



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

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ February 15, 2006

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$1,014,041 for the year ended June 30, 2005. The receipts included \$282,609 in property tax, \$107,033 from tax increment financing, \$482,840 from charges for service, \$118,072 from operating grants, contributions and restricted interest, \$3,992 from capital grants, contributions and restricted interest and \$19,495 from other general receipts.

Disbursements for the year totaled \$1,027,173, and included \$220,978 for public works, \$214,835 for debt service and \$138,805 for public safety. Also, disbursements for business type activities totaled \$261,060.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

**JUNE 30, 2005**

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**City of Urbana**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cloyce Hutton	Mayor	Jan 2006
E. Duane Eldred	Mayor Pro tem	Jan 2008
Tim Westpfahl	Council Member	Resigned
Ken DeKeyser (Appointed)	Council Member	Nov 2005
Reita Cook	Council Member	Jan 2006
Tamara Coleman	Council Member	Jan 2006
Martin Hepker	Council Member	Jan 2008
Shirley Henry	Administrative Director/Clerk	Indefinite
Margaret M. Whitson	Treasurer	Indefinite
Chris Wendland	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Urbana, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Urbana's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Urbana as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

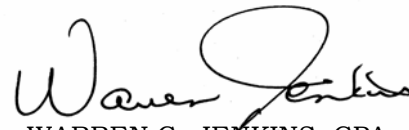
As described in Note 8, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2005 on our consideration of the City of Urbana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Urbana's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total balance at July 1, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 2 , 2005



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Management of the City of Urbana provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2005 FINANCIAL HIGHLIGHTS**

- The cash basis net assets for the City's governmental funds decreased 46.4%, or approximately \$129,000, primarily due to the reduction of the debt service levy in order to use more of the debt service reserve and also due to capital improvements to streets, parking at City Hall/Community Center and completion of the Emergency Services Building project.
- The cash basis net assets for the City's business type activities increased 82.2% or approximately \$116,000, primarily due to rate increases implemented early in fiscal year 2005.

### **USING THIS ANNUAL REPORT**

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

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

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

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

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's outstanding debt.

### **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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the Benton Commerce Village water/sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

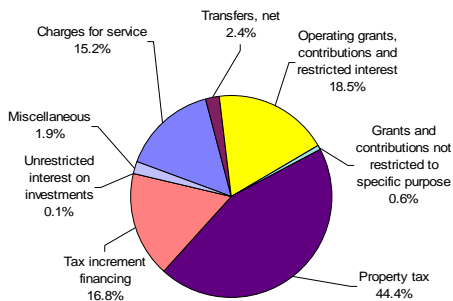
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

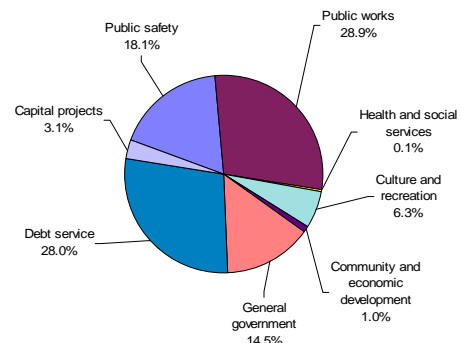
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$278,630 to \$149,220. The analysis that follows focuses on the changes in cash balances of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 96,890
Operating grants, contributions and restricted interest	118,072
Capital grants, contributions and restricted interest	3,992
General receipts:	
Property tax	282,609
Tax increment financing	107,033
Unrestricted interest on investments	706
Miscellaneous	12,361
Transfers, net	15,040
Total receipts and transfers	<u>636,703</u>
Disbursements:	
Public safety	138,805
Public works	220,978
Health and social services	1,100
Culture and recreation	47,961
Community and economic development	7,461
General government	110,993
Debt service	214,835
Capital projects	23,980
Total disbursements	<u>766,113</u>
Decrease in cash basis net assets	(129,410)
Cash basis net assets beginning of year	<u>278,630</u>
Cash basis net assets end of year	<u>\$ 149,220</u>

Receipts by Source



Disbursements by Function



The cash basis net assets for the City's governmental funds decreased primarily due to the reduction of the debt service levy in order to use more of the debt service reserve and also due to capital improvements to streets, parking at City Hall/Community Center and completion of the Emergency Services Building project.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2005</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 206,823
Sewer	137,946
Benton Commerce Village Water/Sewer	41,181
General receipts:	
Unrestricted interest on investments	3,828
Other general receipts	2,600
Total receipts	<u>392,378</u>
Disbursements and transfers:	
Water	97,529
Sewer	97,801
Benton Commerce Village Water/Sewer	65,730
Transfers	15,040
Total disbursements and transfers	<u>276,100</u>
Increase in cash basis net assets	116,278
Cash basis net assets beginning of year	<u>141,470</u>
Cash basis net assets end of year	<u><u>\$ 257,748</u></u>

The cash basis net assets for the City's business type activities increased primarily due to rate increases implemented early in fiscal year 2005.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Urbana completed the year, its governmental funds reported a combined fund balance of \$149,220, a decrease of \$129,410 from last year's total of \$278,630. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance was a deficit \$29,379 at the end of this fiscal year compared to a deficit of \$15,900 at the end of last fiscal year. The decrease was due to the construction of an Emergency Services Building.
- The Road Use Tax Fund cash balance was \$34,532 at the end of this fiscal year compared to \$58,855 at the end of last fiscal year. The difference of \$24,323 is due to repair and maintenance of existing streets.
- The Urban Renewal Tax Increment Fund cash balance was \$102,256 at the end of this fiscal year compared to \$49,651 at the end of last fiscal year. The City has not made a transfer of \$20,000 from the Urban Renewal Tax Increment Fund to the Debt Service Fund for debt payments made from the Debt Service Fund during FY2005. Also, the tax increment financing collections increased during FY2005.

- The Debt Service Fund cash balance was \$115,884 at the end of this fiscal year compared to \$198,529 at the end of last fiscal year. The decrease was due to the reduction of the debt service levy in order to use more of the debt service reserve for payment of principal and interest.
- The Capital Projects Fund cash balance was a deficit \$77,694 at the end of this fiscal year compared to a deficit of \$12,373 at the end of last fiscal year. The decrease was due to capital improvements to streets and parking at City Hall/Community Center.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance was \$221,580 at the end of the fiscal year, compared to an ending balance of \$109,647 at the end of last fiscal year. The increase was due to a rate increase implemented early in fiscal year 2005.
- The Sewer Fund cash balance was \$115,072 at the end of the fiscal year, compared to an ending balance of \$86,178 at the end of last fiscal year. The increase was due to a rate increase implemented early in fiscal year 2005.
- The Benton Commerce Village Water/Sewer Fund cash balance was a deficit \$78,904 at the end of the fiscal year, compared to a deficit ending balance of \$54,355 at the end of last fiscal year. The fund was established to maintain a separate financial record for the utilities when they were owned by Benton County, who paid the City of Urbana to maintain and operate them. Subsequent to June 30, 2005, the City purchased the system, eliminating the need for a separate fund. Therefore, the deficit balance has since been eliminated by the transfer of available funds in the Water and Sewer Funds and the Benton Commerce Village Water/Sewer Fund has been closed. Accounting for the Benton Commerce Village Water/Sewer system has been shifted to the respective water and sewer funds.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended the budget one time. The amendment was approved on June 8, 2005 and resulted in an increase in projected receipts of \$172,288, primarily related to tax increment financing collections and implementation of utility rate increases. The budget amendment also resulted in an increase in authorized disbursements of \$46,716, primarily related to street improvement and maintenance.

**DEBT ADMINISTRATION**

At June 30, 2005, the City had \$1,361,282 in general obligation debt and other long-term debt outstanding. This represents a decrease of 8% percent from last year.

Outstanding Debt at Year-End	
	June 30, 2005
General obligation notes:	
Street improvement	\$ 155,000
Corporate purpose	1,010,000
Revenue bonds:	
Water	117,877
Sewer	76,000
Bank loan:	
Police vehicle	2,405
Total	<u><u>\$1,361,282</u></u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,167,405 is significantly below its constitutional debt limit of \$2.5 million.

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

The City of Urbana's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, including tax rates and fees charged for various City activities. The City's fiscal year 2006 assessed valuation is \$18,294,320, an increase of \$1,116,560 from the previous year.

The proposed fiscal year 2006 budget includes receipts of \$1,116,560 and disbursements of \$1,113,494. The fiscal year 2006 budget is higher than the fiscal year 2005 receipts of \$930,576 and disbursements of \$970,787.

The proposed FY2006 levy is \$13.54126 per \$1000 of assessed property valuation, an increase from the \$13.00145 levy rate in FY2005. The increase was due to an increase in the debt service levy from \$2.97078 to \$3.57011 per \$1000 of assessed property valuation.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Margaret M. Whitson, City Treasurer, 906 W. Main St., Urbana, IA 52345-0186.

## **Basic Financial Statements**

City of Urbana

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 138,805	8,842	1,420	-
Public works	220,978	80,042	89,681	-
Health and social services	1,100	-	-	-
Culture and recreation	47,961	2,973	16,119	-
Community and economic development	7,461	-	1,843	-
General government	110,993	5,033	2,905	-
Debt service	214,835	-	1,751	3,835
Capital projects	23,980	-	4,353	157
Total governmental activities	766,113	96,890	118,072	3,992
Business type activities:				
Water	97,529	206,823	-	-
Sewer	97,801	137,946	-	-
Benton Commerce Village Water/Sewer	65,730	41,181	-	-
Total business type activities	261,060	385,950	-	-
Total	\$ 1,027,173	482,840	118,072	3,992

**General Receipts:**

Property tax levied for:
General purposes
Tax increment financing
Debt service
Unrestricted interest on investments
Rent
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:
Streets
Urban renewal purposes
Debt service
Unrestricted

**Total cash basis net assets**

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(128,543)	-	(128,543)
(51,255)	-	(51,255)
(1,100)	-	(1,100)
(28,869)	-	(28,869)
(5,618)	-	(5,618)
(103,055)	-	(103,055)
(209,249)	-	(209,249)
(19,470)	-	(19,470)
(547,159)	-	(547,159)
-	109,294	109,294
-	40,145	40,145
-	(24,549)	(24,549)
-	124,890	124,890
(547,159)	124,890	(422,269)
191,045	-	191,045
107,033	-	107,033
91,564	-	91,564
706	3,828	4,534
-	2,600	2,600
12,361	-	12,361
15,040	(15,040)	-
417,749	(8,612)	409,137
(129,410)	116,278	(13,132)
278,630	141,470	420,100
\$ 149,220	257,748	406,968
\$ 34,532	-	34,532
102,256	-	102,256
115,884	39,255	155,139
(103,452)	218,493	115,041
\$ 149,220	257,748	406,968

City of Urbana

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

As of and for the year ended June 30, 2005

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 163,941	-	-
Tax increment financing	-	-	107,033
Licenses and permits	17,342	-	-
Use of money and property	1,321	-	-
Intergovernmental	4,452	84,726	-
Charges for service	82,204	-	-
Special assessments	-	-	-
Miscellaneous	28,974	-	-
Total receipts	298,234	84,726	107,033
Disbursements:			
Operating:			
Public safety	97,472	-	-
Public works	104,812	109,049	-
Health and social services	1,100	-	-
Culture and recreation	23,607	-	-
Community and economic development	7,461	-	-
General government	84,740	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	319,192	109,049	-
Excess (deficiency) of receipts over (under) disbursements	(20,958)	(24,323)	107,033
Other financing sources (uses):			
Operating transfers in	7,479	-	-
Operating transfers out	-	-	(54,428)
Total other financing sources (uses)	7,479	-	(54,428)
Net change in cash balances	(13,479)	(24,323)	52,605
Cash balances beginning of year	(15,900)	58,855	49,651
Cash balances end of year	\$ (29,379)	34,532	102,256
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	(29,379)	-	-
Special revenue funds	-	34,532	102,256
Capital projects fund	-	-	-
Total cash basis fund balances	\$ (29,379)	34,532	102,256

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
91,564	-	27,105	282,610
-	-	-	107,033
-	-	-	17,342
1,751	157	-	3,229
-	-	-	89,178
-	-	-	82,204
3,835	-	-	3,835
-	4,353	2,905	36,232
97,150	4,510	30,010	621,663
-	34,354	6,979	138,805
-	375	6,742	220,978
-	-	-	1,100
-	23,146	1,208	47,961
-	-	-	7,461
-	19,163	7,090	110,993
214,835	-	-	214,835
-	23,980	-	23,980
214,835	101,018	22,019	766,113
(117,685)	(96,508)	7,991	(144,450)
35,040	31,187	-	73,706
-	-	(4,238)	(58,666)
35,040	31,187	(4,238)	15,040
(82,645)	(65,321)	3,753	(129,410)
198,529	(12,373)	(132)	278,630
115,884	(77,694)	3,621	149,220
115,884	-	-	115,884
-	-	-	(29,379)
-	-	3,621	140,409
-	(77,694)	-	(77,694)
115,884	(77,694)	3,621	149,220

**City of Urbana**

City of Urbana

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

As of and for the year ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Benton Commerce Village Water/Sewer	Total
Operating receipts:				
Charges for service	\$ 206,823	137,946	41,181	385,950
Operating disbursements:				
Business type activities	97,529	85,601	65,730	248,860
Excess (deficiency) of operating receipts over (under) operating disbursements	109,294	52,345	(24,549)	137,090
Non-operating receipts (disbursements):				
Rent	-	2,600	-	2,600
Interest on investments	2,639	1,189	-	3,828
Debt service	-	(12,200)	-	(12,200)
Total non-operating receipts (disbursements)	2,639	(8,411)	-	(5,772)
Excess (deficiency) of receipts over (under) disbursements	111,933	43,934	(24,549)	131,318
Operating transfers out	-	(15,040)	-	(15,040)
Net change in cash balances	111,933	28,894	(24,549)	116,278
Cash balances beginning of year	109,647	86,178	(54,355)	141,470
Cash balances end of year	\$ 221,580	115,072	(78,904)	257,748
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 21,778	17,477	-	39,255
Unreserved	199,802	97,595	(78,904)	218,493
Total cash basis fund balances	\$ 221,580	115,072	(78,904)	257,748

See notes to financial statements.

City of Urbana

Notes to Financial Statements

June 30, 2005

**(1) Summary of Significant Accounting Policies**

The City of Urbana is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1894 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Benton County Assessor's Conference Board, Benton County Emergency Management Commission and the Benton County Joint E911 Service Board.

Urbana/Polk Township Fire Protection Agency

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

B. Basis of Presentation

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

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

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account 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 with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Benton Commerce Village Water/Sewer Fund accounts for the operation and maintenance of the Village's water and waste water treatment systems.

C. Measurement Focus and Basis of Accounting

The City of Urbana 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 incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government, debt service and capital projects functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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



The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$56,851 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Bonds and Notes Payable and Bank Loan**

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

Year Ending June 30,	General Obligation					
	Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 130,000	47,127	13,245	9,444	143,245	56,571
2007	130,000	41,947	14,507	8,782	144,507	50,729
2008	140,000	36,683	14,783	8,056	154,783	44,739
2009	85,000	30,882	16,072	7,317	101,072	38,199
2010 - 2014	360,000	110,475	75,230	24,165	435,230	134,640
2015 - 2019	320,000	43,135	55,045	9,988	375,045	53,123
Total	\$ 1,165,000	310,249	188,882	67,752	1,353,882	378,001

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to separate water and sewer reserve accounts within the Enterprise Funds until specific minimum balances of \$10,889 and \$12,560, respectively, have been accumulated. These accounts are restricted for the purpose of making any bond principal and interest payments which the sinking accounts may be unable to make.

Bank Loan

The City entered into a bank loan on November 20, 2002 to purchase a police vehicle for \$16,000. The loan requires monthly payments of \$489, including interest at 6.25% per annum, with the first payment made December 20, 2002 and the final payment due November 20, 2005. The unpaid principal balance at June 30, 2005 was \$2,405.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the city contribute and actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$11,187, equal to the required contribution for the year.

**(5) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 3,241
	Emergency	4,238
		<u>7,479</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	20,000
	Enterprise:	
	Sewer	15,040
		<u>35,040</u>
Capital Projects	Special Revenue:	
	Urban Renewal Tax Increment	31,187
		<u>31,187</u>
Total		<u>\$ 73,706</u>

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

**(6) Risk Management**

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

**(7) Deficit Balances**

The General Fund had a deficit balance of \$29,379 at June 30, 2005. The deficit balance will be eliminated through transfers from other City funds and future property tax collections.

The Special Revenue, Employee Benefits Fund had a deficit balance of \$22 at June 30, 2005. The deficit will be eliminated through subsequent collection of property tax.

The Capital Projects Fund had a deficit balance of \$77,694 at June 30, 2005. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated through transfers from other City funds and receipt of grant proceeds.

The Enterprise, Benton Commerce Village Water/Sewer Fund had a deficit balance of \$78,904 at June 30, 2005. Subsequent to June 30, 2005, the City combined this fund with the City's Enterprise, Water and Sewer Funds, eliminating the fund and the deficit balance.

**(8) Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

**(9) Development Agreements**

The City has entered into development agreements to assist in certain urban renewal projects. The city agreed to rebate incremental taxes paid by the developers in exchange for the reimbursed costs of certain infrastructure improvement projects constructed by the City as set forth in the urban renewal plan and the individual development agreements. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for periods ranging from six to ten years, beginning December 1, 2003. The maximum amount to be rebated under the development agreements is the lesser of actual project costs paid by the developer or \$705,260. The agreements do not include provisions for payments of interest.

During the year ended June 30, 2005, the city rebated \$40,000 of incremental taxes to the developers. The outstanding principal balance on these agreements at June 30 2005 is \$635,260.

No bonds or notes were issued for these projects. To the extent there are insufficient tax increment receipts available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any interest.

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

**(10) Subsequent Event**

On August 24, 2005, the City accepted a bid of \$80,235 for the purchase of a dump truck and related equipment. The equipment will be financed, along with parking lot improvements and refunding of \$155,000 general obligation bonds – Series 1997, through a loan agreement not to exceed \$265,000.

**City of Urbana**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 282,610	-
Tax increment financing	107,033	-
Other city tax	-	-
Licenses and permits	17,342	-
Use of money and property	3,229	6,428
Intergovernmental	89,178	-
Charges for service	82,204	373,473
Special assessments	3,835	-
Miscellaneous	36,232	12,477
Total receipts	621,663	392,378
Disbursements:		
Public safety	138,805	-
Public works	220,978	-
Health and social services	1,100	-
Culture and recreation	47,961	-
Community and economic development	7,461	-
General government	110,993	-
Debt service	214,835	12,200
Capital projects	23,980	-
Business type activities	-	248,860
Total disbursements	766,113	261,060
Excess (deficiency) of receipts over (under) disbursements	(144,450)	131,318
Other financing sources, net	15,040	(15,040)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(129,410)	116,278
Balances beginning of year	278,630	141,470
Balances end of year	\$ 149,220	257,748

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
282,610	250,270	257,072	25,538
107,033	-	94,978	12,055
-	9,928	4,064	(4,064)
17,342	18,335	17,880	(538)
9,657	5,650	3,015	6,642
89,178	87,768	87,768	1,410
455,677	379,062	443,199	12,478
3,835	3,800	3,400	435
48,709	3,475	19,200	29,509
<u>1,014,041</u>	<u>758,288</u>	<u>930,576</u>	<u>83,465</u>
138,805	106,232	111,520	(27,285)
220,978	193,621	230,025	9,047
1,100	1,100	1,100	-
47,961	13,183	19,183	(28,778)
7,461	2,550	7,574	113
110,993	84,798	78,798	(32,195)
227,035	222,244	222,244	(4,791)
23,980	-	-	(23,980)
248,860	284,393	284,393	35,533
<u>1,027,173</u>	<u>908,121</u>	<u>954,837</u>	<u>(72,336)</u>
(13,132)	(149,833)	(24,261)	11,129
-	-	-	-
(13,132)	(149,833)	(24,261)	11,129
420,100	333,759	318,459	101,641
<u>406,968</u>	<u>183,926</u>	<u>294,198</u>	<u>112,770</u>

City of Urbana

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$46,716. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government, debt service and capital projects functions.



**Other Supplementary Information**

**City of Urbana**

## City of Urbana

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

As of and for the year ended June 30, 2005

	Special Revenue			Total
	Employee Benefits	Emergency	Flex Benefits	
Receipts:				
Property tax	\$ 21,973	5,132	-	27,105
Miscellaneous	970	-	1,935	2,905
Total receipts	<u>22,943</u>	<u>5,132</u>	<u>1,935</u>	<u>30,010</u>
Disbursements:				
Operating:				
Public safety	6,979	-	-	6,979
Public works	6,742	-	-	6,742
Culture and recreation	1,208	-	-	1,208
General government	4,844	-	2,246	7,090
Total disbursements	<u>19,773</u>	<u>-</u>	<u>2,246</u>	<u>22,019</u>
Excess (deficiency) of receipts over (under) disbursements	3,170	5,132	(311)	7,991
Other financing uses:				
Operating transfers out	-	(4,238)	-	(4,238)
Net change in cash balances	3,170	894	(311)	3,753
Cash balances beginning of year	(3,192)	1,973	1,087	(132)
Cash balances end of year	<u>\$ (22)</u>	<u>2,867</u>	<u>776</u>	<u>3,621</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	<u>\$ (22)</u>	<u>2,867</u>	<u>776</u>	<u>3,621</u>

See accompanying independent auditor's report.

City of Urbana  
Statement of Indebtedness  
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street Improvement	Sep 1, 1997	4.90-5.00%	\$ 450,000
Corporate purpose	Nov 1, 2001	3.90-5.15	270,000
Corporate purpose	Dec 1, 2003	3.25-4.50	910,000
Total			
Revenue bonds:			
Water	Apr 3, 1980	5.00%	\$ 183,300
Sewer	Mar 22, 1973	5.00	210,000
Total			
Bank loan:			
Police vehicle	Nov 20, 2002	6.25%	\$ 16,000

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest due and unpaid
205,000	50,000	155,000	10,075	-
155,000	20,000	135,000	6,900	-
910,000	35,000	875,000	51,760	-
<u>\$ 1,270,000</u>	<u>105,000</u>	<u>1,165,000</u>	<u>68,735</u>	<u>-</u>
117,877	-	117,877	-	10,868
84,000	8,000	76,000	4,200	-
<u>\$ 201,877</u>	<u>8,000</u>	<u>193,877</u>	<u>4,200</u>	<u>10,868</u>
7,928	5,523	2,405	339	-

City of Urbana  
Bond and Note Maturities  
June 30, 2005

Year Ending June 30,	General Obligation Notes							Total
	Street Improvement Issued Sep 1, 1997		Corporate Purpose Issued Nov 1, 2001		Corporate Purpose Issued Dec 1, 2003			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2006	4.90%	\$ 50,000	3.90%	\$ 20,000	3.25%	\$ 60,000	130,000	
2007	4.95	50,000	4.20	20,000	3.25	60,000	130,000	
2008	5.00	55,000	4.40	25,000	3.25	60,000	140,000	
2009	-	-	4.75	25,000	3.25	60,000	85,000	
2010	-	-	4.80	15,000	3.25	60,000	75,000	
2011	-	-	5.00	15,000	3.50	60,000	75,000	
2012	-	-	5.15	15,000	3.75	65,000	80,000	
2013	-	-	-	-	4.00	65,000	65,000	
2014	-	-	-	-	4.00	65,000	65,000	
2015	-	-	-	-	4.10	60,000	60,000	
2016	-	-	-	-	4.25	60,000	60,000	
2017	-	-	-	-	4.30	65,000	65,000	
2018	-	-	-	-	4.40	65,000	65,000	
2019	-	-	-	-	4.50	70,000	70,000	
2020	-	-	-	-	-	-	-	
Total		<u>\$ 155,000</u>		<u>\$ 135,000</u>		<u>\$ 875,000</u>	<u>1,165,000</u>	

See accompanying independent auditor's report.

Revenue Bonds					
Water			Sewer		
Issued Apr 3, 1980			Issued Mar 22, 1973		
Interest			Interest		
Rates	Amount		Rates	Amount	Total
5.00%	\$ 5,245		5.00%	\$ 8,000	13,245
5.00	5,507		5.00	9,000	14,507
5.00	5,783		5.00	9,000	14,783
5.00	6,072		5.00	10,000	16,072
5.00	6,376		5.00	10,000	16,376
5.00	6,694		5.00	10,000	16,694
5.00	7,029		5.00	11,000	18,029
5.00	7,381		5.00	9,000	16,381
5.00	7,750			-	7,750
5.00	8,137			-	8,137
5.00	8,544			-	8,544
5.00	8,971			-	8,971
5.00	9,420			-	9,420
5.00	9,891			-	9,891
5.00	10,082			-	10,082
	<u>\$ 112,882</u>			<u>\$ 76,000</u>	<u>188,882</u>

**City of Urbana**





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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Urbana, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 2, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Urbana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Urbana's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (D) are material weaknesses.


Compliance and Other Matters

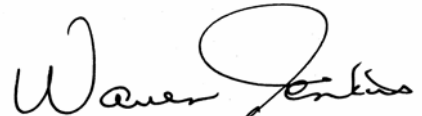
As part of obtaining reasonable assurance about whether the City of Urbana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Urbana during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 2, 2005

City of Urbana  
Schedule of Findings  
Year ended June 30, 2005

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
  - (2) Cash – preparing bank reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
  - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
  - (4) Receipts – collecting, depositing, journalizing and posting.
  - (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
  - (6) Disbursements – purchasing, check signing, recording and reconciling.
  - (7) Payroll – preparing and distributing.
  - (8) Information system (computer system) – performing all general accounting functions and controlling all data input and output.
  - (9) Financial reporting – Preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer.

Response – Recommendation has been implemented.

Conclusion – Response accepted.

City of Urbana

Schedule of Findings

Year ended June 30, 2005

- (B) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, instances of late payments were noted, the City was assessed a \$15.00 late fee and receipts for purchases were not always available.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. Payments should be made in a timely manner to avoid late payment fees.

Response – The Council will be reviewing current policies and drafting new ones for situations currently not covered. This issue will be one of those addressed. Also, we will avoid late payment fees and will obtain receipts for all purchases.

Conclusion – Response accepted.

- (C) Computer Controls – During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Requiring computers to have log off function when not in use.
- An internet policy.
- A disaster recovery plan.
- Use of software not licensed to the City.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer-based systems.

Response – The Council will be reviewing current policies and drafting new ones for situations currently not covered. This issue will be one of those addressed.

Conclusion – Response accepted.

City of Urbana

Schedule of Findings

Year ended June 30, 2005

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled and certain reports and computer related printouts were not always available. Also, customers read their own meters and the City does not annually check meter readings to ensure the readings are correct.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies. The City Council should review the reconciliation each month and monitor delinquencies. Also, all utility generated utility printouts should be printed, retained and used in preparing the monthly reconciliation. Additionally, the City should read meters at least once per year to ensure readings are correct/accurate.

Response – All necessary reports are now being printed as required and will be retained. A utility billing summary will be presented to the Council on a monthly basis. The City is in the process of completing the purchase of remote readers for all customers and we will begin performing monthly meter readings.

Conclusion – Response accepted.

- (E) Accounting Records – Although bank balances were reconciled to computer generated financial reports, the City did not reconcile bank accounts to the actual fund balances and/or financial reports provided to the City Council members for their review.

Recommendation – Financial reports should be reconciled to the bank each month and provided to the City Council for review and approval.

Response – Recommendation has been implemented.

Conclusion – Response accepted.

City of Urbana

Schedule of Findings

Year ended June 30, 2005

**Other Findings Related to Statutory Reporting:**

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public safety, culture and recreation, general government, debt service and capital projects functions.

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

Response – Recommended procedures will be followed in the future.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not always published within 15 day of the meeting, did not include a summary of receipts and did not include total disbursements by fund.

Recommendation – The City should publish minutes within 15 days and include a summary of receipts and total disbursements by fund as required by Chapter 372.13 of the Code of Iowa.

Response – Although there were lapses in compliance, part of the late publications were due to a problem with the receipt of the files emailed to the newspaper. Because the City was unaware of the problems the newspaper was experiencing, minutes were not received and were not published in a timely fashion. We will work with our publisher to correct this problem to ensure minutes are published as required.

Conclusion – Response acknowledged. The publications should also include a summary of receipts and total disbursements by fund.

City of Urbana

Schedule of Findings

Year ended June 30, 2005

- (8) 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.

- (9) Water and Sewer Rates – Beginning with utility bills issued after July 1, 2004, the City's system did not calculate charges properly for customers who consumed in excess of 5,500 gallons per month, resulting in customers being under charged.

Recommendation – The City should ensure the rates charged to water and sewer customers are properly applied, as approved by City Ordinances.

Response – We make every effort to ensure the correct rates are used in the calculation of the utility bills. Unfortunately the application of those rates by the software technicians did not accurately reflect the provisions of the rate ordinances, but adjustments were made when errors were detected.

Conclusion – Response accepted.

- (10) Bank Loan – On November 20, 2002, the City entered into a bank loan in the amount of \$16,000 to purchase a police vehicle. The City did not publish notice and hold a public hearing before entering into the loan agreement.

Recommendation – Chapter 384.24A(3) of the Code of Iowa states the City shall follow the same authorization procedure required for the issuance of general obligation bonds issued for the same purpose to authorize a loan agreement made payable from the debt service fund. Pursuant to Chapter 384.25 of the Code of Iowa, the City should have published notice of and held a public hearing prior to entering into the loan agreement. In the future, the City should comply with the requirements of Chapters 384.24A and 384.25 of the Code of Iowa before entering into bank loans.

Response – The City did not realize the \$25,000 project threshold did not apply to vehicle purchases/financing. Although there was no publication of the financial arrangements, bids were solicited for the purchase of the car. Future transactions will follow the proper procedure.

Conclusion – Response accepted.

- (11) Financial Condition – The General Fund had a deficit balance of \$29,379, the Special Revenue, Employee Benefits Fund had a deficit balance of \$22, the Capital Projects Fund had a deficit balance of \$77,694 and the Enterprise, Benton Commerce Village Water\Sewer Fund had a deficit balance of \$78,904 at June 30, 2005.

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

Response – Interfund transfers have been made to reduce and/or eliminate the deficit balances. The BCV utilities portion of the Enterprise Fund has been closed by transfer from the respective Water\Sewer Funds.

Conclusion – Response accepted.

City of Urbana  
Schedule of Findings  
Year ended June 30, 2005

(12) Other information required by Water and Sewer Revenue Bond Resolutions:

Insurance – The following insurance policies were in force at June 30, 2005:

Insurer	Description	Amount	Expiration Date
Employers Mutual	Property:		
	Buildings, personal property Deductible	\$ 2,056,382 1,000	Apr 1, 2006
Employers Mutual	General Liability:		
	General aggregate limit	2,000,000	Apr 1, 2006
	Products liability aggregate	2,000,000	
	Each occurrence	1,000,000	
	Personal and advertising	1,000,000	
	Premises rented	100,000	
	Medical expense limit	5,000	
Employers Mutual	Public employee dishonesty	10,000	Apr 1, 2006
	City Clerk	75,000	
	City Treasurer	75,000	
Employers Mutual	Inland marine:		
	Catastrophe limit	85,850	Apr 1, 2006
Employers Mutual	Automobile coverage:		
	Liability limit	1,000,000	Apr 1, 2006
	Uninsured motorists	50,000	
	Underinsured motorist	50,000	
Employers Mutual	Commercial umbrella:		
	Aggregate limit	2,000,000	Apr 1, 2006
	Retained limited	10,000	
Employers Mutual	Public officials errors and omissions:		
	Liability limits:		
	Each loss	1,000,000	Apr 1, 2006
	Aggregate	1,000,000	
	Deductible	1,500	
Iowa Municipalities Workers Compensation Association	Workers' compensation and employers liability:		
	Policy limit	1,000,000	Jul 1, 2006
	Injury by accident	1,000,000	
	Injury by disease	1,000,000	



City of Urbana  
Schedule of Findings  
Year ended June 30, 2005

Statistical Information

Description	Water	Sewer
Customers served at June 30, 2005	497	491
Rates effective with bills issued after July 1, 2004:		
First 2,000 gallons (minimum)	\$ 13.02	11.46
2,000 to 5,499 gallons per 1,000 gallons	5.46	3.16
Over 5,500 gallons per 1,000 gallons	5.73	3.32

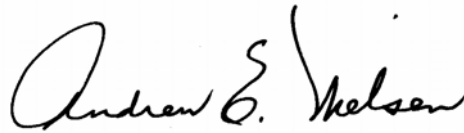
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City of Urbana

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Carmon K. Kutcher, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State