaction dates should be verify before posting to the software. Transactions should be reviewed for proper classification before posting.

Response – The new software was automatically generating one payroll liability disbursement and one was manually created at the time the liabilities were paid. We will address this issue with the software company to ensure duplicates are no longer generated. We will double check all dates and classifications before posting to the software.

Conclusion – Response accepted.

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

INTERNAL CONTROL DEFICIENCIES - CONTINUED:

I-C-15 Payroll Reconciliations

Comment - We noted Forms 941 for 2014 did not reconcile to the payroll module and paper copies could not be located for all quarters to verify the original submissions to the Internal Revenue Service. Also, IPERS conducted an audit of the City's wages, and subsequently it was determined that the employee and employer portions were underfunded. Employees received letters indicating they owed IPERS money for amounts withheld on their paychecks, but not remitted by the City.

Recommendation - The City should ensure the payroll reports reconcile to the payroll module and that paper copies for payroll tax returns are kept on file. Also, the City should contact all employees to notify them of the IPERS adjustments, and request they submit to the City a copy of any letters received from IPERS in order to resolve the situation. The City should pay the IPERS adjustments for both employee and employer portions. The City should also ensure that all payroll taxes withheld from employees' paychecks are remitted accurately and timely to avoid future adjustments and corrections.

Response - The Form 941's for 2014 were amended before the release of the audit report and reconciled to the payroll module. We will ensure all reports and general ledgers reconcile to the payroll module on a monthly basis in the future. We have already implemented filing paper copies of all payroll tax returns that are submitted. The City will pay the employee and employer portions of the IPERS adjustments that resulted from the IPERS audit and ensure all taxes withheld are properly remitted.

Conclusion – Response accepted.

I-D-15 Disbursement Approval and Documentation

Comment – For two of the forty-four transactions tested, there was no evidence of Council approval, and three sales tax payments were approved for lesser amounts than what was remitted. Also, invoices for the months for July, August, and September were not cancelled to prevent duplicate payment and seven of the forty-four transactions tested were not supported by an invoice.

Recommendation – The City should ensure all expenditures are properly approved, supported, approved for the correct amounts and invoices cancelled.

Response – We will ensure all expenditures are properly approved, supported, approved for the correct amounts and invoices cancelled.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Audubon
Schedule of Findings
Year Ended June 30, 2015

Part II: Other Findings Related to Statutory Reporting:

II-A-15 Certified Budget

Comment - Disbursements during the year ended June 30, 2015, exceeded the amended budgeted amounts in the community and economic development, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation. Also, the budget amendments did accurately present all line items as originally budgeted.

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. Also, when budget amendments are prepared, all lines showing original, or previously amended, budget amounts should be presented, even when those amounts are not being amended.

Response – The budget will be amended in sufficient amounts in the future, if applicable and all lines will be completed on the budget amendments.

Conclusion – Response accepted.

II-B-15 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-15 Travel Expense

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

II-D-15 Business Transactions

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

II-E-15 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, 2015

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

II-F-15 Council Minutes

Comment – As previously noted, two transactions out of the forty-four transactions tested for the year, were not approved in the Council minutes and three sales tax claims were approved for lesser amounts than what was remitted.

Also, as previously noted, invoices for the months of July, August and September were not cancelled to prevent duplicate payment and seven transactions out of the forty-four transactions tested were not supported by an invoice.

Entries were made in October to reclassify library disbursements, however invoices and/or supporting documentation for the journal entries could not be located and the disbursements or journal entries were not approved by council.

Although minutes of City Council proceedings were published, the list of claims did not include descriptions for the first part of the year, and total receipts by fund were not published for the full fiscal year. Also, the August minutes were not signed in accordance with Chapter 380.7 of the Code of Iowa.

When the council entered into closed session on December 20, 2014, Chapter 21.5 of the Code of Iowa was not cited. Also, roll call vote was not noted to end the closed session on January 16, 2015.

Recommendation – The City should review procedures to ensure all claims are approved by the Council, amounts approved by council agree with payments made, all invoices are cancelled, and all invoices are on file.

The City should comply with Chapter 21 of the Code of Iowa and should publish claims, disbursements and receipts as required.

Response – We will comply with the Code requirements for closed sessions and publish all required items. We will review procedures to ensure all transactions are properly supported, approved and invoices cancelled.

Conclusion – Response accepted.

II-G-15 Deposits and Investments

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

City of Audubon
Schedule of Findings
Year Ended June 30, 2015

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

II-H-15 Revenue Note

No instances of non-compliance with the revenue bond resolution were noted.

II-I-15 Financial Condition

Comment – At June 30, 2015, the City has the following deficit fund balances:

Special Revenue Fund:		
Urban Renewal Tax Increment	\$	208,225
Debt Service		<u>163,974</u>
	\$	<u>372,199</u>

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

Response – We will eliminate the deficits with property tax collections, tax increment financing collections and funds transfers.

Conclusion – Response accepted.

II-J-15 City Code

Comment – In accordance with Chapter 380.8(2) of the Code of Iowa, at least once every five years, a City shall compile a City Code containing all of the city ordinances in effect except trade, bond, zoning ordinances, and ordinances vacating streets and alleys. The City has not re-codified its City Ordinances in more than five years.

Recommendation – The City should re-codify City Ordinances.

Response – We are in the process of re-codifying city Ordinances.

Conclusion – Response accepted.

II-K-15 Tax Increment Financing

Comment – The City has TIF debt of \$20,000 and \$62,347 that has not been certified to the County.

Recommendation –The City should certify the amounts of \$20,000 and \$62,347 on the current year TIF Certification Form 1.

Response – We will submit the appropriate TIF Certification forms to the County Auditor.

Conclusion – Response accepted.

City of Audubon
Schedule of Findings
Year Ended June 30, 2015

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

II-L-15 Credit Card Policy

Comment – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, as a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We will adopt a formal written credit card policy.

Conclusion – Response accepted.

II-M-15 Urban Renewal Annual Report

Comment – The urban renewal annual report was certified to the Iowa Department of Management on or before December 1, but was not approved by the council. However, the beginning debt was overstated by \$5,500 and the ending TIF fund balance was understated by \$11,509.

Recommendation – The Council to approve the urban renewal report before certification to the Iowa Department of Management. The City should reconcile the report with the City's records.

Response – We will make sure the Council approves the report before certification and make appropriate corrections on the next report filed.

Conclusion – Response accepted.