



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____

June 26, 2012

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Urbana, Iowa.

The City's receipts totaled \$5,321,486 for the year ended June 30, 2011, a 22% increase over the prior year. The receipts included \$552,353 in property tax and other City tax, \$238,916 from tax increment financing, \$660,645 from charges for service, \$270,484 from operating grants, contributions and restricted interest, \$246,586 from capital grants, contributions and restricted interest, \$54,294 from local option sales tax, \$5,099 from unrestricted interest on investments, \$3,275,136 from bond proceeds and \$17,973 from other general receipts.

Disbursements for the year totaled \$5,090,198, a 48% increase over the prior year, and included \$1,269,890 for capital projects, \$259,321 for public works and \$216,985 for debt service. Also, disbursements for business type activities totaled \$3,074,792.

The significant increase in receipts and disbursements is due primarily to bond proceeds and disbursements related to the wastewater treatment plant.

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 <http://auditor.iowa.gov/reports/1121-0042-B00F.pdf>.

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CITY OF URBANA

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

JUNE 30, 2011

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City of Urbana

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Benson	Mayor	Jan 2012
Tonya Kramer	Council Member	Jan 2012
A.J. Narveson	Council Member	Jan 2012
Mike Smith	Council Member	Jan 2012
Mike Kramer	Council Member	Jan 2014
Tina Slager	Council Member	Jan 2014
Traci Wilson	City Clerk	Indefinite
William J. Sueppel, Jr.	Attorney	Indefinite

City of Urbana



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Urbana, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Urbana's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

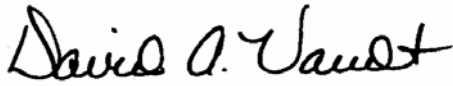
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Urbana as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 5, 2012 on our consideration of the City of Urbana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Urbana's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Urbana 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 55%, or approximately \$800,000. Property and other city tax increased 3%, or approximately \$13,600, and bond proceeds increased \$738,222.
- Disbursements of the City's governmental activities increased 189%, or approximately \$1,319,000, in fiscal year 2011 from fiscal year 2010. Capital projects and debt service expenditures increased approximately \$1,265,000 and \$61,000, respectively.
- The City's total cash basis net assets increased 15%, or approximately \$231,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased \$244,554 and the assets of the business type activities decreased \$13,266.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide 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.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the 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 Statement of Activities and Net Assets reports information which helps answer this question.

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the 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 and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

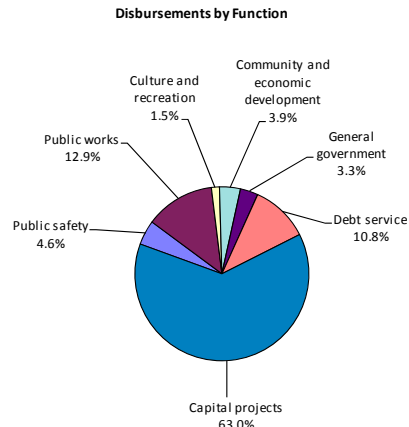
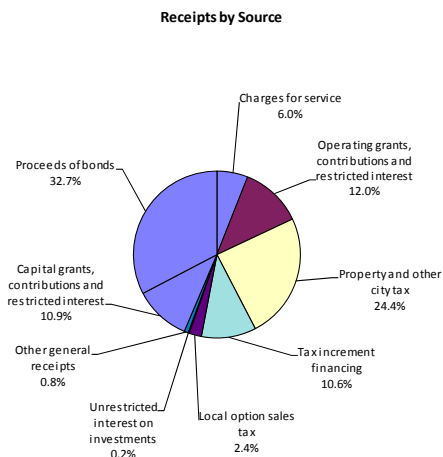
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets 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 \$1,170,229 to \$1,414,783. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 136,068	131,676
Operating grants, contributions and restricted interest	270,484	107,411
Capital grants, contributions and restricted interest	246,586	377,345
General receipts:		
Property and other city tax	552,353	538,790
Tax increment financing	238,916	223,055
Local option sales tax	54,294	57,965
Unrestricted interest on investments	5,063	3,072
Other general receipts	17,973	20,612
Bond proceeds	738,223	-
Total receipts	2,259,960	1,459,926
Disbursements:		
Public safety	93,386	96,452
Public works	259,321	277,731
Culture and recreation	30,013	19,220
Community and economic development	78,721	79,820
General government	67,090	63,193
Debt service	216,985	155,705
Capital projects	1,269,890	4,436
Total disbursements	2,015,406	696,557
Change in cash basis net assets	244,554	763,369
Cash basis net assets beginning of year	1,170,229	406,860
Cash basis net assets end of year	\$ 1,414,783	1,170,229



The City's receipts and cash basis net assets for governmental activities increased over the prior year, primarily due to proceeds from issuing corporate purpose bonds and a Revitalize Iowa's Sound Economy (RISE) grant from the Iowa Department of Transportation. Disbursements in the debt service function increased approximately \$61,000 due to the final payment on the fire truck purchased in fiscal year 2010. Disbursements in the capital projects function increased approximately \$1,265,000 due to disbursements for the Blue Creek business park project.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 219,362	\$ 221,384
Sewer	297,993	214,965
Storm sewer	7,222	7,182
General receipts:		
Unrestricted interest on investments	36	1,034
Bond proceeds	2,536,913	2,441,165
Total receipts	<u>3,061,526</u>	<u>2,885,730</u>
Disbursements:		
Water	244,471	168,409
Sewer	2,822,338	2,584,724
Storm sewer	7,983	98
Total disbursements	<u>3,074,792</u>	<u>2,753,231</u>
Change in cash basis net assets	(13,266)	132,499
Cash basis net assets beginning of year	<u>322,708</u>	<u>190,209</u>
Cash basis net assets end of year	<u>\$ 309,442</u>	<u>\$ 322,708</u>

The cash basis net assets for the City's business type activities decreased slightly, primarily due to higher water costs when revenues were not increased to allow for the higher costs.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Urbana completed the year, its governmental funds reported a combined fund balance of \$1,414,783, an increase of \$244,554 above last year's total of \$1,170,229. 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 was \$331,755 at the end of this fiscal year compared to a restated balance of \$189,497 at the end of last fiscal year. The increase was mainly due to an increase in property tax and a decrease in disbursements.
- The Special Revenue, Road Use Tax Fund cash balance was \$69,461 at the end of this fiscal year compared to \$24,922 at the end of last fiscal year. The increase of \$44,539 was primarily due to road use tax receipts increasing more than disbursements for road projects.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$417,371 at the end of this fiscal year compared to \$372,112 at the end of last fiscal year. The increase of \$45,259 was primarily due to an increase in tax increment financing during the current fiscal year.

- The Debt Service Fund cash balance was \$203,999 at the end of this fiscal year compared to \$89,124 at the end of last fiscal year. The increase was due to transfers from the Special Revenue, Urban Renewal Tax Increment Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance was \$175,709 at the end of the fiscal year compared to an ending balance of \$200,782 at the end of last fiscal year. The decrease is primarily due to an increase in disbursements for water main extensions.
- The Enterprise, Sewer Fund cash balance was \$116,835 at the end of the fiscal year compared to an ending balance of \$104,267 at the end of last fiscal year. The increase was due to a rate increase implemented during fiscal year 2010.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 25, 2011 and resulted in a reallocation of disbursements among functions.

The City’s receipts were \$780,661 less than budgeted. This was primarily due to the City receiving less intergovernmental receipts than expected for a planned housing rehabilitation project.

Total disbursements were \$2,125,652 less than budgeted. This was primarily due to the City not completing capital projects as originally planned.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the public safety and debt service functions. Also, disbursements in the capital projects function exceeded the amount budgeted prior to the budget amendment.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,545,000 in general obligation debt and other long-term debt outstanding compared to \$3,483,998 last year, as shown below:

Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation bonds/notes:		
Corporate purpose	\$1,545,000	905,000
Fire truck acquisition	-	52,188
Revenue bonds:		
Sewer	5,000,938	2,479,025
Lease purchase agreement:		
Wheel loader	-	47,785
Total	<u>\$6,545,938</u>	<u>3,483,998</u>

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 \$1,545,000 and urban renewal rebate agreements of \$257,572, net of cash on hand of \$621,370 to service this debt, totals \$1,064,833 and is significantly below the City’s constitutional debt limit of approximately \$3.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Urbana's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 assessed value has increased approximately \$620,000 from the fiscal year 2011 level.

The fiscal year 2012 budget contains total receipts of \$1,669,088 and disbursements of \$1,482,790. This budget is lower than the final fiscal year 2011 budget, which contained total receipts of \$2,827,011 and disbursements of \$7,215,850. The fiscal year 2012 budget includes decreased intergovernmental and bond receipts. The City budgeted significantly less for capital projects for fiscal year 2012.

The fiscal year 2012 levy is \$14.58126 per \$1,000 of taxable valuation, a decrease from \$14.86748 per \$1,000 of taxable valuation in fiscal year 2011. The debt service levy decreased from \$5.11214 per \$1,000 of taxable valuation in fiscal year 2011 to \$4.76379 per \$1,000 of taxable valuation in fiscal year 2012.

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 Traci Wilson, City Clerk at 906 W. Main St., Urbana, Iowa 52345.

Basic Financial Statements

City of Urbana

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 93,386	17,082	5,750	-
Public works	259,321	111,668	107,323	-
Culture and recreation	30,013	1,350	-	-
Community and economic development	78,721	-	736	-
General government	67,090	5,968	-	-
Debt service	216,985	-	-	-
Capital projects	1,269,890	-	156,675	246,586
Total governmental activities	2,015,406	136,068	270,484	246,586
Business type activities:				
Water	244,471	219,362	-	-
Sewer	2,822,338	297,993	-	-
Storm sewer	7,983	7,222	-	-
Total business type activities	3,074,792	524,577	-	-
Total	\$ 5,090,198	660,645	270,484	246,586
Property and other city tax levied for				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds, net of \$11,777 discount				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(70,554)	-	(70,554)
(40,330)	-	(40,330)
(28,663)	-	(28,663)
(77,985)	-	(77,985)
(61,122)	-	(61,122)
(216,985)	-	(216,985)
(866,629)	-	(866,629)
(1,362,268)	-	(1,362,268)
-	(25,109)	(25,109)
-	(2,524,345)	(2,524,345)
-	(761)	(761)
-	(2,550,215)	(2,550,215)
(1,362,268)	(2,550,215)	(3,912,483)
336,862	-	336,862
215,491	-	215,491
238,916	-	238,916
54,294	-	54,294
5,063	36	5,099
738,223	2,536,913	3,275,136
17,973	-	17,973
1,606,822	2,536,949	4,143,771
244,554	(13,266)	231,288
1,170,229	322,708	1,492,937
\$ 1,414,783	309,442	1,724,225
\$ 69,461	-	69,461
417,371	-	417,371
203,999	13,546	217,545
258,237	-	258,237
133,960	-	133,960
331,755	295,896	627,651
\$ 1,414,783	309,442	1,724,225

City of Urbana

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

As of and for the year ended June 30, 2011

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 300,553	-	-
Tax increment financing	-	-	238,916
Other city tax	-	-	-
Licenses and permits	23,235	-	-
Use of money and property	6,557	-	-
Intergovernmental	5,750	107,323	-
Charges for service	113,114	-	-
Miscellaneous	23,381	-	-
Total receipts	472,590	107,323	238,916
Disbursements:			
Operating:			
Public safety	87,420	-	-
Public works	180,771	62,784	-
Culture and recreation	29,021	-	-
Community and economic development	1,433	-	77,288
General government	61,943	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	360,588	62,784	77,288
Excess (deficiency) of receipts over (under) disbursements	112,002	44,539	161,628
Other financing sources (uses):			
Bond proceeds, net of \$11,777 discount	-	-	-
Operating transfers in	30,256	-	-
Operating transfers out	-	-	(116,369)
Total other financing sources (uses)	30,256	-	(116,369)
Net change in cash balances	142,258	44,539	45,259
Cash balances beginning of year, as restated	189,497	24,922	372,112
Cash balances end of year	\$ 331,755	69,461	417,371
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	69,461	-
Urban renewal purposes	-	-	417,371
Debt service	-	-	-
Capital projects	-	-	-
Other purposes	-	-	-
Assigned for library	57,442	-	-
Unassigned	274,313	-	-
Total cash basis fund balances	\$ 331,755	69,461	417,371

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
215,491	-	36,309	552,353
-	-	-	238,916
-	-	54,294	54,294
-	-	-	23,235
-	8	-	6,565
-	246,586	-	359,659
-	-	-	113,114
-	150,220	-	173,601
215,491	396,814	90,603	1,521,737
-	-	5,966	93,386
-	-	15,766	259,321
-	-	992	30,013
-	-	-	78,721
-	-	5,147	67,090
216,985	-	-	216,985
-	1,269,890	-	1,269,890
216,985	1,269,890	27,871	2,015,406
(1,494)	(873,076)	62,732	(493,669)
-	738,223	-	738,223
116,369	-	-	146,625
-	-	(30,256)	(146,625)
116,369	738,223	(30,256)	738,223
114,875	(134,853)	32,476	244,554
89,124	393,090	101,484	1,170,229
203,999	258,237	133,960	1,414,783
-	-	-	69,461
-	-	-	417,371
203,999	-	-	203,999
-	258,237	-	258,237
-	-	133,960	133,960
-	-	-	57,442
-	-	-	274,313
203,999	258,237	133,960	1,414,783

City of Urbana

City of Urbana

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

As of and for the year ended June 30, 2011

	Enterprise			Total
	Water	Sewer	Nonmajor Storm Sewer	
Operating receipts:				
Charges for service	\$ 216,551	295,494	7,222	519,267
Miscellaneous	2,811	2,499	-	5,310
Total operating receipts	219,362	297,993	7,222	524,577
Operating disbursements:				
Business type activities	161,527	162,166	216	323,909
Excess of operating receipts over operating disbursements	57,835	135,827	7,006	200,668
Non-operating receipts (disbursements):				
Interest on investments	36	-	-	36
Revenue bond proceeds	-	2,536,913	-	2,536,913
Debt service	(12,253)	(112,506)	-	(124,759)
Capital outlay	(70,691)	(2,547,666)	(7,767)	(2,626,124)
Total non-operating receipts (disbursements)	(82,908)	(123,259)	(7,767)	(213,934)
Net change in cash balances	(25,073)	12,568	(761)	(13,266)
Cash balances beginning of year	200,782	104,267	17,659	322,708
Cash balances end of year	\$ 175,709	116,835	16,898	309,442
Cash Basis Fund Balances				
Restricted for debt service	\$ -	13,546	-	13,546
Unrestricted	175,709	103,289	16,898	295,896
Total cash basis fund balances	\$ 175,709	116,835	16,898	309,442

See notes to financial statements.

City of Urbana

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Urbana is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1894 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 Urbana has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in 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: Benton County Assessor's Conference Board, Benton County Emergency Management Commission and the Benton County Joint E911 Service Board.

Urbana/Polk Township Fire Protection Agency

The City participates in the Urbana/Polk Township Fire Agency. The Agency is made up of the City of Urbana and Polk Township. The Agency was developed as the result of an agreement established pursuant to Chapter 28E of the Code of Iowa between the City and the township. Upon dissolution, the remaining assets shall be distributed to the participating agencies.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints place on net asset use either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the payment of tax increment financing indebtedness.

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

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

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 assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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:

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$65,135 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds/Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 180,000	54,038	15,000	36,600	195,000	90,638
2013	190,000	48,848	20,000	36,150	210,000	84,998
2014	190,000	42,995	25,000	35,550	215,000	78,545
2015	190,000	36,834	30,000	34,800	220,000	71,634
2016	195,000	27,973	40,000	33,900	235,000	61,873
2017-2021	600,000	63,507	334,000	144,120	934,000	207,627
2022-2026	-	-	394,000	90,510	394,000	90,510
2027-2030	-	-	362,000	27,600	362,000	27,600
Total	\$ 1,545,000	274,195	1,220,000	439,230	2,009,000	595,315

General Obligation Notes

On March 24, 2010, the City issued a \$55,009 general obligation fire truck acquisition note for the purpose of paying the costs associated with acquiring a fire truck. The note was issued pursuant to Chapter 384.24A of the Code of Iowa. The note bears no interest. During the year ended June 30, 2011, the City paid the remaining \$52,188 of principal due on the note.

General Obligation Loan Agreement

On March 9, 2011, the City issued a \$150,000 general obligation fire truck acquisition loan agreement for the purpose of paying the costs associated with the purchase of a fire truck. The note was issued pursuant to Chapter 384.24A of the Code of Iowa. The note bears no interest and is payable in the twelve monthly installments of \$1,375, which includes a 1% administrative fee, and then 180 installments of \$1,250. The City had not taken possession of the fire truck at June 30, 2011 and a formal repayment schedule has not been established.

Sewer Revenue Bonds

On November 18, 2009, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$1,225,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 348.83 of the Code of Iowa to pay the costs of constructing improvements and extensions to the municipal sewer system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn down \$1,225,000 of the authorized amount. An initiation fee of \$12,250 (1% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority. During the year ended June 30, 2011, the City paid principal of \$5,000 and interest of \$35,191 on the bond. The balance on the bond at June 30, 2011 was \$1,220,000.

On January 13, 2010, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$2,561,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal sewer system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn down \$2,183,938 of the authorized amount. An initiation fee of \$25,610 (1% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority. A final repayment schedule has not yet been adopted. However, during the year ended June 30, 2011, the City paid principal of \$10,000 and interest of \$40,597 under a preliminary repayment schedule. The balance on the bond at June 30, 2011 was \$2,173,938.

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts. Current year principal and interest payments on the bonds required less than 56% of net receipts. The total amount of principal and interest remaining to be paid on the bonds at June 30, 2011 is not available since final repayment schedules have not been adopted. For the current year, principal and interest paid and total customer net receipts were \$90,788 and \$162,166, respectively.

The resolutions providing for the issuance of the sewer revenue bonds issued under loan agreements between the City, the Iowa Finance Authority and the Iowa Department of Natural Resources include the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

- (3) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

The City has established the sewer revenue bond sinking account, but has not yet made the required transfers into the account.

On November 12, 2009, in connection with the November 18, 2009 issuance of the \$1,225,000 sewer revenue bond, the City passed a resolution authorizing a project advance of \$1,225,000, plus interest at 3.25% per annum, from the Enterprise, Sewer Fund to pay a portion of the cost of constructing improvements and extensions to the municipal sewer system, a project located in the City's urban renewal area. The City certified this advance as tax increment financing debt. The project advance will be repaid from future incremental property tax in the Special Revenue, Urban Renewal Tax Increment Fund in annual installments due June 1 of each year in such amounts as determined by the City Council. Repayment of the advance is subject to the determination of future City Councils there is incremental property tax available for such purpose which have been allocated to or accrued in the Special Revenue, Urban Renewal Tax Increment Fund relative to the project advance and the City Council reserves the right to appropriate funds, or to withhold such appropriation, at its discretion.

Forgivable Loan

On January 13, 2010, the City entered into a forgivable loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of \$1,607,000 of sewer revenue bonds. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Reinvestment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements, are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% on the authorized loan. At June 30, 2011, the City had drawn down \$1,607,000 of the authorized amount. Although the City believes the requirements for forgiveness have been met, a final determination has not been received. Accordingly, the loan has not been displayed in Schedule 2, the Statement of Indebtedness.

Lease Purchase Agreement

On June 30, 2008, the City entered into a lease purchase agreement to purchase a wheel loader. The lease is for 3 years, bears interest at 1.7% per annum and requires annual payments of \$49,012. The final payment of \$49,012 under the lease agreement was made during the year ended June 30, 2011.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined

contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$13,349, \$12,947 and \$10,400, respectively, equal to the required contributions for each year.

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Urban Renewal Tax Increment	\$ 116,369
General	Special Revenue: Local Option Sales Tax	30,256
Total		\$ 146,625

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

(6) 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.

(7) Urban Renewal Rebate and Economic Development Agreements

Urban Renewal Rebate Agreements

The City has entered into three development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for certain infrastructure improvements by the developers. The total to be paid by the City under the agreements is not to exceed \$541,760.

During the year ended June 30, 2011, the City rebated \$77,288 of incremental property tax to the developers. The outstanding principal balance on these agreements at June 30, 2011 is \$257,572.

These agreements are not a general obligation of the City. However, the debt payment in the succeeding year is subject to the constitutional debt limitation of the City.

Economic Development and Rebate Agreement

On April 14, 2010, the City entered into an agreement with Clickstop Real Estate Holdings, Inc. (Company) and Keith D. Elwick Trust (Developer) to develop certain commercial property within the City for which the Company has requested financial assistance. Pursuant to the agreement, in exchange for the Company meeting certain requirements, including the undertaking to construct the project within stated timing requirements and the satisfaction of applicable employment requirements, the Developer and City agreed to the following:

- The Developer agreed to grant certain property to the City at no cost and to provide a \$150,000 grant to the City to help defray the cost of the development project. The property was conveyed to the City in May 2010 and the \$150,000 grant was provided in July 2010.

- The City agreed to sell the property granted to the City by the Developer to the Company. The sale occurred during June 2010 with the City netting proceeds of \$377,345. The City also agreed to provide a \$448,000 economic development grant to the Company to assist in the costs of construction of the project. The grant is to be disbursed monthly, commencing July 1, 2010, with each installment equal to 1/3 of the demonstrated costs of the project incurred by the Company. As of November 12, 2010, the City had met its grant obligation in its entirety. During the year ended June 30, 2011, the City paid the Company \$448,000.
- Pursuant to Chapters 15A and 403 of the Code of Iowa, the City agreed to provide up to nine annual economic development tax increment payments to the Company, not to exceed \$315,000. The payments are to begin June 1, 2013 and continue until June 1, 2021. The payments will be in amounts equal to a percentage (ranging from 75% to 100%) of the incremental property tax available with respect to the developed property. Each payment is subject to annual appropriation by the City Council and, while the payments do not constitute a general obligation of the City, they are subject to the constitutional debt limitation of the City.

(8) Commitments

The City has entered into construction contracts totaling \$5,699,578 for improvements to the City’s municipal sewer plant, development of the Blue Creek Business Park and turn lanes on Highway 150. As of June 30, 2011, costs of \$4,968,535 have been incurred and paid on the projects. The remaining \$731,043 will be paid as work on the projects progresses.

(9) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	General	Special Revenue Emergency Levy
Balances June 30, 2010, as previously reported	\$ 179,837	9,660
Change in fund type classification per implementation of GASB Statement No. 54	9,660	(9,660)
Balances July 1, 2010, as restated	<u>\$ 189,497</u>	<u>-</u>

(10) Subsequent Events

On February 22, 2012, the City awarded a competitive bid contract for the 2012 capital improvement project for \$596,718, including engineering costs.

On April 11, 2012, the City entered into an agreement for \$800,000 of general obligation street improvement and refunding bonds, Series 2012.

City of Urbana

Required Supplementary Information

City of Urbana
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 552,353	-
Tax increment financing	238,916	-
Other city tax	54,294	-
Licenses and permits	23,235	-
Use of money and property	6,565	36
Intergovernmental	359,659	-
Charges for service	113,114	519,267
Miscellaneous	173,601	5,310
Total receipts	<u>1,521,737</u>	<u>524,613</u>
Disbursements:		
Public safety	93,386	-
Public works	259,321	-
Health and social services	-	-
Culture and recreation	30,013	-
Community and economic development	78,721	-
General government	67,090	-
Debt service	216,985	-
Capital projects	1,269,890	-
Business type activities	-	3,074,792
Total disbursements	<u>2,015,406</u>	<u>3,074,792</u>
Excess (deficiency) of receipts over (under) disbursements	(493,669)	(2,550,179)
Other financing sources, net	<u>738,223</u>	<u>2,536,913</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	244,554	(13,266)
Balances beginning of year	<u>1,170,229</u>	<u>322,708</u>
Balances end of year	<u>\$ 1,414,783</u>	<u>309,442</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
552,353	562,486	562,486	(10,133)
238,916	244,232	244,232	(5,316)
54,294	53,843	53,843	451
23,235	13,875	13,875	9,360
6,601	2,800	2,800	3,801
359,659	530,150	780,150	(420,491)
632,381	610,125	610,125	22,256
178,911	408,500	559,500	(380,589)
<u>2,046,350</u>	<u>2,426,011</u>	<u>2,827,011</u>	<u>(780,661)</u>
93,386	89,956	92,956	(430)
259,321	319,089	319,089	59,768
-	700	700	700
30,013	36,735	33,735	3,722
78,721	398,250	398,250	319,529
67,090	135,046	135,046	67,956
216,985	215,076	215,076	(1,909)
1,269,890	1,105,000	2,449,000	1,179,110
3,074,792	4,915,998	3,571,998	497,206
<u>5,090,198</u>	<u>7,215,850</u>	<u>7,215,850</u>	<u>2,125,652</u>
(3,043,848)	(4,789,839)	(4,388,839)	1,344,991
<u>3,275,136</u>	<u>5,010,000</u>	<u>4,609,000</u>	<u>(1,333,864)</u>
231,288	220,161	220,161	11,127
1,492,937	695,689	695,689	797,248
<u>1,724,225</u>	<u>915,850</u>	<u>915,850</u>	<u>808,375</u>

City of Urbana

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information 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 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, one budget amendment reallocated budgeted disbursements. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety and debt service functions. Also, disbursements exceeded the amount budgeted in the capital projects function prior to adoption of the budget amendment.

Other Supplementary Information

City of Urbana

City of Urbana

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	Employee Benefits	Local Option Sales Tax	Total
Receipts:			
Property tax	\$ 36,309	-	36,309
Other city tax	-	54,294	54,294
Total receipts	<u>36,309</u>	<u>54,294</u>	<u>90,603</u>
Disbursements:			
Operating:			
Public safety	5,966	-	5,966
Public works	15,766	-	15,766
Culture and recreation	992	-	992
General government	5,147	-	5,147
Total disbursements	<u>27,871</u>	<u>-</u>	<u>27,871</u>
Excess of receipts over disbursements	8,438	54,294	62,732
Other financing uses:			
Operating transfers out	-	(30,256)	(30,256)
Net change in cash balances	8,438	24,038	32,476
Cash balances beginning of year, as restated	1,804	99,680	101,484
Cash balances end of year	<u>\$ 10,242</u>	<u>123,718</u>	<u>133,960</u>
Cash Basis Fund Balances			
Restricted	<u>\$ 10,242</u>	<u>123,718</u>	<u>143,916</u>

See accompanying independent auditor's report.

City of Urbana
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Apr 1, 2006	3.625-3.90%	\$ 510,000
Corporate purpose, series 2010A	Aug 15, 2010	1.350-3.90	750,000
Total			
General obligation notes:			
Corporate purpose	Dec 1, 2003	3.25-4.50%	\$ 910,000
Fire truck acquisition 2010	Mar 24, 2010	0.00%	55,009
Total			
Revenue bonds:			
Sewer, Series 2009A	Nov 18, 2009	3.00%	* \$ 1,225,000
Sewer, Series 2009B	Jan 13, 2010	3.00	* 2,561,000
Total			
Lease purchase agreement:			
Case wheel loader	Jun 30, 2008	1.70%	\$ 140,992

* The City is required 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
330,000	-	50,000	280,000	12,552
-	750,000	-	750,000	17,092
<u>\$ 330,000</u>	<u>750,000</u>	<u>50,000</u>	<u>1,030,000</u>	<u>29,644</u>
575,000	-	60,000	515,000	23,553
52,188	-	52,188	-	-
<u>\$ 627,188</u>	<u>-</u>	<u>112,188</u>	<u>515,000</u>	<u>23,553</u>
876,292	348,708	5,000	1,220,000	35,191
25,610	2,158,328	10,000	2,173,938	40,597
<u>\$ 901,902</u>	<u>2,507,036</u>	<u>15,000</u>	<u>3,393,938</u>	<u>75,788</u>
47,785	-	47,785	-	1,227

City of Urbana

City of Urbana
Bond and Note Maturities
June 30, 2011

Year Ending June 30,	General Obligation Bonds/Notes							
	General Obligation Bonds			General Obligation Bonds			General Obligation Notes	
	Issued Apr 1, 2006			Issued Aug 15, 2010			Issued Dec 1, 2003	
	Interest Rates	Amount		Interest Rates	Amount	Total	Interest Rates	Amount
2012	3.75%	\$ 50,000	1.35%	\$ 65,000	115,000	3.75%	\$ 65,000	
2013	3.75	55,000	1.70	70,000	125,000	4.00	65,000	
2014	3.80	55,000	2.10	70,000	125,000	4.00	65,000	
2015	3.85	60,000	2.50	70,000	130,000	4.30	60,000	
2016	3.90	60,000	3.00	75,000	135,000	4.25	60,000	
2017		-	3.20	75,000	75,000	4.30	65,000	
2018		-	3.45	75,000	75,000	4.40	65,000	
2019		-	3.60	80,000	80,000	4.50	70,000	
2020		-	3.75	85,000	85,000		-	
2021		-	3.90	85,000	85,000		-	
Total		<u>\$ 280,000</u>		<u>\$ 750,000</u>	<u>1,030,000</u>		<u>\$ 515,000</u>	

Year Ending June 30,	Revenue Bonds	
	Sewer	
	Issued Nov 18, 2009	
Interest Rates	Amount	
2012	3.00%	\$ 15,000
2013	3.00	20,000
2014	3.00	25,000
2015	3.00	30,000
2016	3.00	40,000
2017	3.00	62,000
2018	3.00	65,000
2019	3.00	67,000
2020	3.00	69,000
2021	3.00	71,000
2022	3.00	74,000
2023	3.00	76,000
2024	3.00	79,000
2025	3.00	81,000
2026	3.00	84,000
2027	3.00	86,000
2028	3.00	89,000
2029	3.00	92,000
2030	3.00	95,000
Total		<u>\$ 1,220,000</u>

See accompanying independent auditor's report.

City of Urbana



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, 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 the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Urbana, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 5, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Urbana is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Urbana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Urbana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Urbana's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurances, all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 Urbana'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 (C) 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 deficiencies described in the accompanying Schedule of Findings as items (D) and (E) to be significant deficiencies.

Compliance and Other Matters

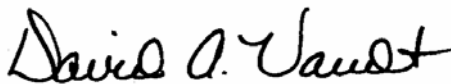
As part of obtaining reasonable assurance about whether the City of Urbana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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.

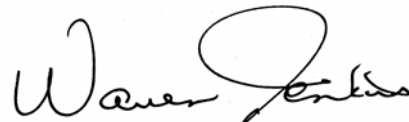
The City of Urbana's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Urbana's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Urbana and other parties to whom the City of Urbana may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 5, 2012

City of Urbana

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One of two individuals has control over each of the following areas:

- (1) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Disbursements – purchasing, check signing, recording and reconciling.
- (6) Payroll – preparing and distributing.
- (7) Accounting system – performing all general accounting functions and having custody of assets.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) Financial reporting – preparing, reconciling and distributing.

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 personnel, including elected officials.

Response – The City Council will review current procedures, pursuing and implementing any practical improvements possible.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled monthly, delinquent accounts were not monitored and the City does not have a formal policy for writing off uncollectible accounts. The City has a resolution regarding service discontinuation for unpaid accounts, but is not following the resolution.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts. The City Council should review the reconciliation each month and monitor delinquent accounts. The City should also establish a formal written policy for writing off uncollectible accounts. The City should implement its resolution for unpaid accounts and discontinue service, where applicable.

City of Urbana

Schedule of Findings

Year ended June 30, 2011

Response – The City will ensure a reconciliation of utility billings, collections and delinquent accounts is prepared monthly. The Council will review the reconciliations each month and monitor delinquent accounts. We are starting to write off uncollectible accounts.

Conclusion – Response accepted.

- (C) Accounting Records – Although bank balances were reconciled to computer generated financial reports, the reconciliations did not include all City accounts and investments and the reconciliations were not always timely. There was no evidence of independent review of bank reconciliations. Interest on investments was not always posted timely. In addition, financial reports were not provided to the City Council monthly for its review.

Recommendation – To improve financial accountability and control, the monthly reconciliation of the bank balances should include all City accounts, including investments, and should be prepared timely. Any variances should be investigated and resolved timely. In addition, the City Council should be provided monthly financial reports including, at a minimum, a balance sheet, operating statement and bank reconciliation. Evidence of review of these reports should be noted and retained by the City Clerk.

Response – We will reconcile all City accounts timely. The City Clerk will have the Mayor sign off on the monthly reconciliations.

Conclusion – Response accepted.

- (D) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days and maintaining password privacy and confidentiality.
- requiring a time out/logoff function.
- usage of the internet.
- use of software not licensed to the City.

In addition, the City does not have a written disaster recovery plan and computer virus definitions were not up to date.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over the City’s computer system. Also, a written disaster recovery plan should be developed and should be tested periodically. Computer anti-virus definitions should be updated regularly.

Response – City staff will develop written policies addressing the above items and present them to the City Council for consideration. The City Council will consider the development of a written disaster recovery plan at a future date. The City recently installed a new product to help keep anti-virus current.

Conclusion – Response accepted.

City of Urbana

Schedule of Findings

Year ended June 30, 2011

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

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

Response – City staff will develop a written credit card policy and present it to the City Council for consideration.

Conclusion – Response accepted.

City of Urbana

Schedule of Findings

Year ended June 30, 2011

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Urbana

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements exceeded the amounts budgeted in the public safety and debt service functions at June 30, 2011. Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the capital projects function prior to the May 25, 2011 budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – City staff will make sure to file amendments on time.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Smith, Council Member, Sales Representative for ACME Tools	Tools	\$4,803

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Council Member Smith appear to represent conflicts of interest since total transactions were greater than \$2,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - The above Council Member is no longer a Council Member. The City will keep this in mind in future business.

Conclusion - Response acknowledged. The City should consult legal counsel to determine the disposition of this matter.

- (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) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

City of Urbana

Schedule of Findings

Year ended June 30, 2011

Certain transactions were paid prior to City Council approval and we were unable to determine City Council approvals for other transactions. The minutes for the July 2010 and September 2010 meetings were not properly signed.

Actual gross salaries have not been published for all employees in accordance with Chapter 372.13 of the Code of Iowa and Attorney General's opinion dated April 12, 1978.

Appointment of the City Clerk was not officially noted in the City Council minutes. In addition, there is no official record in the minutes of the approved salaries for the City Clerk and the Police Chief.

Transfers between funds were made, but were not always properly approved prior to the transaction being recorded.

Response – The City staff will take into consideration the above instances and make sure the City is compliant.

Conclusion – Response accepted.

- (7) Deposits and Investments – Except as noted, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa.

The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City has now adopted a written investment policy.

Conclusion – Response accepted.

- (8) IPERS Contributions – IPERS remittances were not made by the 15th of the month following the payroll withholding. The City paid penalties of \$163 during the year ended June 30, 2011 due to the untimely remittances to IPERS.

Recommendation – The City should ensure IPERS remittances are made by the 15th of the month following the payroll withholding.

Response – The City Clerk will ensure IPERS payments are remitted timely

Conclusion – Response accepted.

- (9) Revenue Bonds – The City has not established and made the required transfers to a sewer revenue bond sinking account as required by the sewer revenue bond resolutions.

Recommendation – The City should establish a sewer revenue bond sinking account and make the monthly transfers as required.

Response – The City has since established a sewer sinking account and will make the transfers as required.

Conclusion – Response accepted.

City of Urbana

Schedule of Findings

Year ended June 30, 2011

- (10) Low and Moderate Income (LMI) Requirements – The City entered into urban renewal development agreements in 2003 and 2005 for the construction of housing units. In accordance with these agreements and Chapter 403.22 of the Code of Iowa, any project related to housing which receives tax increment financing assistance must also generate funds to be used to provide assistance to housing for low and moderate income (LMI) families. The City’s agreements provide for a 36.5% set aside percentage for LMI. As of June 30, 2011, the City has not demonstrated compliance with the LMI set aside requirements.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including determination of the appropriate LMI amounts required to be set aside pursuant to the City’s urban renewal agreements and Chapter 403.22 of the Code of Iowa. In the future, appropriate amounts should be set aside from all TIF collections.

Response – The City has since established the LMI Fund and set aside the correct amounts.

Conclusion – Response accepted.

City of Urbana

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Darryl J. Brumm, CPA, Senior Auditor II
Kelly L. Hilton, Staff Auditor
Eric L. Rath, 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