



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

March 29, 2018

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Audubon, Iowa.

The City's receipts totaled \$3,453,395 for the year ended June 30, 2017, a 24.3% increase over the prior year. The receipts included \$803,674 of property tax, \$307,123 tax increment financing, \$195,508 of local option sales tax, \$1,103,654 of charges for service, \$376,338 of operating grants, contributions and restricted interest, \$1,722 of utility excise tax, \$21,018 of unrestricted interest on investments, \$530,244 of note proceeds and \$114,114 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$3,424,183, an 18.3% increase over the prior year, and included \$976,656 for public works, \$505,966 for public safety and \$324,512 for culture and recreation. Also, disbursements for business type activities totaled \$1,010,156.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1720-0027-B00F>.

###

CITY OF AUDUBON

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

JUNE 30, 2017

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Management’s Discussion and Analysis		9-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	16-17
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	21
Notes to Financial Statements		23-32
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		34-35
Notes to Other Information – Budgetary Reporting		36
Schedule of the City’s Proportionate Share of the Net Pension Liability		37
Schedule of City Contributions		38-39
Notes to Other Information – Pension Liability		40
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	43
Schedule of Indebtedness	2	44-45
Note Maturities	3	47
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	48-49
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 <u>Government Auditing Standards</u>		51-52
Schedule of Findings		53-60
Staff		61

City of Audubon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Barb Jacobsen	Mayor	Jan 2020
Brad Hemmingsen (Appointed Apr 2015)	Council Member	Nov 2017
Jason Hocker	Council Member	Jan 2018
Teresa Murray	Council Member	Jan 2018
Andy Griffith	Council Member	Jan 2020
Robert Jacobsen	Council Member	Jan 2020
Joseph Foran	City Clerk	Indefinite
Mark Bosworth	Attorney	Indefinite

City of Audubon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2017, and the related Notes to 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.

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Audubon as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed 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 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 the 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 year ended June 30, 2016 (which are not presented herein) and expressed an unmodified opinion on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2015 (which are not presented herein) were audited by another auditor who 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 9 through 14 and 34 through 40, 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 March 22, 2018 on our consideration of the 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 solely 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 effectiveness of the City's 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 the City of Audubon's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

March 22, 2018

City of Audubon

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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 14.3%, or approximately \$309,000, from fiscal year 2016 to fiscal year 2017. Tax increment financing increased approximately \$251,000 and charges for service increased approximately \$151,000.
- Disbursements of the City's governmental activities increased 10.7%, or approximately \$233,000, from fiscal year 2016 to fiscal year 2017. Public works, general government and capital projects disbursements increased approximately \$347,000, \$59,000 and \$101,000, respectively.
- The City's total cash basis net position increased 3.7%, or approximately \$29,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$101,000 and the cash basis net position of the business type activities decreased approximately \$72,000.

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 financial 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 the 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 principles. Therefore, when reviewing the financial information and discussion within this annual report, readers 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 Cash Basis 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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Permanent 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 statement for governmental funds is 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.

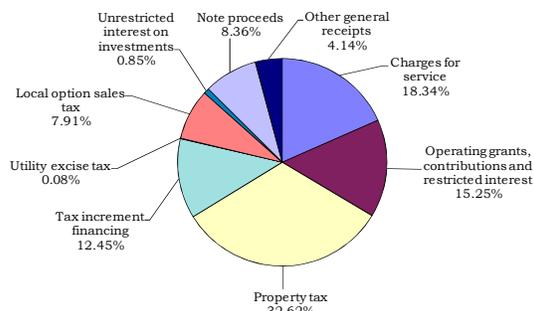
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

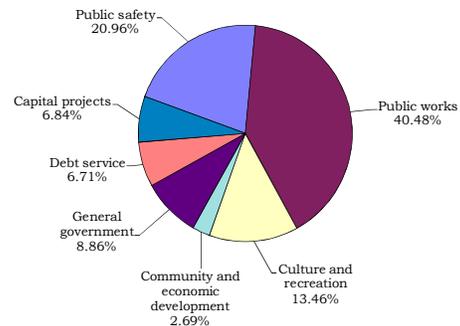
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$593,000 to approximately \$694,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 452	300
Operating grants, contributions and restricted interest	376	363
Capital grants, contributions and restricted interest	-	163
General receipts:		
Property tax	804	957
Tax increment financing	307	56
Utility excise tax	2	-
Local option sales tax	195	172
Unrestricted interest on investments	21	1
Note proceeds	206	-
Other general receipts	102	144
Total receipts	2,465	2,156
Disbursements:		
Public safety	506	617
Public works	977	630
Culture and recreation	325	276
Community and economic development	65	223
General government	214	155
Debt service	162	216
Capital projects	165	64
Total disbursements	2,414	2,181
Change in cash basis net position before transfers	51	(25)
Transfers, net	50	50
Change in cash basis net position	101	25
Cash basis net position beginning of year	593	568
Cash basis net position end of year	\$ 694	593

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 14.3%, or approximately \$309,000, over the prior year. The significant increase in receipts was primarily the result of increases in tax increment financing receipts collected by the City of approximately \$251,000 and anticipation note proceeds received by the City of approximately \$206,000. In addition, capital grants, contributions and restricted decreased approximately \$163,000.

The cost of all governmental activities this year was approximately \$2,414,000 compared to approximately \$2,181,000 last year. The total cost of all programs and services increased approximately \$233,000, or 10.7%. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 16 and 17, the amount taxpayers ultimately financed for these activities was approximately \$1,586,000 because some of the cost was paid by those directly benefited from the programs (approximately \$451,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$376,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2017 from approximately \$826,000 to approximately \$828,000.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 228	232
Sewer	424	367
General receipts:		
Note proceeds	325	-
Other general receipts	12	25
Total receipts	<u>989</u>	<u>624</u>
Disbursements:		
Water	288	249
Sewer	723	464
Total disbursements	<u>1,011</u>	<u>713</u>
Change in cash basis net position before transfers	(22)	(89)
Transfers, net	<u>(50)</u>	<u>(50)</u>
Change in cash basis net position	(72)	(139)
Cash basis net position beginning of year	<u>187</u>	<u>326</u>
Cash basis net position end of year	<u>\$ 115</u>	<u>187</u>

Total business type activities receipts for the fiscal year were approximately \$989,000 compared to approximately \$624,000 last year. The significant increase was due primarily to the receipt of approximately \$325,000 of water and sewer construction anticipation note proceeds. Total business type activities disbursements increased approximately \$298,000 compared to fiscal year 2016, due to increased expenses related to the water and sewer construction projects, primarily engineering costs. The cash balance decreased approximately \$72,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$693,514, an increase of \$100,268 above last year's total of \$593,246. 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 \$176 from the prior year to \$202,006.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$54,941 to \$120,758. The decrease was primarily due to an increase in public works disbursements related to the hiring of a new Public Works Director, overlay and restriping projects and tree trimming.
- The Special Revenue, Employee Benefit Fund cash balance decreased \$12,955 to \$59,647. The decrease was primarily due to the hiring of an additional full time police officer and public works employee.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$287,123 due to an increase in tax increment financing receipts.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$168,351 to a negative \$34,161 due to street construction expenses exceeding the tax received during the fiscal year.
- The Debt Service Fund cash balance increased \$3,333 to a negative \$19,180 due to debt related to a street sweeper being paid off during fiscal year 2016.
- The Permanent Fund, Cemetery Trust cash balance increased \$5,655.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$97,121, due to increased expenses related to the Highway 71 extension project and water and sewer construction projects.
- The Enterprise, Sewer Fund cash balance increased \$26,065, due to an increase in sewer rates and anticipation note proceeds. Disbursements also increased due to engineering costs related to the sewer construction project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on February 13, 2017 and resulted in an increase in operating disbursements of approximately \$268,000 related to additional costs not anticipated in the original budget. The second amendment was approved on June 12, 2017 and resulted in an increase in operating disbursements of \$200,000 to provide for additional disbursements in certain City departments.

The City's receipts were \$75,284 less than budgeted. This was primarily due to the City receiving less intergovernmental federal grant revenues than anticipated.

The City's disbursements were \$8,044,835 less than the amended budget. This was primarily due to anticipated projects related to the water and sewer construction projects which were delayed.

The City exceeded the amounts budgeted in the debt service and capital projects functions for the year ended June 30, 2017, due to higher than anticipated costs for maintenance projects and water and sewer construction engineering costs.

DEBT ADMINISTRATION

At June 30, 2017, the City had \$2,872,000 of long-term debt outstanding, compared to \$2,614,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation notes	\$ 1,400	1,530
Revenue notes	942	1,084
Anticipation notes	530	-
Total	\$ 2,872	2,614

Debt increased as a result of issuing anticipation notes for the water and sewer construction projects.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$1,400,000 is significantly below its constitutional debt limit of approximately \$3.6 million. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2018 budget, tax rates and fees charged for various City activities. Unemployment in the County stands at 2.8%, with no change from a year ago. This compares with the State’s unemployment rate of 2.8% and the national rate of 4.1%.

These indicators were taken into account when adopting the budget for fiscal year 2018. The amount available for appropriation in the operating budget is \$10,453,375, an increase of \$7,454,940 over the final fiscal year 2017 budget. This is due to several factors, charges for service are expected to increase \$693,904 and other financing sources are expected to increase \$5.9 million, due to increased rates and anticipated proceeds from the issuance of debt to fund water and sewer systems improvements. Therefore, disbursements are expected to increase \$6,045,617.

If these estimates are realized, the City’s cash balance is expected to increase approximately \$35,000 by the close of fiscal year 2018.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joseph Foran, City Clerk, 410 North Park Place, Audubon, Iowa 50025.

Basic Financial Statements

City of Audubon

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 505,966	39,973	9,918	-
Public works	976,656	207,755	294,195	-
Culture and recreation	324,512	54,718	39,336	-
Community and economic development	64,855	-	-	-
General government	214,384	148,879	32,889	-
Debt service	162,587	-	-	-
Capital projects	165,067	-	-	-
Total governmental activities	2,414,027	451,325	376,338	-
Business type activities:				
Water	287,682	228,550	-	-
Sewer	722,474	423,779	-	-
Total business type activities	1,010,156	652,329	-	-
Total	\$ 3,424,183	1,103,654	376,338	-
Component Unit:				
Audubon Fire and Rescue Association	\$ 57,538	-	54,049	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Utility excise tax				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Employee benefits				
Urban renewal purposes				
Capital projects				
Fire				
Customer deposits				
Debt service				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Audubon Fire and Rescue Association
(456,075)	-	(456,075)	
(474,706)	-	(474,706)	
(230,458)	-	(230,458)	
(64,855)	-	(64,855)	
(32,616)	-	(32,616)	
(162,587)	-	(162,587)	
<u>(165,067)</u>	<u>-</u>	<u>(165,067)</u>	
(1,586,364)	-	(1,586,364)	
-	(59,132)	(59,132)	
-	(298,695)	(298,695)	
-	(357,827)	(357,827)	
<u>(1,586,364)</u>	<u>(357,827)</u>	<u>(1,944,191)</u>	
			<u>(3,489)</u>
638,055	-	638,055	-
165,619	-	165,619	-
307,123	-	307,123	-
1,722	-	1,722	-
195,508	-	195,508	-
20,813	205	21,018	208
205,647	324,597	530,244	-
102,145	11,969	114,114	-
50,000	(50,000)	-	-
<u>1,686,632</u>	<u>286,771</u>	<u>1,973,403</u>	<u>208</u>
100,268	(71,056)	29,212	(3,281)
593,246	186,469	779,715	93,072
<u>\$ 693,514</u>	<u>115,413</u>	<u>808,927</u>	<u>89,791</u>
\$ 188,921	-	188,921	-
120,758	-	120,758	-
59,647	-	59,647	-
134,943	-	134,943	-
40,580	-	40,580	-
-	-	-	89,791
-	10,050	10,050	-
-	38,304	38,304	-
148,665	67,059	215,724	-
<u>\$ 693,514</u>	<u>115,413</u>	<u>808,927</u>	<u>89,791</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, 2017

	General	Road Use Tax	Special Employee Benefits
Receipts:			
Property tax	\$ 363,903	-	274,152
Tax increment financing	-	-	-
Other city tax	809	-	612
Licenses and permits	146,357	-	-
Use of money and property	20,812	-	-
Intergovernmental	66,662	270,137	-
Charges for service	243,381	-	-
Special assessments	2,502	-	-
Miscellaneous	161,351	14,406	9,700
Total receipts	1,005,777	284,543	284,464
Disbursements:			
Operating:			
Public safety	367,914	-	138,052
Public works	145,885	339,484	117,776
Culture and recreation	314,009	-	10,503
Community and economic development	57,029	-	-
General government	183,290	-	31,088
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	1,068,127	339,484	297,419
Excess (deficiency) of receipts over (under) disbursements	(62,350)	(54,941)	(12,955)
Other financing sources (uses):			
Note proceeds	-	-	-
Transfers in	70,000	-	-
Transfers out	(7,826)	-	-
Total other financing sources (uses)	62,174	-	-
Change in cash balances	(176)	(54,941)	(12,955)
Cash balances beginning of year	202,182	175,699	72,602
Cash balances end of year	\$ 202,006	120,758	59,647
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Streets	-	120,758	-
Employee benefits	-	-	59,647
Urban renewal purposes	-	-	-
Capital projects	-	-	-
Unassigned	202,006	-	-
Total cash basis fund balances	\$ 202,006	120,758	59,647

See notes to financial statements.

Revenue		Permanent				
Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Cemetery Trust	Nonmajor	Total	
-	-	165,619	-	-	803,674	
307,123	-	-	-	-	307,123	
-	195,508	301	-	-	197,230	
-	-	-	-	-	146,357	
-	-	-	1	-	20,813	
-	-	-	-	-	336,799	
-	-	-	-	-	243,381	
-	-	-	-	-	2,502	
-	9,652	-	5,660	-	200,769	
307,123	205,160	165,920	5,661	-	2,258,648	
-	-	-	-	-	505,966	
-	373,511	-	-	-	976,656	
-	-	-	-	-	324,512	
-	-	-	-	7,826	64,855	
-	-	-	6	-	214,384	
-	-	162,587	-	-	162,587	
-	-	-	-	165,067	165,067	
-	373,511	162,587	6	172,893	2,414,027	
307,123	(168,351)	3,333	5,655	(172,893)	(155,379)	
-	-	-	-	205,647	205,647	
-	-	-	-	7,826	77,826	
(20,000)	-	-	-	-	(27,826)	
(20,000)	-	-	-	213,473	255,647	
287,123	(168,351)	3,333	5,655	40,580	100,268	
(152,180)	134,190	(22,513)	183,266	-	593,246	
134,943	(34,161)	(19,180)	188,921	40,580	693,514	
-	-	-	188,921	-	188,921	
-	-	-	-	-	120,758	
-	-	-	-	-	59,647	
134,943	-	-	-	-	134,943	
-	-	-	-	40,580	40,580	
-	(34,161)	(19,180)	-	-	148,665	
134,943	(34,161)	(19,180)	188,921	40,580	693,514	

City of Audubon

City of Audubon

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2017

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 228,550	423,779	652,329
Miscellaneous	11,969	-	11,969
Total operating receipts	240,519	423,779	664,298
Operating disbursements:			
Business type activities	235,587	373,524	609,111
Excess of operating receipts over operating disbursements	4,932	50,255	55,187
Non-operating receipts (disbursements):			
Interest on investments	42	163	205
Note proceeds	-	324,597	324,597
Debt service	-	(173,165)	(173,165)
Capital outlay	(52,095)	(175,785)	(227,880)
Net non-operating receipts (disbursements)	(52,053)	(24,190)	(76,243)
Excess (deficiency) of receipts over (under) disbursements	(47,121)	26,065	(21,056)
Transfers out	(50,000)	-	(50,000)
Change in cash balances	(97,121)	26,065	(71,056)
Cash balances beginning of year	142,102	44,367	186,469
Cash balances end of year	\$ 44,981	70,432	115,413
Cash Basis Fund Balances			
Restricted for customer deposits	\$ 10,050	-	10,050
Restricted for debt service	-	38,304	38,304
Unrestricted	34,931	32,128	67,059
Total cash basis fund balances	\$ 44,981	70,432	115,413

See notes to financial statements.

City of Audubon

City of Audubon

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Audubon is a political subdivision of the State of Iowa located in the Audubon County. It was first incorporated in 1880 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 the Audubon Fire and Rescue Association (a component unit).

Discretely Presented Component Unit

Audubon Fire and Rescue Association (Association) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504 of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or help by the Association are substantially for the direct benefit of the City of Audubon.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Audubon County Assessor's Conference Board, Audubon County Emergency Management Commission, Audubon County E-911 Service Board, Audubon County Solid Waste Commission and Audubon County Airport Authority.

B. Basis of Presentation

Government-wide Financial Statement - 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 service.

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 results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints 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 not paid from other funds.

Special Revenue:

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

The Employee Benefits Fund is used to account for the tax levy to support City employee benefits.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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 interest and principal on the City's general long-term debt.

The City reports the following major permanent fund:

The Cemetery Trust Fund 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 wastewater treatment and sanitary sewer system.

C. Measurement Focus and 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 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.

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 are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amount budgeted in the public safety function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 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 ensure 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 135,000	29,673	146,000	16,485	281,000	46,158
2019	136,000	27,628	150,000	13,930	286,000	41,558
2020	136,000	25,333	154,000	11,305	290,000	36,638
2021	141,000	22,903	159,000	8,611	300,000	31,514
2022	142,000	20,133	164,000	5,828	306,000	25,961
2023-2027	710,000	52,449	169,000	2,958	879,000	55,407
Total	\$ 1,400,000	178,119	942,000	59,117	2,342,000	237,236

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

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,066,000 of sewer revenue notes issued in September 2002 and \$600,000 of 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 320% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,001,117. The City is also required to annually pay a .25% servicing fee on the outstanding principal balance. For the current year, principal and interest paid and total customer net receipts were \$160,970 and \$50,255, 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 funds.
- (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 resolutions 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 is in compliance with the provisions noted above.

Revenue Capital Loan Anticipation Project Notes

On June 27, 2017, the City entered into a water revenue capital loan anticipation project note for \$767,900 to provide funds for improvements and extensions to the municipal water system. The proceeds for the loan will be made available to the City beginning with an initial draw of \$100,000 upon entering into the agreement. Subsequent draws in denominations of \$1,000, or multiples thereof, will be made by the City as the project progresses. The note was issued pursuant to Chapter 384.24A and 384.83 of the Code of Iowa in anticipation of collections to be received in the USDA Water System Project Fund, into which the City has appropriated the future receipt of proceeds of the sale of water revenue capital loan notes to the United States Department of Agriculture pursuant to a letter of conditions dated December 5, 2016, to be issued to pay those public improvement costs to the amount of \$767,900.

On June 27, 2017, the City entered into a sewer revenue capital loan anticipation project note for \$4,000,000 to provide funds for improvements and extensions to the municipal sewer system. The proceeds for the loan will be made available to the City beginning with an initial draw of \$100,000 upon entering into the agreement. Subsequent draws in denominations of \$1,000, or multiples thereof, will be made by the City as the project progresses. The note was issued pursuant to Chapter 384.24A and 384.83 of the Code of Iowa in anticipation of collections to be received in the USDA Wastewater System Project

Fund, into which the City has appropriated the future receipts of proceeds of the sale of sewer revenue capital loan notes to the United States Department of Agriculture pursuant to a letter of conditions dated April 20, 2016, to be issued to pay those public improvement costs to the amount of \$4,000,000.

At June 30, 2017, the City had drawn \$530,244 against the anticipation notes.

(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 the 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, PO 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.

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, any time 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-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% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month 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 – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires 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.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City’s contributions to IPERS for the year ended June 30, 2017 totaled \$49,163.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$258,407 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City’s proportion was 0.004106%, which was an increase of 0.000643% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$46,338, \$123,644 and \$60,788, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an 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 IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' 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 IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of 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 7.50%, 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% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 518,974	258,407	38,614

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 10 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees plus a 2% fee.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$964 for single coverage and \$2,844 for family coverage. For the year ended June 30, 2017, the City contributed \$231,971 and plan members eligible for benefits did not contribute to the plan.

(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 vacation payable to employees at June 30, 2017, primarily relating to the General Fund and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 19,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Urban Renewal Tax	
	Increment	\$ 20,000
	Enterprise:	
	Water	<u>50,000</u>
		70,000
Special Revenue:		
Housing	General	<u>7,826</u>
Total		<u>\$ 77,826</u>

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

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability 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.

(9) Deficit Balances

The Special Revenue, Local Option Sales Tax Fund and the Debt Service Fund had deficit balances of \$34,161 and \$19,180, respectively, at June 30, 2017. The deficit balance in the Special Revenue, Local Option Sales Tax Fund is the result of project costs incurred prior to the availability of funds and will be eliminated with the collection of local option sales tax receipts. The deficit balance in the Debt Service Fund is the result of debt payments exceeding the available funds. The deficit will be eliminated with the collection of property tax.

(10) Development Agreement

The City has entered into a development with Wapsy's Truck Stop, LLC. The City has agreed to pay Wapsy's Truck Stop, LLC an amount not to exceed \$375,000 in exchange for minimum improvements to be constructed on the development property. The incremental property tax to be received by the City under 403.19 of the Code of Iowa will be rebated for a period of 5 years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. As of June 30, 2017, the City has not made any payments to the developer.

(11) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

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, 2017

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 803,674	-
Tax increment financing	307,123	-
Other city tax	197,230	-
Licenses and permits	146,357	-
Use of money and property	20,813	205
Intergovernmental	336,799	-
Charges for service	243,381	652,329
Special assessments	2,502	-
Miscellaneous	200,769	11,969
Total receipts	2,258,648	664,503
Disbursements:		
Public safety	505,966	-
Public works	976,656	-
Health and social services	-	-
Culture and recreation	324,512	-
Community and economic development	64,855	-
General government	214,384	-
Debt service	162,587	-
Capital projects	165,067	-
Business type activities	-	1,010,156
Total disbursements	2,414,027	1,010,156
Excess (deficiency) of receipts over (under) disbursements	(155,379)	(345,653)
Other financing sources, net	255,647	274,597
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	100,268	(71,056)
Balances beginning of year	593,246	186,469
Balances end of year	\$ 693,514	115,413

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
803,674	737,921	737,921	65,753
307,123	296,801	296,801	10,322
197,230	352,100	352,100	(154,870)
146,357	11,250	11,250	135,107
21,018	1,755	1,755	19,263
336,799	488,643	521,643	(184,844)
895,710	965,800	973,000	(77,290)
2,502	-	-	2,502
212,738	27,250	103,965	108,773
2,923,151	2,881,520	2,998,435	(75,284)
505,966	421,204	621,204	115,238
976,656	983,453	983,453	6,797
-	500	500	500
324,512	301,598	473,226	148,714
64,855	114,107	114,107	49,252
214,384	149,688	246,403	32,019
162,587	162,388	162,388	(199)
165,067	-	-	(165,067)
1,010,156	8,867,737	8,867,737	7,857,581
3,424,183	11,000,675	11,469,018	8,044,835
(501,032)	(8,119,155)	(8,470,583)	7,969,551
530,244	8,000,000	8,000,000	(7,469,756)
29,212	(119,155)	(470,583)	499,795
779,715	845,386	845,386	(65,671)
808,927	726,231	374,803	434,124

City of Audubon

Notes to Other Information – Budgetary Reporting

June 30, 2017

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise 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 disbursements by \$468,343. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amount budgeted in the debt service and capital projects functions.

City of Audubon

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Three Years*
(In Thousands)

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.004106%	0.003463%	0.003213%
City's proportionate share of the net pension liability	\$ 258	171	128
City's covered-employee payroll	\$ 482	478	448
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	53.53%	35.77%	28.57%
IPERS' net position as a percentage of the total pension liability	82.81%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Audubon

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Nine Years
(In Thousands)

Other Information

	2017	2016	2015	2014
Statutorily required contribution	\$ 49	45	45	42
Contributions in relation to the statutorily required contribution	(49)	(45)	(45)	(42)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 528	482	478	448
Contributions as a percentage of covered-employee payroll	9.28%	9.34%	9.41%	9.38%

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

See accompanying independent auditor's report.

2013	2012	2011	2010	2009
43	40	35	32	31
(43)	(40)	(35)	(32)	(31)
-	-	-	-	-
468	456	438	421	431
9.19%	8.77%	7.99%	7.60%	7.19%

City of Audubon

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 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.

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% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% 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 (unfunded actuarial liability) 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.

Supplementary Information

City of Audubon

City of Audubon

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
No major Governmental Funds

As of and for the year ended June 30, 2017

	<u>Special Revenue</u>		
	Housing	Capital Projects	Total
Receipts:			
None	\$ -	-	-
Disbursements:			
Operating:			
Community and economic development	7,826	-	7,826
Capital projects	-	165,067	165,067
Total disbursements	7,826	165,067	172,893
Deficiency of disbursements under receipts	(7,826)	(165,067)	(172,893)
Other financing sources:			
Note proceeds	-	205,647	205,647
Transfer in	7,826	-	7,826
Total other financing sources	7,826	205,647	213,473
Change in cash balances	-	40,580	40,580
Cash balances beginning of year	-	-	-
Cash balances end of year	\$ -	40,580	40,580

City of Audubon
 Schedule of Indebtedness
 Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan notes	Oct 10, 2012	2.20-2.55%	\$ 620,000
Refunding notes	Oct 10, 2012	0.75-2.05	965,000
Fire truck	Aug 27, 2013	3.00	158,000
Total			
Revenue notes:			
Sewer	Sep 15, 2002 *	1.75%	\$ 2,066,000
Sewer	Dec 12, 2003 *	1.75	600,000
Total			
Revenue capital loan anticipation project notes:			
Sewer	Jun 27, 2017	2.97%	\$ 4,000,000
Water	Jun 27, 2017	2.97	767,900
Total			

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
600,000	-	5,000	595,000	14,653
800,000	-	110,000	690,000	12,835
130,000	-	15,000	115,000	3,900
<u>\$ 1,530,000</u>	-	<u>130,000</u>	<u>1,400,000</u>	<u>31,388</u>
865,000	-	113,000	752,000	15,138
219,000	-	29,000	190,000	3,833
<u>\$ 1,084,000</u>	-	<u>142,000</u>	<u>942,000</u>	<u>18,971</u>
-	474,164	-	474,164	-
-	56,080	-	56,080	-
<u>\$ -</u>	<u>530,244</u>	<u>-</u>	<u>530,244</u>	<u>-</u>

City of Audubon

City of Audubon

Note Maturities

June 30, 2017

Year Ending June 30,	General Obligation						
	Capital Loan Notes		Refunding Notes		Fire Truck		Total
	Issued Oct 10, 2012		Issued Oct 10, 2012		Issued Aug 27, 2013		
	Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount		
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	136,000
2021	2.20	10,000	1.80	115,000	3.00	16,000	141,000
2022	2.20	5,000	1.95	120,000	3.00	17,000	142,000
2023	2.20	10,000	2.05	120,000	3.00	17,000	147,000
2024	2.20	130,000	-	-	3.00	18,000	148,000
2025	2.55	135,000	-	-	-	-	135,000
2026	2.55	140,000	-	-	-	-	140,000
2027	2.55	140,000	-	-	-	-	140,000
Total		<u>\$ 595,000</u>		<u>\$ 690,000</u>		<u>\$ 115,000</u>	<u>1,400,000</u>

Year Ending June 30,	Revenue Notes				
	Sewer		Sewer		Total
	Issued Sep 25, 2002		Issued Dec 12, 2003		
	Interest		Interest		
Rates	Amount	Rates	Amount		
2018	1.75%	\$ 116,000	1.75%	\$ 30,000	146,000
2019	1.75	120,000	1.75	30,000	150,000
2020	1.75	123,000	1.75	31,000	154,000
2021	1.75	127,000	1.75	32,000	159,000
2022	1.75	131,000	1.75	33,000	164,000
2023	1.75	135,000	1.75	34,000	169,000
Total		<u>\$ 752,000</u>		<u>\$ 190,000</u>	<u>942,000</u>

See accompanying independent auditor's report.

City of Audubon

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

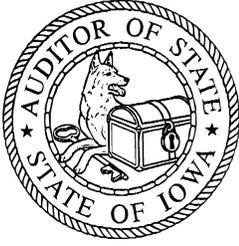
For the Last Ten Years

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 803,674	941,807	720,670	661,079
Tax increment financing	307,123	56,045	72,227	96,274
Other city tax	197,230	187,103	204,128	208,329
Licenses and permits	146,357	30,663	3,615	2,106
Use of money and property	20,813	20,700	21,109	19,984
Intergovernmental	336,799	505,881	452,174	284,177
Charges for service	243,381	243,778	242,833	244,713
Special assessments	2,502	826	-	3,807
Miscellaneous	200,769	168,607	75,129	74,855
Total	\$ 2,258,648	2,155,410	1,791,885	1,595,324
Disbursements:				
Operating:				
Public safety	\$ 505,966	617,453	460,385	544,006
Public works	976,656	630,198	633,798	736,329
Health and social services	-	-	-	1,000
Culture and recreation	324,512	275,606	251,567	361,476
Community and economic development	64,855	223,246	173,621	91,359
General government	214,384	155,109	291,145	114,714
Debt service	162,587	215,493	217,541	200,914
Capital projects	165,067	63,799	39,814	211,210
Total	\$ 2,414,027	2,180,904	2,067,871	2,261,008

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
761,984	769,268	826,772	697,584	591,287	502,392
43,609	44,681	46,293	128,054	31,636	84,848
239,838	213,956	230,636	213,365	219,178	204,702
1,562	2,649	2,157	793	466	508
20,799	19,717	20,832	27,359	38,248	84,618
251,864	293,306	542,684	447,545	562,377	600,094
249,426	244,848	243,148	229,816	209,538	196,688
3,977	4,645	942	6,007	4,260	20,706
85,270	100,421	55,676	95,015	106,178	120,924
1,658,329	1,693,491	1,969,140	1,845,538	1,763,168	1,815,480
363,821	403,733	350,822	340,427	345,091	487,808
776,945	729,120	693,929	859,937	1,031,742	913,310
1,000	1,000	-	-	260,750	1,000
276,730	273,275	247,277	240,922	33,881	265,913
49,155	55,436	51,097	43,488	87,854	166,893
119,546	137,824	302,957	83,128	240,332	89,177
174,547	250,565	253,030	255,225	361,926	114,576
309,226	-	-	7,656	-	1,107,220
2,070,970	1,850,953	1,899,112	1,830,783	2,361,576	3,145,897

City of Audubon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 22, 2018. 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 the 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 the City of Audubon's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

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 the 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 the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

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 the accompanying Schedule of Findings as item (E) to be a significant deficiency.

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 or other matters which 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 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.

The City of Audubon's Responses to the Findings

The City of Audubon's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The 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 results 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 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.


MARY MOSIMAN, CPA
Auditor of State

March 22, 2018

City of Audubon
Schedule of Findings
Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

- (1) Accounting system – performance of all accounting functions and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement transactions, handling and recording cash and reconciling bank accounts.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long-term debt – maintaining long-term debt records and handling and recording cash and reviewing compensated absence records.
- (5) Receipts – opening mail, collecting, depositing, journalizing, recording and reconciling.
- (6) Disbursements – purchasing, disbursement preparation, recording, check writing, signing and reconciling.
- (7) Payroll – entering rates into the system, preparing, reconciling, recording and distributing.
- (8) Journal entries are not reviewed and approved by an independent person.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

City of Audubon

Schedule of Findings

Year ended June 30, 2017

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 utilizing currently available staff, including elected officials. Reviews of journal entries and reconciliations should be performed by independent persons and should be evidenced by the signature or initials of the reviewer and the date of the review.

Response – We only have two full time employees, so we try to separate duties by one taking in deposits and the other reconciling and accounting for them. Whenever possible we also have the Mayor review utility transactions and bank statements.

Conclusion – Response accepted.

(B) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have a written policy for prohibiting the sharing of passwords. In addition, the City does not have a written disaster recovery plan.

Cause – Management has not required written policies for the above computer based controls.

Effect – Lack of written policies for computer systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should implement procedures and develop written policies addressing the above item in order to improve the City’s control over its computer systems. A written disaster recovery plan should also be developed.

Response – It was a mistake to place the requirement of sharing passwords into the employee handbook. No employee shares his/her passwords with another. This has never been the case. The City has since the time of audit developed a disaster recovery plan in the event that City Hall cannot be used for a portion of time.

Conclusion – Response accepted.

City of Audubon

Schedule of Findings

Year ended June 30, 2017

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – While utility billings, collections and delinquent accounts were reconciled, evidence of review by an independent person was not documented throughout the year.

Cause – Policies have not been established and procedures have not been implemented to ensure review of utility billings, collections and delinquent accounts by an independent person has been performed.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The Mayor has been designated as the independent reviewer of the utility billings, collections and delinquent accounts. They will be presented to the Mayor on a monthly basis, with the Mayor signing and dating that it is done. This new procedure will ensure that mistakes are not made and that all billings, collections and delinquent amounts are correctly accounted for.

Conclusion – Response accepted.

(D) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statement.

Condition – A material amount of receipts and disbursements were recorded in incorrect funds in the City's financial records. Adjustments were subsequently made to properly report these amounts in the City's financial statements.

Cause – City policies and procedures have not been established to require independent review of the classification of receipts and disbursements to ensure the City's financial statements are accurate and reliable.

City of Audubon

Schedule of Findings

Year ended June 30, 2017

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the City’s financial statements were necessary.

Recommendation – The City should implement procedures to ensure receipts and disbursements are properly recorded and classified in the City’s financial records.

Response – This was an isolated incident. The City Clerk has talked to the software developer about reports that can be generated to better ensure recognition of these issues and earlier resolution.

Conclusion – Response accepted.

(E) Timesheets

Criteria – An effective internal control system provides for internal controls related to preparation of timesheets by all employees. Timesheets support all hours worked and taken as vacation, sick leave, compensatory time, holiday hours and personal days and provide an accurate record of hours worked. Supervisory review of timesheets can help ensure the accuracy of recorded hours worked.

Condition – Although timesheets are prepared by all employees, there is no evidence of the approval of timesheets for department heads.

Cause – Policies have not been established and procedures have not been implemented to require timesheets be reviewed and approved by supervisory personnel.

Effect – The lack of a documented supervisory review process increases the probability staff errors in recording of hours or leave will go undetected.

Recommendation – Timesheets should be submitted to an appropriate supervisor for approval and signed by the employee and supervisor.

Response – The City has set a policy that the Mayor reviews the timesheets of the department heads and signs and dates them indicating review has been done.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Audubon

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the debt service and capital projects functions. Disbursements also exceeded the amounts budgeted in the general government function prior to approval of the budget amendment.

Recommendation – The budget should have been properly amended as required by Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budgeted amounts in the community and economic development and public safety functions.

Response – The expenses in the capital projects function were due to water and sewer project expenses occurring in June, which left no time to amend. The debt service function was over due to the financial institution mistakenly taking out the wrong amount of principal payment for the fiscal year. The City Clerk will work with the department heads and other staff to ensure unbudgeted expenses are better forecasted so that enough time is provided to allow for budget amendments.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. The disbursements issued by the Audubon Fire and Rescue Association are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Cash	Golf tournament	\$ 200
Cash	Christmas party	90
Cash	Banquet Bingo	350
Lori’s Flowers	Funeral flowers/arrangements	130

According to the Attorney General’s opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Audubon Fire and Rescue Association should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, written policies and procedures, including the requirement for proper documentation, should be established.

The practice of writing checks to “cash” should be discontinued.

Response – The practice of writing checks to cash has been discontinued. The purchase of flowers is decided upon and voted at a meeting and it’s for funerals of past and/or current fireman. The Association will review how these payments meet public purpose and consider drafting a policy.

Conclusion – Response accepted.

City of Audubon

Schedule of Findings

Year ended June 30, 2017

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) 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 ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

The Council went into closed session on five occasions during the fiscal year. For three closed sessions, the minute's record was not sufficient to determine if the Council voted to return to open session as required by Chapter 21.5 of the Code of Iowa.

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

Response – This was an oversight and from now on we will record the vote to go into open session.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.
- (9) Financial Condition – The Special Revenue, Local Option Sales Tax and the Debt Service Funds had deficit balances of \$34,161 and \$19,180 at June 30, 2017.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The Local Option Sales Tax Fund had some road repair expenses at the very end of the fiscal year. These will be covered by LOST collections during fiscal year 2018. The Debt Service Fund is budgeted in fiscal year 2018 to cover the deficit.

Conclusion – Response accepted.

City of Audubon

Schedule of Findings

Year ended June 30, 2017

(10) Tax Increment Financing (TIF) - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. We noted the following regarding the City's TIF debt certification.

- On the City's TIF debt certification due December 1, 2013, the City certified \$20,000, based on the City Council's approval to pay \$20,000 per year for 10 years to the Audubon Recreation Center project. The remaining \$180,000 was later certified on the City's TIF debt certification due December 1, 2015. During fiscal year 2017, the City transferred \$20,000 from the Special Revenue, Urban Renewal Tax Increment Fund to the General Fund for the payment made to the Audubon Recreation Center project.
- On the City's TIF debt certification due December 1, 2015, the City certified \$62,204 for stage improvements at the Park. The City was unable to provide supporting documentation of the approval of the TIF debt.

Chapter 403.19 of the Code of Iowa requires the City Council to approve the TIF indebtedness. However, neither of the items above were formally approved by the City Council as TIF debt nor do they qualify as TIF debt.

Recommendation – The City Council should consult TIF legal counsel to determine the disposition of the City's TIF certifications and should work with the County Auditor to ensure the proper amount of debt is certified. The City should ensure the TIF debt certifications comply with Chapter 403 of the Code of Iowa and include only allowable debt approved by the City Council prior to certification.

Response – The City has already consulted with TIF legal counsel and has come up with a plan to correct this issue. The City has paid back funds that were in the TIF account. The City has also begun work to properly certify remaining payment on the TIF appropriation to the Audubon Recreation Foundation that will eliminate a majority of the monies owed. The remaining amount will be paid back throughout the upcoming fiscal years as cashflow allows, with the completion by the end of fiscal year 2019. In addition, the \$62,204 for stage improvements was an error caused by the transition of Clerks.

Conclusion – Response accepted.

(11) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1.

The obligations/TIF debt outstanding on the Levy Authority Summary were overstated by \$160,000 due to the City previously certifying \$180,000 as TIF debt on their TIF debt certification due December 1, 2015. However, the TIF debt was not formally approved by the City Council nor did it qualify as TIF debt.

Recommendation – The City should ensure the debt amounts reported on the Levy Authority Summary are accurate.

City of Audubon

Schedule of Findings

Year ended June 30, 2017

Response – The City understood that it had properly certified the debt based on prior processes. The City was unaware of the process change that required formally amending the urban renewal plan and properly certifying the debt. Going forward the City understands the process and will adhere to this process.

Conclusion – Response accepted.

- (12) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires the retention in this manner to include an image of both the front and back of each cancelled check. The Audubon Fire and Rescue Association does not retain electronic images of the back of cancelled checks.

Recommendation – The Audubon Fire and Rescue Association should retain an image of both the front and back of each cancelled check.

Response – We have contacted the bank and will be receiving front and back copies of all checks from here forward.

Conclusion – Response accepted.

- (13) Transfer of Funds to the Audubon Fire and Rescue Association – The Audubon Fire and Rescue Association was created on April 1, 2016 as a non-profit entity established under Code of Iowa Chapter 504. The Association was established to assist the City of Audubon Fire Department through fund raising activities. On April 11, 2016, the City Council approved the transfer of \$86,220 from the City of Audubon Fire Department to the Audubon Fire and Rescue Association, consisting of cash in the bank and certificate of deposits.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, “No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.”

Recommendation – The City should consult legal counsel for the disposition of this matter.

Response – The City consulted with the City Attorney. It was decided that since the money was in the Fire Department, later the Fire Association, that the money be transferred this one time. These are all funds that were for donations and were never under the City’s control in the first place. The City Council voted to allow the Fire Department to keep the funds.

Conclusion – Response acknowledged. The donations were made to the Fire Department while the Fire Department was part of the City. According to informal advice from the Attorney General’s Office, a City may not simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit sees fit.

City of Audubon

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Anthony M. Heibult, Senior Auditor
Sarah K. Nissen, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State