



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

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

March 23, 2004

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Blainstown, Iowa for the year ended June 30, 2003. The audit was required because the City received and expended federal funds in excess of \$300,000 during the year.

The City's receipts totaled \$960,392 for the year ended June 30, 2003, and included \$94,855 in property tax, \$100,201 from tax increment financing collections, \$94,239 from other governments and \$8,223 from interest on investments. The City also received general obligation drinking water bond proceeds and water revenue bond proceeds of \$109,646 and \$146,920, respectively, that are reported as other financing sources.

Disbursements for the year ended June 30, 2003 totaled \$1,368,976, and included \$65,009 for public safety, \$362,002 for public works and \$784,045 for business type activities.

This report contains recommendations to the City Council and other City officials for improving internal control. For example, the City should segregate accounting duties to the extent possible to ensure maximum control over receipts, utility receivables, investments and cash.

The report also recommended compliance with various statutory requirements. For example, the City should make sure all minutes are properly published. Also, the budget should be amended before disbursements are allowed to exceed the budgeted amount.

City officials have responded to each item in the report and stated that corrective action has or will be taken.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF BLAIRSTOWN
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

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City of Blirstown

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jay Lieb	Mayor	Jan 2004
James Arndt (Appointed)	Council Member	Nov 2003
Melanie Long (Appointed)	Council Member	Nov 2003
Tami Fisher	Council Member	Jan 2006
Terry Gewecke	Council Member	Jan 2006
Kelly Emanuel	Council Member	Jan 2006
Brenda Brenneman	Clerk	Indefinite
John C. Wagner	Attorney	Indefinite

City of Blirstown



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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, listed as exhibits in the table of contents of this report, of the City of Blairstown, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Blairstown's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

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.

As described in note 7, certain Library and Athletic Association funds have not been included in the financial statements for the year ended June 30, 2003 since these funds have not been accounted for or reported by the City.

In our opinion, except for the effects of the omission of certain Library and Athletic Association funds, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Blairstown as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated December 10, 2003 on our consideration of the City of Blairstown's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the omission of certain Library and Athletic Association funds, as discussed in the fourth paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 10, 2003

Financial Statements

Exhibit A

City of Blirstown
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	Governmental Fund Types			Proprietary	Total
	General	Special Revenue	Debt Service	Fund Type Enterprise	(Memorandum Only)
Receipts:					
Property tax	\$ 94,855	-	-	-	94,855
Tax increment financing collections	-	-	100,201	-	100,201
Licenses and permits	2,249	-	-	-	2,249
Use of money and property	12,637	3,741	-	-	16,378
Intergovernmental	38,715	55,524	-	-	94,239
Charges for service	49,884	-	-	260,655	310,539
Miscellaneous	33,337	295,789	-	12,805	341,931
Total receipts	<u>231,677</u>	<u>355,054</u>	<u>100,201</u>	<u>273,460</u>	<u>960,392</u>
Disbursements:					
Public safety	65,009	-	-	-	65,009
Public works	14,544	347,458	-	-	362,002
Culture and recreation	50,306	-	-	-	50,306
General government	44,729	-	-	-	44,729
Debt service	24,436	-	38,449	-	62,885
Business type activities	-	-	42,375	741,670	784,045
Total disbursements	<u>199,024</u>	<u>347,458</u>	<u>80,824</u>	<u>741,670</u>	<u>1,368,976</u>
Excess (deficiency) of receipts over (under) disbursements	<u>32,653</u>	<u>7,596</u>	<u>19,377</u>	<u>(468,210)</u>	<u>(408,584)</u>
Other financing sources (uses):					
General obligation drinking water bond proceeds	-	-	-	109,646	109,646
Water revenue bond proceeds	-	-	-	146,920	146,920
Operating transfers in	127,979	137,282	-	52,375	317,636
Operating transfers out	-	-	(297,636)	(20,000)	(317,636)
Total other financing sources (uses)	<u>127,979</u>	<u>137,282</u>	<u>(297,636)</u>	<u>288,941</u>	<u>256,566</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>160,632</u>	<u>144,878</u>	<u>(278,259)</u>	<u>(179,269)</u>	<u>(152,018)</u>
Balance beginning of year, as restated (note 8)	<u>(8,778)</u>	<u>139,332</u>	<u>287,123</u>	<u>363,032</u>	<u>780,709</u>
Balance end of year	<u>\$ 151,854</u>	<u>284,210</u>	<u>8,864</u>	<u>183,763</u>	<u>628,691</u>

See notes to financial statements.

City of Blairstown
 Comparison of Receipts, Disbursements and Changes in Balances –
 Actual to Budget
 Year ended June 30, 2003

	Actual	Less Funds not Required to be Budgeted	Net	Budget	Variance Favorable (Unfavorable)	Net as % of Budget
Receipts:						
Property tax	\$ 94,855	-	94,855	94,970	(115)	100%
Tax increment financing collections	100,201	-	100,201	87,500	12,701	115%
Licenses and permits	2,249	-	2,249	2,225	24	101%
Use of money and property	16,378	3,741	12,637	15,516	(2,879)	81%
Intergovernmental	94,239	-	94,239	87,850	6,389	107%
Charges for service	310,539	-	310,539	277,000	33,539	112%
Miscellaneous	341,931	295,789	46,142	12,400	33,742	372%
Total receipts	<u>960,392</u>	<u>299,530</u>	<u>660,862</u>	<u>577,461</u>	<u>83,401</u>	<u>114%</u>
Disbursements:						
Public safety	65,009	-	65,009	82,563	17,554	79%
Public works	362,002	143,375	218,627	152,945	(65,682)	143%
Culture and recreation	50,306	-	50,306	47,731	(2,575)	105%
General government	44,729	-	44,729	85,390	40,661	52%
Debt service	62,885	-	62,885	112,927	50,042	56%
Business type activities	<u>784,045</u>	<u>-</u>	<u>784,045</u>	<u>95,905</u>	<u>(688,140)</u>	<u>818%</u>
Total disbursements	<u>1,368,976</u>	<u>143,375</u>	<u>1,225,601</u>	<u>577,461</u>	<u>(648,140)</u>	<u>212%</u>
Excess (deficiency) of receipts over (under) disbursements	(408,584)	156,155	(564,739)	-		
Other financing sources, net	<u>256,566</u>	<u>-</u>	<u>256,566</u>	<u>-</u>		
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(152,018)	156,155	(308,173)	-		
Balance beginning of year, as restated (note 8)	<u>780,709</u>	<u>178,952</u>	<u>601,757</u>	<u>880,495</u>		
Balance end of year	<u>\$ 628,691</u>	<u>335,107</u>	<u>293,584</u>	<u>880,495</u>		

See notes to financial statements.

City of Blirstown
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire equipment	Jan 6, 1998	5.06%	\$ 120,000
Ambulance	Sep 11, 2000	5.60	25,000
Total			
General obligation bonds:			
Water	Feb 1, 1992	5.40-7.20%	\$ 185,000
Drinking water	Jun 12, 2000	3.53	582,000
Total			
Sewer revenue notes	Dec 12, 2000	6.00%	\$ 225,000
Water revenue bonds	Jul 10, 2000	3.53%	\$ 762,000
Lease purchase agreements:			
Loader	Feb 20, 2001	6.00%	\$ 39,814
Garden tractor	Sep 20, 2002	5.50	9,625
Outdoor warning system	Aug 12, 2002	2.45	9,210
Total			
See notes to financial statements.			

Balance Beginning of Year as restated (note 3)	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
65,904	-	15,277	50,627	3,335
15,000	-	5,000	10,000	824
<u>\$ 80,904</u>	<u>-</u>	<u>20,277</u>	<u>60,627</u>	<u>4,159</u>
75,000	-	15,000	60,000	4,500
430,354	109,646	22,000	518,000	16,449
<u>\$ 505,354</u>	<u>109,646</u>	<u>37,000</u>	<u>578,000</u>	<u>20,949</u>
202,052	-	23,932	178,120	12,291
613,070	146,920	27,000	732,990	23,700
30,422	-	7,629	22,793	1,107
-	9,625	1,879	7,746	403
-	9,210	-	9,210	-
<u>\$ 30,422</u>	<u>18,835</u>	<u>9,508</u>	<u>39,749</u>	<u>1,510</u>

City of Blairstown

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Blairstown is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1862 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, culture and recreation, general government and business type activities.

A. Reporting Entity

Except as explained in note 7, for financial reporting purposes, the City of Blairstown 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 Blairstown (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The Blairstown Community Foundation was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Blairstown Community Foundation has been established for charitable, educational, religious or scientific purposes. Although the Foundation is legally separate from the City, its purpose is to benefit the City by providing the above services and by soliciting contributions and managing those funds.

The Blairstown Fire Association was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Blairstown Fire Association has been established to prevent and extinguish fires and to protect lives and property against fires, to promote fire prevention and fire safety, and to answer all emergency calls for which there is no other established agency. Although the Association is legally separate from the City, its purpose is to benefit the City by providing the above services and by soliciting contributions and managing those funds.

Jointly Governed Organizations

The City also 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 and the Benton County Regional Service Agency.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City.

All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid through other funds.

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund - The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The City of Blainston 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.

D. Budgets and Budgetary Accounting

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 blended component units. 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 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.

E. Total (Memorandum Only)

The total column on the combined statements of cash transactions is captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 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 no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Bonds and Notes Payable

At June 30, 2003, annual debt service requirements to maturity for the general obligation notes and bonds and revenue notes for which repayment schedules have been adopted are as follows:

General Obligation Notes									
Year Ending June 30,	Fire Equipment			Ambulance			Total		
	Issued Jan 6, 1998			Issued Sep 11, 2000					
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	
2004	5.06%	\$ 16,050	2,562	5.60%	\$ 5,000	569	21,050	3,131	
2005	5.06	16,862	1,750	5.60	5,000	284	21,862	2,034	
2006	5.06	17,715	896		-	-	17,715	896	
Total		\$ 50,627	5,208		\$ 10,000	853	60,627	6,061	

Year Ending June 30,	General Obligation Bonds								Revenue Notes		
	Water			Drinking Water			Total		Sewer		
	Issued Feb 1, 1992			Issued Jun 12, 2000					Issued Dec 12, 2000		
Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Interest Rates	Principal	Interest	
2004	6.00%	\$ 15,000	3,600	3.53%	\$ 23,000	18,285	38,000	21,885	6.00%	\$ 25,387	10,836
2005	6.00	15,000	2,700	3.53	24,000	17,474	39,000	20,174	6.00	26,906	9,317
2006	6.00	15,000	1,800	3.53	24,000	16,626	39,000	18,426	6.00	28,569	7,654
2007	6.00	15,000	900	3.53	25,000	15,779	40,000	16,679	6.00	30,307	5,917
2008	-	-	-	3.53	26,000	14,897	26,000	14,897	6.00	32,150	4,073
2009	-	-	-	3.53	27,000	13,979	27,000	13,979	6.00	34,801	2,123
2010	-	-	-	3.53	28,000	13,026	28,000	13,026	-	-	-
2011	-	-	-	3.53	29,000	12,037	29,000	12,037	-	-	-
2012	-	-	-	3.53	30,000	11,014	30,000	11,014	-	-	-
2013	-	-	-	3.53	31,000	9,955	31,000	9,955	-	-	-
2014	-	-	-	3.53	32,000	8,860	32,000	8,860	-	-	-
2015	-	-	-	3.53	33,000	7,731	33,000	7,731	-	-	-
2016	-	-	-	3.53	35,000	6,566	35,000	6,566	-	-	-
2017	-	-	-	3.53	36,000	5,330	36,000	5,330	-	-	-
2018	-	-	-	3.53	37,000	4,060	37,000	4,060	-	-	-
2019	-	-	-	3.53	38,000	2,753	38,000	2,753	-	-	-
2020	-	-	-	3.53	40,000	1,412	40,000	1,412	-	-	-
Total		\$60,000	9,000		\$ 518,000	179,784	578,000	188,784		\$178,120	39,920

On June 12, 2000, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$582,000 of general obligation drinking water bonds with interest at 3.53% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. At June 30, 2003, the City had drawn \$582,000 of the \$582,000 authorized and had repaid \$64,000.

On July 10, 2000, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$762,000 of water revenue bonds with interest at 3.53% per annum. The bonds were issued pursuant to the provisions of Chapter 455B.291 of the Code of Iowa for the purpose of paying the costs of constructing drinking water treatment facilities. At June 30, 2003, the City had drawn \$759,990 of the \$762,000 authorized and had repaid \$27,000. Since the City was still drawing funds on the water revenue bonds, with a June 30, 2003 balance of \$732,990, a formal repayment schedule has not yet been adopted for that debt.

On December 12, 2000, the City entered into an agreement with Benton County State Bank for the issuance of \$225,000 of sewer revenue notes with interest at 6.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of constructing improvements and extensions to the municipal sanitary sewer system. The note principal and interest shall be payable solely and only from the future net revenues of the utility.

The resolution providing for the issuance of the water revenue bonds and sewer revenue notes under the loan agreement includes the following provisions:

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water revenue bond and sewer revenue note sinking accounts for the purpose of making principal and interest payments when due.

The City has not established the sinking accounts required by the water revenue bond and sewer revenue note resolutions.

Lease-Purchase Agreements

The City has entered into lease-purchase agreements to lease a loader, garden tractor and outdoor warning system. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreements in effect at June 30, 2003:

Year Ending June 30,	Loader	Garden Tractor	Outdoor Warning System	Total
2004	\$ 9,236	2,737	1,980	13,953
2005	9,236	2,737	1,980	13,953
2006	6,159	2,737	1,980	10,876
2007	-	228	1,980	2,208
2008	-	-	1,980	1,980
Total minimum lease payments	24,631	8,439	9,900	42,970
Less amount representing interest	(1,838)	(693)	(690)	(3,221)
Present value of net minimum lease payments	\$ 22,793	7,746	9,210	39,749

Payments under these agreements for the year ended June 30, 2003 totaled \$11,974. The beginning balance was restated to include the loader lease purchase agreement.

(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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contributions requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$3,707, \$3,383 and \$3,347, respectively, equal to the required contributions for each year.

(5) Risk Management

The City of Blairstown 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 purchases of commercial insurance. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed amounts budgeted at the function level. During the year ended June 30, 2003, disbursements in the public works, culture and recreation, and business type activities functions exceeded the amounts budgeted.

(7) Library and Athletic Association

As described in finding II-C-03, the City accounts for the transactions of the Library in the City's General Fund. However, the Library has a savings account with a balance at June 30, 2003 of \$2,671. Also, the City has an Athletic Association that has a separate checking account with a balance at June 30, 2003 of \$4,775. These account balances have not been accounted for or reported by the City or included in these financial statements.

(8) Restatement

The beginning balance of the Special Revenue Funds has been increased by \$4,430 to include the Volunteer Fire Association, a component unit of the City.

(9) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit balance of \$50,897 at June 30, 2003. The fund balance is expected to recover in FY2004 since no large street projects are planned.

Supplemental Information

Schedule 1

City of Blainstown
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

Receipts:	
Property tax	\$ 94,855
Licenses and permits	<u>2,249</u>
Use of money and property:	
Interest on investments	4,482
Rent	<u>8,155</u>
	<u>12,637</u>
Intergovernmental:	
State allocation	9,481
Bank franchise tax	7,047
County library	5,100
Gas tax refund	745
Fire contracts	<u>16,342</u>
	<u>38,715</u>
Charges for service:	
Ambulance fees	<u>49,884</u>
Miscellaneous:	
Ambulance donations	3,323
Library donations	15,849
Fire donations	7,850
Fines and penalties	<u>6,315</u>
	<u>33,337</u>
Total receipts	<u>231,677</u>
Disbursements:	
Public safety:	
Police:	
Services and commodities	<u>14,040</u>
Fire:	
Services and commodities	14,206
Capital outlay	<u>16,075</u>
	<u>30,281</u>
First responders:	
Services and commodities	18,664
Capital outlay	<u>2,024</u>
	<u>20,688</u>
	<u>65,009</u>

City of Blairstown
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2003

Disbursements (continued):	
Public works:	
Street lighting	<u>14,544</u>
Culture and recreation:	
Library:	
Personal services	17,174
Services and commodities	<u>16,298</u>
	<u>33,472</u>
Parks:	
Personal services	7,160
Services and commodities	7,092
Capital outlay	<u>2,582</u>
	<u>16,834</u>
	<u>50,306</u>
General government:	
Mayor and council members:	
Personal services	3,091
Clerk:	
Personal services	20,356
Legal services:	
Services and commodities	4,961
City hall:	
Services and commodities	<u>16,321</u>
	<u>44,729</u>
Debt service:	
Principal redeemed	20,277
Interest paid	<u>4,159</u>
	<u>24,436</u>
Total disbursements	<u>199,024</u>
Excess of receipts over disbursements	32,653
Other financing sources:	
Operating transfers in:	
Debt Service	<u>127,979</u>
Excess of receipts and other financing sources over disbursements	160,632
Balance beginning of year	<u>(8,778)</u>
Balance end of year	<u><u>\$ 151,854</u></u>

See accompanying independent auditor's report.

Schedule 2

City of Blirstown
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Volunteer Fire Association	Blirstown Community Foundation	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ -	-	3,741	3,741
Intergovernmental:				
Road use tax allocation	55,524	-	-	55,524
Miscellaneous:				
Donations and contributions	-	3,417	292,372	295,789
Total receipts	<u>55,524</u>	<u>3,417</u>	<u>296,113</u>	<u>355,054</u>
Disbursements:				
Public works:				
Roads, bridges and sidewalks:				
Personal services	31,790	-	-	31,790
Services and commodities	163,057	2,697	140,678	306,432
Capital outlay	9,236	-	-	9,236
Total disbursements	<u>204,083</u>	<u>2,697</u>	<u>140,678</u>	<u>347,458</u>
Excess (deficiency) of receipts over (under) disbursements	(148,559)	720	155,435	7,596
Other financing sources:				
Operating transfers in:				
Debt Service	137,282	-	-	137,282
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(11,277)	720	155,435	144,878
Balance beginning of year, as restated (note 8)	<u>(39,620)</u>	<u>4,430</u>	<u>174,522</u>	<u>139,332</u>
Balance end of year	<u>\$ (50,897)</u>	<u>5,150</u>	<u>329,957</u>	<u>284,210</u>

See accompanying independent auditor's report.

City of Blaiirstown
 Schedule of Cash Transactions
 Debt Service Fund
 Year ended June 30, 2003

Receipts:	
Tax increment financing collections	<u>\$ 100,201</u>
Disbursements:	
Debt service:	
Principal redeemed	22,000
Interest paid	<u>16,449</u>
	38,449
Business type activities:	
Sewer rental:	
Capital outlay	<u>42,375</u>
Total disbursements	<u>80,824</u>
Excess of receipts over disbursements	<u>19,377</u>
Other financing uses:	
Operating transfers out:	
General	(127,979)
Special Revenue:	
Road Use Tax	(137,282)
Enterprise:	
Sewer Rental	<u>(32,375)</u>
Total other financing uses	<u>(297,636)</u>
Deficiency of receipts under disbursements and other financing uses	(278,259)
Balance beginning of year	<u>287,123</u>
Balance end of year	<u>\$ 8,864</u>

See accompanying independent auditor's report.

Schedule 4

City of Blaiirstown
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Sewer Rental	Solid Waste	Total
Receipts:				
Charges for service:				
Sale of water	\$ 146,979	-	-	146,979
Sewer rental fees	-	33,208	-	33,208
Sewer debt reduction fee	-	38,637	-	38,637
Refuse collection	-	-	41,831	41,831
	<u>146,979</u>	<u>71,845</u>	<u>41,831</u>	<u>260,655</u>
Miscellaneous:				
Customer deposits	2,400	-	-	2,400
Sales tax collected	7,322	-	-	7,322
Late payment penalty	2,829	-	-	2,829
Miscellaneous	254	-	-	254
	<u>12,805</u>	<u>-</u>	<u>-</u>	<u>12,805</u>
Total receipts	<u>159,784</u>	<u>71,845</u>	<u>41,831</u>	<u>273,460</u>
Disbursements:				
Business type activities:				
Personal services	6,303	5,051	-	11,354
Services and commodities	30,014	21,165	30,769	81,948
Capital outlay	541,945	-	-	541,945
Debt service:				
Principal redeemed	42,000	23,932	-	65,932
Interest paid	28,200	12,291	-	40,491
Total disbursements	<u>648,462</u>	<u>62,439</u>	<u>30,769</u>	<u>741,670</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(488,678)</u>	<u>9,406</u>	<u>11,062</u>	<u>(468,210)</u>

City of Blirstown
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Sewer Rental	Solid Waste	Total
Other financing sources (uses):				
General obligation drinking water bond proceeds	109,646	-	-	109,646
Water revenue bond proceeds	146,920	-	-	146,920
Operating transfers in (out):				
Debt Service	-	32,375	-	32,375
Enterprise:				
Water	-	20,000	-	20,000
Sewer Rental	(20,000)	-	-	(20,000)
Total other financing sources (uses)	236,566	52,375	-	288,941
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(252,112)	61,781	11,062	(179,269)
Balance beginning of year	337,310	913	24,809	363,032
Balance end of year	\$ 85,198	62,694	35,871	183,763

See accompanying independent auditor's report.

Schedule 5

City of Blainstown
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expend- itures
Indirect: U.S. Environmental Protection Agency: Iowa Department of Natural Resources: Capitalization Grants for Drinking Water State Revolving Fund		66.468 FS-96-98-DWSRF-087	<u>\$464,565</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Blainstown and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.



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

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Blirstown, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 10, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion due to the effects of the omission of certain Library and Athletic Association funds.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Blirstown's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that 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, 2003 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. Prior audit statutory comments have been resolved except for items IV-B-03, IV-C-03 and IV-G-03 through IV-L-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Blirstown's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 Blirstown'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 Part II of the accompanying Schedule of Findings and Questioned Costs.


A material weakness is a 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 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 that items II-A-03, II-B-03, II-D-03 and II-E-03 are material weaknesses. Prior audit reportable conditions have been resolved except for items II-A-03 through II-E-03.

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 Blirstown and other parties to whom the City of Blirstown 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 Blirstown 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

December 10, 2003

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Blirstown



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

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Blirstown, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The City of Blirstown's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Blirstown's management. Our responsibility is to express an opinion on the City of Blirstown's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Blirstown's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Blirstown's compliance with those requirements.

In our opinion, the City of Blirstown complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.


Internal Control Over Compliance

The management of the City of Blirstown is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Blirstown's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Blirstown and other parties to whom the City of Blirstown may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 10, 2003

City of Blirstown
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

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

- (a) A qualified opinion was issued on the financial statements, which were prepared in conformity with a comprehensive basis of accounting other than U.S. generally accepted accounting principles, since certain Library and Athletic Association funds were omitted.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Blirstown did not qualify as a low-risk auditee.

City of Blairstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City, one person had control over each of the following areas:

- (1) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (2) Utilities – billing, collecting, and posting.
- (3) Investments – recordkeeping and investing.
- (4) Cash – preparing bank reconciliations, cash receipts and disbursements functions, handling and recording cash.
- (5) Long-term debt - recording, reconciling and performing cash functions.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – At the January 2004 Council meeting the Council will appoint someone to review the City records on a regular basis.

Conclusion – Response accepted.

II-B-03 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies. The Council or Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – Procedures will be implemented to have either the Council or a Council-designated person review the reconciliations and monitor delinquencies. A delinquent reconciliation report will be prepared.

Conclusion – Response accepted.

II-C-03 Library and Athletic Association – The City accounts for the transactions of the Library in the City's General Fund. However, the Library has a separate savings account that has not been accounted for or reported by the City in the City's financial statements and reports. This account has not been included in these financial statements.

City of Blairstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Also, the City has an Athletic Association with a separate checking account that has not been accounted for or reported by the City in the City's financial statements and reports. This account has not been included in these financial statements.

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 show the receipt, use, and disposition of all City property."

Recommendation - The City's Library and Athletic Association should determine the status of the separate accounts for accountability and reporting purposes. If the Library and Athletic Association wish to maintain custody and control over the separate accounts, they should be established as legally separate entities from the City, with Articles of Incorporation and by-laws. Otherwise, the City should include these accounts in its records, in accordance with Chapter 384.20 of the Code of Iowa. Legal counsel should be consulted for assistance, as necessary, to resolve this issue.

Response - The Library is currently in process of abiding by these recommendations.

The Council will make arrangements to meet with the Blairstown Athletic Association to determine the future of this entity and the possibility of having a contract for the use of the concession stands and the scheduling of activities for the City parks.

Conclusion - Response accepted.

II-D-03 Ambulance Charges - The City has not established an adequate system to ensure ambulance charges are billed and collected. A listing of accounts receivable is not maintained.

Recommendation - The City should establish a system to ensure ambulance charges are billed and collected. A listing of accounts receivable should be maintained and reconciled with billings and receipts.

Response - A spreadsheet is currently being implemented by the City Clerk which accounts for the Ambulance billings.

Conclusion - Response acknowledged. The City should also maintain a listing of accounts receivable and reconcile this listing with billings and receipts.

II-E-03 Payroll - Timesheets were not always prepared and/or retained, totaled or signed by the employee. Timesheets that were available did not indicate they had been reviewed and approved before the payroll was prepared.

Adequate records were not maintained for compensatory time, vacation or sick leave hours.

Recommendation - Timesheets should be prepared and retained to support time worked and should be reviewed by a responsible official. Each timesheet should be reviewed and approved before payroll checks are prepared. Adequate records should be maintained for compensatory time, vacation and sick leave hours.

City of Blirstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response – Timesheets are addressed in the City’s Employee Manual. At this current time we have only one employee not abiding by the guidelines. A work session will be held prior to the regularly scheduled Council meeting in January 2004. At that time it will be discussed that the City will no longer distribute pay checks without a signed time sheet for that pay period. Timesheets will also be signed by the Mayor or Mayor Pro tem before payment is made. A spreadsheet has now been made to account for compensatory time, vacation and sick leave hours.

Conclusion – Response accepted.

City of Blirstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program were noted.

City of Blairstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-03 Official Depositories - A resolution naming the official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

IV-B-03 Certified Budget - Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public works, culture and recreation and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - In the future the budget amounts will be amended if they exceed the current budget amounts.

Conclusion - Response accepted.

IV-C-03 Questionable Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Steve Metz	Christmas Bonus	\$ 150
Brenda Brenneman	Christmas Bonus	150
Roger Hall	Christmas Bonus	100

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

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response - These amounts will be considered incentives for the morale of the employees. However, they will be discussed at the annual budget meeting and may be considered in their yearly salaries. This will be documented in the City Council minutes.

Conclusion - Response accepted.

City of Blairstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-D-03 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-03 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows.

Name, Title, and Business Connection	Transaction Description	Amount
Steve Metz, Employee, Brother is Owner of Metz's Outdoor Equipment	Repair	\$ 803

In accordance with Chapter 362.5(11) of the Code of Iowa, this transaction does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

IV-F-03 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-G-03 Council Minutes - Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish annual gross salaries/compensation in accordance with an Attorney General's opinion dated April 12, 1978.

Disbursements were not listed by fund showing the purpose of the disbursement and a summary of receipts by source was not published.

Recommendation - The City should comply with Chapter 372.13(6) of the Code of Iowa and publish annual salaries as required. Disbursements should be listed by fund, including purpose, and receipts should be summarized by source as required by Chapter 372.13(6) of the Code of Iowa.

Response - The salaries of the City employees for fiscal year 2003 were currently published in the City's paper. In the future the salaries will be published after the end of the fiscal year. The City is also currently publishing a summary of receipts by source and disbursements by fund each month. This will continue each month.

Conclusion - Response accepted.

IV-H-03 Deposits and Investments - The City has approved a written investment policy. However, the policy refers to Chapter 452 of the Code of Iowa instead of Chapter 12B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that refers to the provisions of Chapter 12B of the Code of Iowa.

Response - This section will be corrected and brought to the next City Council meeting for approval.

Conclusion - Response accepted.

City of Blairstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-I-03 City Code of Ordinances - The City has not compiled the City ordinances within the past five years.

Recommendation - Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a City shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys." The City should compile the City ordinances as required.

Response - The City Code is currently in the process of being recodified.

Conclusion - Response accepted.

IV-J-03 TIF Collections - The City recorded tax increment financing collections in the Debt Service Fund.

Recommendation - Chapter 403.19(2) of the Code of Iowa requires these monies shall to be allocated to and when collected be paid into a special fund of the municipality to retire debt incurred. The City should record the receipt of tax increment financing collections in a separate Special Revenue Fund of the City and then disburse or transfer the funds to the appropriate fund for the retirement of debt.

Response - A special TIF fund will be set up at the next City Council meeting.

Conclusion - Response accepted.

IV-K-03 Payment of General Obligation Debt - Principal and interest on fire and ambulance general obligation notes were paid from the General Fund. Interest on general obligation drinking water bonds was paid from the Enterprise Fund, Water Account. Chapter 384.4 of the Code of Iowa states in part that moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund.

Recommendation - The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments of the principal and interest on notes should then be disbursed from the Debt Service Fund.

The City should transfer from the Enterprise Fund, Water Account to the Debt Service Fund for future funding contributions. Payments of this principal and interest on bonds should then be disbursed from the Debt Service Fund.

Response - A Debt Service Fund is currently being set up and funds will be transferred in the future to pay notes for general obligation debt. In the future transfers will be done for the payment of water bonds.

Conclusion - Response accepted.

City of Blirstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-L-03 Revenue Bonds and Notes – The City has not established the sinking accounts required by the water and sewer revenue bond and note resolutions.

Recommendation – The City should establish these accounts and make the required transfers.

Response – Sinking accounts are currently being set up as recommended.

Conclusion – Response accepted.

IV-M-03 Utility Rates – The City established rates for water by an ordinance dated June 12, 2000 but charged water customers according to a temporary rate chart that did not agree with the ordinance amounts.

The City also adopted ordinance number 159 which states in part that any utility bills that remain unpaid after the first of the month following the due date of the bill shall be disconnected.

In addition, the meters for thirteen residents were not read because they didn't have a water meter or it was broken. As a result, these residents were only charged the minimum rate for usage.

Recommendation – The City should ensure that proper rates are charged in accordance with the ordinance in effect.

Also, the City should ensure that disconnect procedures are followed according to the ordinance in effect.

In addition, the City should ensure all residents have working meters and they are read each month.

Response – At the December 8, 2003, Council meeting an amended Ordinance #162 was read and approved by the Council to charge water customers correctly. Also, Ordinance #159 will be corrected at the next Council meeting to say the accounts will be charged an extra \$35 penalty and not just when disconnected. The Council will give written instruction to the City Maintenance Worker to replace broken meters and install meters at places that have none presently. He will also be instructed to disconnect after the 1st of each month for the unpaid accounts as the Ordinance states.

Conclusion – Response acknowledged. The City Council should review delinquent accounts and give approval prior to disconnecting service. The City may wish to consult legal counsel regarding this issue.

IV-N-03 Annual Financial Report – The 2003 Annual Financial Report submitted to the State does not accurately reflect the activity recorded in the City's financial records.

Recommendation – The Annual Financial Report should accurately reflect the activity recorded in the City's financial records.

City of Blirstown

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response – The corrected funds will be in place by the next annual financial report to accurately reflect the activity of the City funds.

Conclusion – Response accepted.

IV-O-03 Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance of \$50,897 at June 30, 2003.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – The City Council reviewed the Road Use Tax Fund at its regular meeting. The Council decided since there were no large projects due in FY2004, and having the Clerk transfer salaries to different accounts, the deficit should be reduced dramatically and the fund would be brought back close to a positive balance.

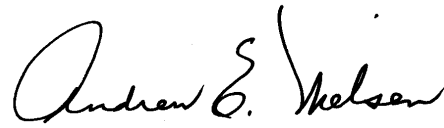
Conclusion – Response accepted.

City of Blirstown

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Pamela L. Brandenburg, Senior Auditor
Michael J. Gentry, 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