

**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

June 27, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the City of Audubon, Iowa.

The City's receipts totaled \$7,468,694 for the year ended June 30, 2018, a 116.3% increase over the prior year. The receipts included \$1,037,003 of property tax, \$67,098 of tax increment financing, \$156,456 of local option sales tax, \$1,249,247 of charges for service, \$737,114 of operating grants, contributions and restricted interest, \$6,500 of capital grants, contributions and restricted interest, \$26,258 of commercial/industrial tax replacement, \$23,534 of unrestricted interest on investments, \$4,123,971 of note proceeds and \$41,513 of other general receipts.

Disbursements for the year ended June 30, 2018 totaled \$7,463,658, a 118% increase over the prior year, and included \$799,192 for culture and recreation, \$797,983 for public works and \$555,218 for public safety. Also, disbursements for business type activities totaled \$4,823,860.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

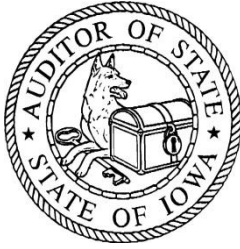
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CITY OF AUDUBON

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

JUNE 30, 2018

City of Audubon



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STATE OF IOWA

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June 20, 2019

Officials of City of Audubon
Audubon, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for City of Audubon, Iowa, for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of City of Audubon throughout the audit. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Audubon

Officials

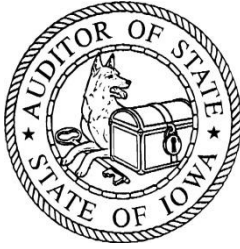
(Before January 2018)

<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

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Barb Jacobsen	Mayor	Jan 2020
Andy Griffith	Council Member	Jan 2020
Robert Jacobsen	Council Member	Jan 2020
Brad Hemmingsen	Council Member	Jan 2022
Jason Hocker	Council Member	Jan 2022
Nick Weihs	Council Member	Jan 2022
Joseph Foran	City Clerk	Indefinite
Mark Bosworth	Attorney	Indefinite

City of Audubon



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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, 2018, 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, 2018, 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.

Emphasis of a Matter

As discussed in Note 5 to the financial statements, the City of Audubon adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 two years ended June 30, 2017 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the seven 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, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), 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 15 and 36 through 42, 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 June 20, 2019 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

June 20, 2019

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, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 2.7%, or approximately \$67,000, from fiscal year 2017 to fiscal year 2018. Operating grants, contributions and restricted interest increased approximately \$361,000. Tax increment financing receipts decreased approximately \$240,000.
- Disbursements of the City's governmental activities increased 9.4%, or approximately \$226,000, from fiscal year 2017 to fiscal year 2018. Culture and recreation and community and economic development disbursements increased approximately \$474,000 and \$117,000, respectively. Public works disbursements decreased approximately \$179,000.
- The City's total cash basis net position increased less than 1%, or approximately \$5,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities decreased approximately \$45,000 and the cash basis net position of the business type activities increased approximately \$50,000.

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 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. In addition, the Schedule of Expenditures of Federal Awards provides details of the federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting 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, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed 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.

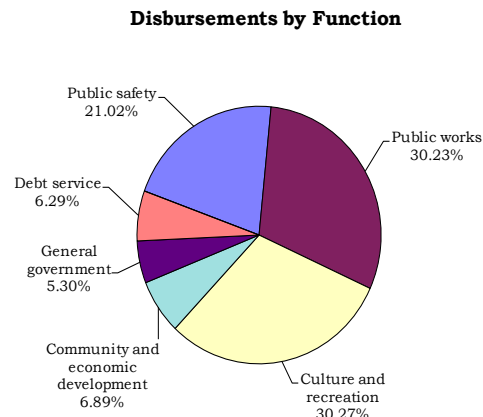
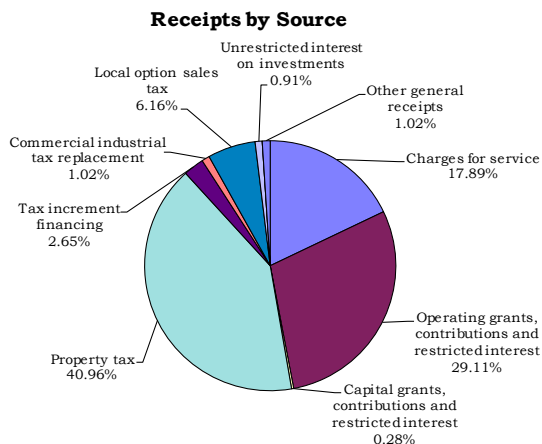
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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 decreased from a year ago, decreasing from approximately \$694,000 to approximately \$649,000. 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,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service	\$ 453	452
Operating grants, contributions and restricted interest	737	376
Capital grants, contributions and restricted interest	7	-
General receipts:		
Property tax	1,037	806
Tax increment financing	67	307
Local option sales tax	156	195
Commercial industrial tax replacement	26	-
Unrestricted interest on investments	23	21
Note proceeds	-	206
Other general receipts	26	102
Total receipts	2,532	2,465
Disbursements:		
Public safety	555	506
Public works	798	977
Culture and recreation	799	325
Community and economic development	182	65
General government	140	214
Debt service	166	162
Capital projects	-	165
Total disbursements	2,640	2,414
Change in cash basis net position before transfers	(108)	51
Transfers, net	63	50
Change in cash basis net position	(45)	101
Cash basis net position beginning of year	694	593
Cash basis net position end of year	\$ 649	694



The City's total receipts for governmental activities increased 2.7%, or approximately \$67,000, over the prior year. The significant increase in receipts was primarily the result of an increase in operating grants, contributions and restricted interest receipts collected by the City of approximately \$361,000. In addition, tax increment financing receipts and note proceeds decreased approximately \$240,000 and \$206,000, respectively.

The cost of all governmental activities this year was approximately \$2,640,000 compared to approximately \$2,414,000 last year. The total cost of all programs and services increased approximately \$226,000, or 9.4%. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 18 and 19, the amount taxpayers ultimately financed for these activities was approximately \$1,444,000 because some of the cost was paid by those directly benefiting from the programs (approximately \$452,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$744,000). 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, anticipation not proceeds and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2018 from approximately \$828,000 to approximately \$1,197,000.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 238	228
Sewer	559	424
General receipts:		
Note proceeds	4,124	325
Other general receipts	16	12
Total receipts	4,937	989
Disbursements:		
Water	879	288
Sewer	3,945	723
Total disbursements	4,824	1,011
Change in cash basis net position before transfers	113	(22)
Transfers, net	(63)	(50)
Change in cash basis net position	50	(72)
Cash basis net position beginning of year	115	187
Cash basis net position end of year	\$ 165	115

Total business type activities receipts for the fiscal year were approximately \$4,937,000 compared to approximately \$989,000 last year. The significant increase was due primarily to the receipt of approximately \$4,124,000 of water and sewer construction anticipation note proceeds. Total business type activities disbursements increased approximately \$3,813,000 compared to fiscal year 2017, due to increased expenses related to the water and sewer construction projects. The cash balance increased approximately \$50,000 over 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 \$649,087, a decrease of \$44,427 from last year's total of \$693,514. 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 increased \$42,470 over the prior year to \$244,476. The receipts increased 41%, or approximately \$412,000, primarily due to an increase in property taxes related to increased property valuations and tax rates. The disbursements increased 36.5%, or approximately \$390,000, primarily due to the City purchasing bowling equipment for the Audubon Recreation Center at a cost of approximately \$374,000, which the City was later reimbursed for.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$91,504 to \$29,254. The decrease was primarily due to an increase in public works disbursements related to the hiring of a new Public Works Director.
- The Special Revenue, Employee Benefits Fund cash balance increased \$41,437 to \$101,084. The increase was primarily due to an increase in property tax receipts resulting from increases in the property valuations and the employee benefits levy rate.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$108,138 to \$26,805. This decrease was primarily due to a decrease in tax increment financing receipts and a repayment to the County of excess TIF receipts collected.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$26,942 from a negative cash balance in the prior fiscal year of \$34,161 to a negative cash balance in the current year of \$7,219.
- The Debt Service Fund cash balance increased \$41,884 from a negative cash balance in the prior fiscal year of \$19,180 to \$22,704. This increase was primarily due to the City levying for outstanding debt that had not previously been levied.
- The Capital Projects Fund cash balance remained the same at \$40,580.
- The Permanent Fund, Cemetery Trust cash balance increased \$2,482.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$56,346 to a negative \$11,365. This decrease was primarily due to capital outlay disbursements exceeding note proceeds received.
- The Enterprise, Sewer Fund cash balance increased \$105,809 to \$176,241. This increase was primarily due to note proceeds received exceeding capital outlay disbursements and an increase in charges for services.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on February 12, 2018 and resulted in a decrease in operating disbursements of \$95,000 and an increase in transfers of \$190,000 related to changes in the way the City accounts for appropriations to the library and for library payroll transfers. The second amendment was approved on May 14, 2018 and resulted in an increase in operating disbursements of \$620,000

and an increase in receipts of \$420,000 to provide for additional disbursements in certain City departments.

The City's receipts were \$308,652 less than budgeted. This was primarily due to the City receiving lower charges for services revenues than anticipated due to a delay in the completion of the sewer project and the related anticipated increased sewer rates.

The City's disbursements were \$3,359,944 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 culture and recreation and business type activities functions for the year ended June 30, 2018, due to higher than anticipated costs for maintenance projects and interest payments on loan anticipation notes. The City also incorrectly budgeted for water and sewer projects under capital projects instead of business type activities. In addition, disbursements exceeded the amount budgeted in the community and economic development function prior to the May 14, 2018 budget amendment, due to the purchase of bowling equipment for the Audubon Recreational Foundation for which the City was subsequently reimbursed.

DEBT ADMINISTRATION

At June 30, 2018, the City had approximately \$6,744,000 of long-term debt outstanding, compared to approximately \$2,872,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2018	2017
General obligation notes	\$ 1,265	1,400
Revenue notes	796	942
Anticipation notes	4,683	530
Total	\$ 6,744	2,872

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 \$1,265,000 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 2019 budget, tax rates and fees charged for various City activities. Unemployment in the County stands at 2.4%, a slight decrease from a year ago. This compares with the State's unemployment rate of 2.4% and the national rate of 3.9%.

These indicators were taken into account when adopting the budget for fiscal year 2019. The amount available for appropriation in the operating budget is \$9,405,649, a decrease of \$1,657,726 from the final fiscal year 2018 budget. This is due to several factors, intergovernmental and licenses and permits revenues are expected to increase \$1,043,696 and

\$145,100, respectively, while other financing sources are expected to decrease \$2.3 million, due to in anticipated proceeds from the issuance of debt to fund water and sewer systems improvements and miscellaneous revenues are expected to decrease \$358,395. Therefore, disbursements are expected to decrease \$2,027,014.

If these estimates are realized, the City's cash balance is expected to increase approximately \$299,000 by the close of fiscal year 2019.

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.

City of Audubon

Basic Financial Statements

City of Audubon

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 555,218	30,089	3,838	-
Public works	797,983	209,165	294,254	-
Culture and recreation	799,192	51,512	439,022	6,500
Community and economic development	182,095	-	-	-
General government	139,538	161,685	-	-
Debt service	165,772	-	-	-
Total governmental activities	2,639,798	452,451	737,114	6,500
Business type activities:				
Water	879,355	237,522	-	-
Sewer	3,944,505	559,274	-	-
Total business type activities	4,823,860	796,796	-	-
Total	\$ 7,463,658	1,249,247	737,114	6,500
Component Unit:				
Audubon Fire and Rescue Association	\$ 43,227	-	47,212	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Commercial/industrial tax replacement				
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				
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 Business Type Activities	Activities	Total	Audubon Fire and Rescue Association
(521,291)	-	(521,291)	
(294,564)	-	(294,564)	
(302,158)	-	(302,158)	
(182,095)	-	(182,095)	
22,147	-	22,147	
(165,772)	-	(165,772)	
<u>(1,443,733)</u>	<u>-</u>	<u>(1,443,733)</u>	
-	(641,833)	(641,833)	
<u>-</u>	<u>(3,385,231)</u>	<u>(3,385,231)</u>	
-	(4,027,064)	(4,027,064)	
<u>(1,443,733)</u>	<u>(4,027,064)</u>	<u>(5,470,797)</u>	
			<u>3,985</u>
834,625	-	834,625	-
202,378	-	202,378	-
67,098	-	67,098	-
156,456	-	156,456	-
26,258	-	26,258	-
23,202	332	23,534	408
-	4,123,971	4,123,971	-
26,130	15,383	41,513	-
63,159	(63,159)	-	-
<u>1,399,306</u>	<u>4,076,527</u>	<u>5,475,833</u>	<u>408</u>
(44,427)	49,463	5,036	4,393
<u>693,514</u>	<u>115,413</u>	<u>808,927</u>	<u>89,791</u>
<u>\$ 649,087</u>	<u>164,876</u>	<u>813,963</u>	<u>94,184</u>
\$ 191,403	-	191,403	-
29,254	-	29,254	-
101,084	-	101,084	-
40,580	-	40,580	-
-	-	-	94,184
-	27,454	27,454	-
49,509	97,248	146,757	-
<u>237,257</u>	<u>40,174</u>	<u>277,431</u>	<u>-</u>
<u>\$ 649,087</u>	<u>164,876</u>	<u>813,963</u>	<u>94,184</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, 2018

	General	Road Use Tax	Special Employee Benefits
Receipts:			
Property tax	\$ 456,625	-	376,458
Tax increment financing	-	-	-
Other city tax	681	-	568
Licenses and permits	155,599	-	-
Use of money and property	23,200	-	-
Intergovernmental	57,762	277,636	9,644
Charges for service	241,675	-	-
Special assessments	6,016	-	-
Miscellaneous	476,299	1,086	-
Total receipts	1,417,857	278,722	386,670
Disbursements:			
Operating:			
Public safety	389,844	-	165,374
Public works	150,590	370,226	132,121
Culture and recreation	788,782	-	10,410
Community and economic development	26,800	-	-
General government	102,210	-	37,328
Debt service	-	-	-
Total disbursements	1,458,226	370,226	345,233
Excess (deficiency) of receipts over (under) disbursements	(40,369)	(91,504)	41,437
Other financing sources (uses):			
Transfers in	83,159	-	-
Transfers out	(320)	-	-
Total other financing sources (uses)	82,839	-	-
Change in cash balances	42,470	(91,504)	41,437
Cash balances (deficits) beginning of year	202,006	120,758	59,647
Cash balances (deficits) end of year	\$ 244,476	29,254	101,084
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Streets	-	29,254	-
Employee benefits	-	-	101,084
Capital projects	-	-	-
Debt service	-	-	-
Unassigned	244,476	-	-
Total cash basis fund balances	\$ 244,476	29,254	101,084

See notes to financial statements.

Revenue			Permanent			
Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Capital Projects	Cemetery Trust		Total
-	-	202,378	-	-		1,035,461
67,098	-	-	-	-		67,098
-	156,456	293	-	-		157,998
-	-	-	-	-		155,599
-	-	-	-	2		23,202
59	-	4,985	-	-		350,086
-	-	-	-	-		241,675
-	-	-	-	-		6,016
-	15,532	-	-	2,160		495,077
67,157	171,988	207,656	-	2,162		2,532,212
-	-	-	-	-		555,218
-	145,046	-	-	-		797,983
-	-	-	-	-		799,192
155,295	-	-	-	-		182,095
-	-	-	-	-		139,538
-	-	165,772	-	-		165,772
155,295	145,046	165,772	-	-		2,639,798
(88,138)	26,942	41,884	-	2,162		(107,586)
-	-	-	-	320		83,479
(20,000)	-	-	-	-		(20,320)
(20,000)	-	-	-	320		63,159
(108,138)	26,942	41,884	-	2,482		(44,427)
134,943	(34,161)	(19,180)	40,580	188,921		693,514
26,805	(7,219)	22,704	40,580	191,403		649,087
-	-	-	-	191,403		191,403
-	-	-	-	-		29,254
-	-	-	-	-		101,084
-	-	-	40,580	-		40,580
26,805	-	22,704	-	-		49,509
-	(7,219)	-	-	-		237,257
26,805	(7,219)	22,704	40,580	191,403		649,087

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, 2018

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 237,522	559,274	796,796
Miscellaneous	13,740	1,643	15,383
Total operating receipts	251,262	560,917	812,179
Operating disbursements:			
Business type activities	206,547	195,064	401,611
Excess of operating receipts over operating disbursements	44,715	365,853	410,568
Non-operating receipts (disbursements):			
Interest on investments	64	268	332
Note proceeds	621,683	3,502,288	4,123,971
Debt service	(14,191)	(256,638)	(270,829)
Capital outlay	(658,617)	(3,492,803)	(4,151,420)
Net non-operating receipts (disbursements)	(51,061)	(246,885)	(297,946)
Excess (deficiency) of receipts over (under) disbursements	(6,346)	118,968	112,622
Transfers out	(50,000)	(13,159)	(63,159)
Change in cash balances	(56,346)	105,809	49,463
Cash balances beginning of year	44,981	70,432	115,413
Cash balances end of year	\$ (11,365)	176,241	164,876
Cash Basis Fund Balances			
Restricted for customer deposits	\$ 27,454	-	27,454
Restricted for debt service	31,082	66,166	97,248
Unrestricted	(69,901)	110,075	40,174
Total cash basis fund balances	\$ (11,365)	176,241	164,876

See notes to financial statements.

City of Audubon

Notes to Financial Statements

June 30, 2018

(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 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 receipts 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.

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

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, 2018, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions. In addition, disbursements exceeded the amount budgeted in the community and economic development function prior to the May 14, 2018 budget amendment.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2018 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
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	147,000	17,173	169,000	2,958	316,000	20,131
2024-2027	563,000	35,276	-	-	563,000	35,276
Total	\$ 1,265,000	148,446	796,000	42,632	2,061,000	191,078

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 less than 45% of net receipts. The total principal and interest remaining to be paid on the notes is \$838,632. 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 \$162,485 and \$365,853, 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.

Revenue Capital Loan Anticipation Project Notes

On June 27, 2018, 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, 2017, 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, 2017, to be issued to pay those public improvement costs to the amount of \$4,000,000.

At June 30, 2018, the City had drawn \$4,683,242 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 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 2018, 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, 2018 totaled \$50,851.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$288,455 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the City's proportion was 0.004330%, which was an increase of 0.000224% over its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$59,047, \$169,409 and \$99,487, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 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, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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 arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 594,043	288,455	31,826

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. Group insurance benefits are established under Iowa Code Chapter 509A.13. 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 the plan members range from \$964 for single coverage to \$2,845 for family coverage. For the year ended June 30, 2018, the City contributed \$281,073 and plan members eligible for benefits did not contribute to the plan. At June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	10
Total	10

(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, 2018, primarily relating to the General Fund and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 33,000

This liability has been computed based on rates of pay in effect at June 30, 2018.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax	
	Increment	\$ 20,000
	Enterprise:	
	Water	50,000
	Sewer	13,159
		<u>83,159</u>
Permanent:		
Cemetery Trust	General	320
		<u>320</u>
Total		<u>\$ 83,479</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 and Enterprise, Water Funds had deficit balances of \$7,219 and \$11,365, respectively, at June 30, 2018. 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 Enterprise, Water Fund is the result of project costs incurred prior to the loan anticipation note draws. The deficit will be eliminated with the collection of loan proceeds.

(10) Development Agreement

The City has entered into a development agreement 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, 2018, the City has not made any payments to the developer.

(11) Subsequent Event

On July 9, 2018, the City entered into a U.S. Department of Agriculture – Rural Development \$4,000,000 taxable sewer revenue capital loan note. The note was issued to redeem outstanding obligations previously issued to pay the costs of improvements and extensions to the municipal sewer system.

City of Audubon

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, 2018

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 1,035,461	-
Tax increment financing	67,098	-
Other city tax	157,998	-
Licenses and permits	155,599	-
Use of money and property	23,202	332
Intergovernmental	350,086	-
Charges for service	241,675	796,796
Special assessments	6,016	-
Miscellaneous	495,077	15,383
Total receipts	2,532,212	812,511
Disbursements:		
Public safety	555,218	-
Public works	797,983	-
Culture and recreation	799,192	-
Community and economic development	182,095	-
General government	139,538	-
Debt service	165,772	-
Capital projects	-	-
Business type activities	-	4,823,860
Total disbursements	2,639,798	4,823,860
Excess (deficiency) of receipts over (under) disbursements	(107,586)	(4,011,349)
Other financing sources, net	63,159	4,060,812
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(44,427)	49,463
Balances beginning of year	693,514	115,413
Balances end of year	\$ 649,087	164,876

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
1,035,461	916,862	916,862	118,599
67,098	60,573	60,573	6,525
157,998	275,225	275,225	(117,227)
155,599	17,400	17,400	138,199
23,534	53,865	53,865	(30,331)
350,086	390,804	390,804	(40,718)
1,038,471	1,471,526	1,471,526	(433,055)
6,016	2,000	2,000	4,016
510,460	45,120	465,120	45,340
3,344,723	3,233,375	3,653,375	(308,652)
555,218	582,548	582,548	27,330
797,983	847,477	847,477	49,494
799,192	450,345	775,345	(23,847)
182,095	64,000	264,000	81,905
139,538	178,820	178,820	39,282
165,772	188,187	188,187	22,415
-	7,100,000	7,100,000	7,100,000
4,823,860	887,225	887,225	(3,936,635)
7,463,658	10,298,602	10,823,602	3,359,944
(4,118,935)	(7,065,227)	(7,170,227)	3,051,292
4,123,971	7,100,000	7,100,000	(2,976,029)
5,036	34,773	(70,227)	75,263
808,927	534,474	534,474	274,453
813,963	569,247	464,247	349,716

City of Audubon

Notes to Other Information – Budgetary Reporting

June 30, 2018

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component unit. 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 \$525,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2018, disbursements exceeded the amount budgeted in the culture and recreation and business type activities functions. In addition, disbursements exceeded the amount budgeted in the community and economic development function prior to the May 14, 2018 budget amendment.

City of Audubon

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

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

Other Information

	2018	2017	2016	2015
City's proportion of the net pension liability	0.004330%	0.004106%	0.003463%	0.003213%
City's proportionate share of the net pension liability	\$ 288	258	171	128
City's covered payroll	\$ 528	482	478	448
City's proportionate share of the net pension liability as a percentage of its covered payroll	54.55%	53.53%	35.77%	28.57%
IPERS' net position as a percentage of the total pension liability	82.21%	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 Ten Years
(In Thousands)

Other Information

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 51	49	45	45
Contributions in relation to the statutorily required contribution	<u>(51)</u>	<u>(49)</u>	<u>(45)</u>	<u>(45)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 545	528	482	478
Contributions as a percentage of covered payroll	9.36%	9.28%	9.34%	9.41%

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
42	43	40	35	32	31
(42)	(43)	(40)	(35)	(32)	(31)
-	-	-	-	-	-
448	468	456	438	421	431
9.38%	9.19%	8.77%	7.99%	7.60%	7.19%

City of Audubon

Notes to Other Information – Pension Liability

Year ended June 30, 2018

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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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
Schedule of Indebtedness
Year ended June 30, 2018

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
595,000	-	10,000	585,000	14,543
690,000	-	110,000	580,000	11,680
115,000	-	15,000	100,000	3,450
\$ 1,400,000	-	135,000	1,265,000	29,673
752,000	-	116,000	636,000	13,160
190,000	-	30,000	160,000	3,325
\$ 942,000	-	146,000	796,000	16,485
474,164	3,525,836	-	4,000,000	91,798
56,080	627,162	-	683,242	14,191
\$ 530,244	4,152,998	-	4,683,242	105,989

City of Audubon

City of Audubon

Note Maturities

June 30, 2018

General Obligation							
Year Ending June 30,	Capital Loan Notes		Refunding Notes		Fire Truck		Total
	Issued Oct 10, 2012		Issued Oct 10, 2012		Issued Aug 27, 2013		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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>\$ 585,000</u>		<u>\$ 580,000</u>		<u>\$ 100,000</u>	<u>1,265,000</u>

Revenue Notes						
Year Ending June 30,	Sewer		Sewer		Total	
	Issued Sep 25, 2002		Issued Dec 12, 2003			
	Interest Rates	Amount	Interest Rates	Amount		
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>\$ 636,000</u>		<u>\$ 160,000</u>	<u>796,000</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

	2018	2017	2016	2015
Receipts:				
Property tax	\$ 1,035,461	803,674	941,807	720,670
Tax increment financing	67,098	307,123	56,045	72,227
Other city tax	157,998	197,230	187,103	204,128
Licenses and permits	155,599	146,357	30,663	3,615
Use of money and property	23,202	20,813	20,700	21,109
Intergovernmental	350,086	336,799	505,881	452,174
Charges for service	241,675	243,381	243,778	242,833
Special assessments	6,016	2,502	826	-
Miscellaneous	495,077	200,769	168,607	75,129
Total	\$ 2,532,212	2,258,648	2,155,410	1,791,885
Disbursements:				
Operating:				
Public safety	\$ 555,218	505,966	617,453	460,385
Public works	797,983	976,656	630,198	633,798
Health and social services	-	-	-	-
Culture and recreation	799,192	324,512	275,606	251,567
Community and economic development	182,095	64,855	223,246	173,621
General government	139,538	214,384	155,109	291,145
Debt service	165,772	162,587	215,493	217,541
Capital projects	-	165,067	63,799	39,814
Total	\$ 2,639,798	2,414,027	2,180,904	2,067,871

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
661,079	761,984	769,268	826,772	697,584	591,287
96,274	43,609	44,681	46,293	128,054	31,636
208,329	239,838	213,956	230,636	213,365	219,178
2,106	1,562	2,649	2,157	793	466
19,984	20,799	19,717	20,832	27,359	38,248
284,177	251,864	293,306	542,684	447,545	562,377
244,713	249,426	244,848	243,148	229,816	209,538
3,807	3,977	4,645	942	6,007	4,260
74,855	85,270	100,421	55,676	95,015	106,178
1,595,324	1,658,329	1,693,491	1,969,140	1,845,538	1,763,168
544,006	363,821	403,733	350,822	340,427	345,091
736,329	776,945	729,120	693,929	859,937	1,031,742
1,000	1,000	1,000	-	-	260,750
361,476	276,730	273,275	247,277	240,922	33,881
91,359	49,155	55,436	51,097	43,488	87,854
114,714	119,546	137,824	302,957	83,128	240,332
200,914	174,547	250,565	253,030	255,225	361,926
211,210	309,226	-	-	7,656	-
2,261,008	2,070,970	1,850,953	1,899,112	1,830,783	2,361,576

City of Audubon

City of Audubon

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities	10.760	FY2018	<u>\$ 4,158,306</u>

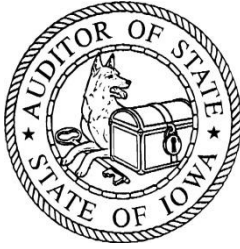
Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Audubon under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Audubon, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Audubon.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The City of Audubon has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor’s report.

City of Audubon



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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, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 20, 2019. 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 and Questioned Costs, 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-18 through II-C-18 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-D-18 and II-E-18 to be significant deficiencies.

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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2018 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 and Questioned Costs. 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.

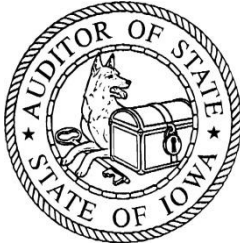
Purpose of this Report

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.


MARLYS K. GASTON, CPA
Deputy Auditor of State

June 20, 2019



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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Audubon, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Audubon's major federal program for the year ended June 30, 2018. The City of Audubon's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Audubon's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Audubon's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Audubon's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Audubon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The management of the City of Audubon is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Audubon's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Audubon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-18, we consider to be a material weakness.

The City of Audubon's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Audubon's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Marlys K. Gaston, CPA
Deputy Auditor of State

June 20, 2019

City of Audubon

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Audubon did not qualify as a low-risk auditee.

City of Audubon

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-18 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, 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.

For the Audubon Fire and Rescue Association, one individual has control over each of the following areas:

- (1) Cash – preparing bank reconciliations, signing checks and recording cash.
- (2) Receipts – opening mail, collecting and depositing
- (3) Disbursements – check writing, signing and approving.

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Year ended June 30, 2018

Cause – The City and the Audubon Fire and Rescue Association have 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 and the Association'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.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Association 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.

Responses

City – The City has the Mayor review all reconciliations and utility reports to ensure accuracy and integrity. Whenever possible one employee receives payments and the other inputs into accounting software. This allows for continual checks and balances of staff.

Fire and Rescue Association – All claims are approved in a business meeting before they are paid. Any checks over \$500 require two signatures. Mail is opened by the Fire Chief and then divided by its purpose. Bank reconciliations are prepared by the Treasurer and then reviewed by an independent person as well as then given to our independent accountant.

Conclusion – Responses acknowledged. The City and Association should continue to review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

II-B-18 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.

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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 – While the Mayor has been reviewing each set of monthly reports, signatures were not present on all sets. The City will ensure the Mayor's signature is on each and every monthly set of reports.

Conclusion – Response accepted.

II-C-18 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 disbursements were recorded to incorrect accounts 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.

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 – Our software company had erroneously set the distribution of sewer expenses to come out of the water fund. While the account payable printout was showing the expenses going to the sewer fund they were being taken from the water fund. It was only discovered by the fact that the water fund went negative. There are so many transactions done in these enterprise funds that it would have been hard to notice. Once discovered the transactions were moved to the appropriate fund accounts.

Conclusion – Response accepted.

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II-D-18 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, and helps ensure the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – Although the City has a disaster recovery plan, the plan does not include:

- (1) A written agreement between local business locations which could be used to process critical applications in the event of an emergency;
- (2) A requirement that a copy of the disaster recovery plan be kept off site;
- (3) An inventory of computer equipment needed for temporary processing;
- (4) An inventory of all software applications;
- (5) A requirement that copies of all user documentation and policies and procedures be located off site; and
- (6) A requirement that an extra stock of paper supplies, such as checks, warrants, and purchase orders, be located off-site.

Cause – Management has not required the disaster recovery plan to include identification of critical applications.

Effect – The failure to have a formal disaster recovery plan which includes identification of critical applications 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 review and modify the current disaster recovery plan to include a listing of critical applications of the City.

Response – This listing will be added to the plan.

Conclusion – Response accepted.

II-E-18 Audubon Fire and Rescue Association Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements for the Audubon Fire and Rescue Association are reconciled to the Association’s book balance. However, review of the monthly bank reconciliations by an independent person is not documented.

Cause – Procedures have not been designed and implemented to ensure the review of monthly bank reconciliations by an independent person is documented.

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Effect – The lack of independent review of bank reconciliations can result in unrecorded transactions, undetected errors and the opportunity for misappropriation.

Recommendation – An independent person should review the bank reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

Response – Bank reconciliations are independently reviewed after the Treasurer prepares them. The independent person reviewing them will also initial and date them.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities

Federal Award Year: 2018

Prior Year Finding Number: N/A

U.S. Department of Agriculture

III-A-18 Segregation of Duties – The City did not properly segregate custody,
(2018-001) record-keeping and reconciling functions for receipts and disbursements,
including those related to federal programs. See item II-A-18.

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Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-18 Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the culture and recreation and business type activities functions. Disbursements also exceeded the amounts budgeted in the community and economic development function prior to the 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 budgeted amounts.

Response – The sewer project’s change in scheduled expenses between fiscal years, the delay on advancement of the water project and unbudgeted expenses for repayment of TIF overpayment resulted in these overages.

Conclusion – Response acknowledged. The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budgeted amounts.

IV-B-18 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.

IV-C-18 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-18 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-18 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.

IV-F-18 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-18 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.

IV-H-18 Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.

IV-I-18 Financial Condition – The Special Revenue, Local Option Sales Tax and the Enterprise, Water Funds had deficit balances of \$7,219 and \$11,365, respectively, at June 30, 2018.

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

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Response – These deficits were due to street repairs done at the very end of the fiscal year and from delays in the water improvement project that have led to more interest payments on the interim financing without the benefits of an increase in rates to help cover the payments. Future receipts of local option sales tax will rectify the deficit in that fund, while the confirmation of actual project costs and an adjustment in the water rates will rectify the deficient in the Enterprise, Water Fund.

Conclusion – Response accepted.

IV-J-18 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 and 2018, 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.

On the City's TIF debt certification due December 1, 2017, the City decertified \$262,204 for the items above. During the fiscal year ended June 30, 2018, the City repaid \$155,295 to the County. The remaining amount of \$106,909 and an overpayment of \$12,829 of TIF revenues in fiscal year 2006, totaling \$119,738, are still owed by the City to the County.

Recommendation – The City Council should work with the County Auditor to ensure the proper repayment of amounts certified in error. 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.

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In addition, the City should initiate corrective transfers from the General Fund to the Special Revenue, Urban Renewal Tax Increment Fund for past appropriations to the Audubon Recreation Center project.

Response – The City has corrected the situation. In the future, no TIF certification will be done without going through the correct statutory process.

Conclusion – Response acknowledged. The City should ensure repayment is made to the County Auditor in the amount of \$119,738 for the remaining amounts certified in error. The City should initiate corrective transfers in the amount of \$40,000 from the General Fund to the Special Revenue, Urban Renewal Tax Increment Fund for past appropriations to the Audubon Recreation Center project.

IV-K-18 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 \$140,000 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.

In addition, the cash balances, receipts and disbursements reported on the Levy Authority Summary do not agree with the City's records. The beginning cash balance was understated by \$11, the receipts were overstated by \$5,441, the disbursements were overstated by \$20,000 and the ending cash balance was overstated by \$25,452.

Recommendation – The City should ensure the debt amounts, the cash balances, receipts and disbursements reported on the Levy Authority Summary are accurate and agree with the City's records.

Response – The City will make the necessary corrections on the Annual Urban Renewal Report due on or before December 1, 2019.

Conclusion – Response accepted.

IV-L-18 Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which shows the receipt, use, or disposition of all city property."

The Audubon Police Department maintains a bank account for activity separate from the City Clerk's account records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account's

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receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Police Department separate account should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

Response – This account has been closed.

Conclusion – Response accepted.

IV-M-18 Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” We noted the following regarding the City’s 2018 AFR:

- Certain receipts and disbursements did not agree with the City’s records. Receipts were overstated by \$6,602 and disbursements were overstated by \$18,048.
- The beginning balances reported did not agree with the City’s records by immaterial amounts. However, the governmental fund total ending balance was overstated by \$14,829 and the proprietary fund total ending balance was understated by \$27,189.
- The City recorded all receipts and disbursements related to the water and sewer construction projects to a capital projects fund instead of the Enterprise, Water and Sewer Funds. This activity includes note proceeds, capital outlay disbursements and debt service disbursements and was reclassified for reporting purposes.

Recommendation – The City should establish procedures to ensure the AFR beginning balances and financial activity is properly supported and reported.

Response – Balances for the AFR will be compared to the previous report to maintain accuracy and current year financial activity will be properly supported and reported. The Capital Projects Fund was used with the idea that it would provide a detail of all transactions relating to both the water and sewer projects. The City will make corrections for the water and sewer construction projects activity and will record the activity correctly in the future.

Conclusion – Response accepted.

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IV-N-18 Purchase of Bowling Equipment for Audubon Recreation Center – During fiscal year 2018, the City purchased bowling equipment for the Audubon Recreation Center Foundation, Inc. (Foundation), a private non-profit organization, at a cost of \$374,448. While the Foundation later reimbursed the City for the same amount, the transaction resulted in an outlay of public funds (i.e., donation) to the non-profit organization for a period of time. In addition, it appears the purchase was made by the City so the Foundation could avoid paying sales tax on the purchase.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa 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 immediately cease the practice of purchasing items for non-profit organizations. In addition to violating the Iowa Constitution, the purchase in this situation made the City a party to violating the Iowa Department of Revenue’s sales tax laws. The City and the Audubon Recreation Foundation, Inc. should consult the Iowa Department of Revenue on the disposition of the unpaid sales tax.

Response – The City will cease this practice. The City was unaware of this violating the Iowa Constitution. The City Attorney will assist in resolving any issues.

Conclusion – Response accepted.

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Staff

This audit was performed by:

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