



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

**NEWS RELEASE**

FOR RELEASE

November 13, 2012

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$1,982,949 for the year ended June 30, 2011. The receipts included \$586,671 in property tax, \$846,658 from charges for service, \$271,913 from operating grants, contributions and restricted interest, \$186,923 from local option sales tax, \$13,722 from unrestricted interest on investments and \$77,062 from other general receipts.

Disbursements for the year totaled \$1,896,951, and included \$382,624 for public works, \$354,679 for public safety and \$254,165 for culture and recreation. Also, disbursements for business type activities totaled \$767,811.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0772-B00F.pdf>.

###



**CITY OF BUFFALO**

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

**JUNE 30, 2011**

Table of Contents

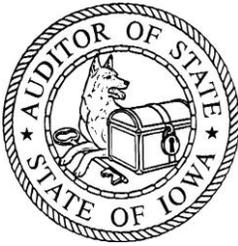
		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18-19
Notes to Financial Statements		20-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	32-33
Schedule of Indebtedness	2	34-35
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		37-38
Schedule of Findings		39-48
Staff		49

**City of Buffalo**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Doug Anderson	Mayor	Jan 2014
Judy Hammons	Mayor Pro Tem	Jan 2016
Kim Buchanan	Council Member	Jan 2014
Olin Meador	Council Member	Jan 2014
Dana Jo Smith	Council Member	Jan 2014
Dave Stickrod	Council Member	Jan 2016
Tanna Leonard	City Clerk	Indefinite
Rachel Chase	Deputy Clerk	Indefinite
William McCullough	Attorney	Indefinite

**City of Buffalo**



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

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 Buffalo, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Buffalo's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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, 2010.

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, 2010, 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 Buffalo as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2012 on our consideration of the City of Buffalo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo's basic financial statements. Other supplementary information included in Schedules 1 and 2 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 fund balance at July 1, 2010, 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

October 17, 2012

---

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

---

The City of Buffalo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. Because 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.

### **2011 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$123,000, or 11%, primarily due to the receipt of local option sales tax and both the prior year and current year payments from the Scott Area Solid Waste Management Commission.
- The cash basis net assets of the City's business type activities decreased approximately \$37,000, or 59%, due primarily to the increase in electric utility costs.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

### *Government-wide Financial Statement*

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

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

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

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

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Sewer and Electric Funds, considered to be major funds of the City, and the Storm Water Fund, which is a nonmajor fund.

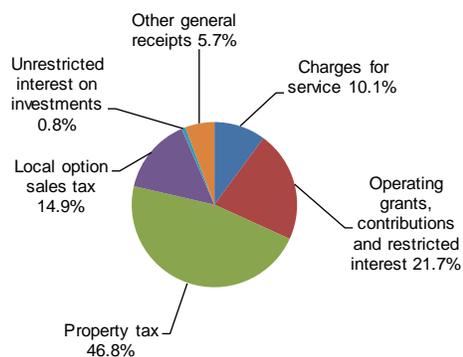
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

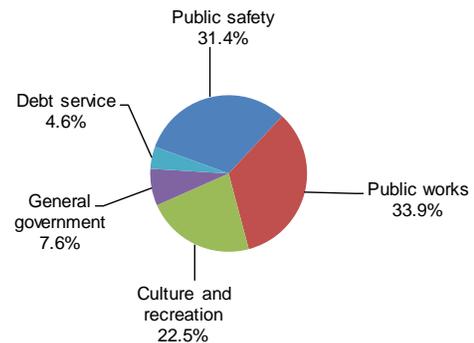
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,148,123 to \$1,271,267. The analysis which follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 126,819
Operating grants, contributions and restricted interest	271,192
General receipts:	
Property tax	586,671
Local option sales tax	186,923
Unrestricted interest on investments	9,874
Other general receipts	70,805
<b>Total receipts</b>	<b>1,252,284</b>
Disbursements:	
Public safety	354,679
Public works	382,624
Culture and recreation	254,165
General government	85,304
Debt service	52,368
<b>Total disbursements</b>	<b>1,129,140</b>
Change in cash basis net assets	123,144
Cash basis net assets beginning of year	1,148,123
Cash basis net assets end of year	<b>\$ 1,271,267</b>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities increased \$123,144, primarily due to the accumulation of local option sales tax for community development and the receipt of both the prior year and current year payments from the Scott Area Solid Waste Management Commission.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 123,893
Sewer	142,434
Electric	447,779
Storm water	5,733
Miscellaneous	6,257
General receipts:	
Intergovernmental	721
Unrestricted interest on investments	3,848
Total receipts	<u>730,665</u>
Disbursements:	
Water	114,943
Sewer	152,081
Electric	493,484
Storm water	7,303
Total disbursements	<u>767,811</u>
Change in cash basis net assets	(37,146)
Cash basis net assets beginning of year	<u>(62,631)</u>
Cash basis net assets end of year	<u>\$ (99,777)</u>

Total business type activities cash basis net assets decreased from a year ago, decreasing from (\$62,631) to (\$99,777). The overall decrease was primarily due to an increase in the cost of electric power for the electric utility.

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

As the City of Buffalo completed the year, its governmental funds reported a combined fund balance of \$1,271,267, an increase of \$123,144 above last year's total of \$1,148,123. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$4,972 over the prior year to \$803,475, due primarily to a decrease in public safety disbursements during the year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$6,604 to \$95,969, due primarily to a decrease in roadway maintenance disbursements during the year.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$46,730 over the prior year to \$192,877. The balance consists of local option sales tax receipts designated for community and economic development which have not yet been spent.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$9,739 to a year-end deficit of (\$301,322). The increase was due primarily to an increase in water rates and an increased effort to collect delinquent accounts.

- The Enterprise, Sewer Fund cash balance decreased \$9,466 to a year-end deficit of (\$496,435). Although there was an increase in sewer rates and an increased effort to collect delinquent accounts, the receipts were offset by the cost of operating the sewer utility.
- The Enterprise, Electric Fund cash balance decreased \$35,849 to \$707,578 during the fiscal year. The decrease was due primarily to the increased cost of electric power associated with providing electric service.

## **BUDGETARY HIGHLIGHTS**

The City did not amend its budget in fiscal year 2011. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

The City's receipts were \$219,572 more than budgeted, primarily due to the City receiving two \$50,000 payments during the fiscal year from the Scott Area Solid Waste Management Commission for providing the site for the sanitary landfill and from not including the fire department or community center receipts in the budgeting process.

Total disbursements were \$133,571 more than budgeted. This was primarily due to the City budgeting \$697,191 for business type activities and expending \$767,811 and from not including the fire department or community center in the budgeting process. The Water Fund was over budget by \$39,373, the Sewer Fund was over budget by \$22,481 and the Electric Fund was over budget by \$6,564.

## **DEBT ADMINISTRATION**

At June 30, 2011, the City had \$245,000 of general obligation refunding bonds outstanding, compared to \$285,000 last year.

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 \$245,000 is below its constitutional debt limit of \$2,271,370.

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

The City of Buffalo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 taxable valuation increased approximately \$2.7 million, or 3.8%, over the fiscal year 2011 level. The fiscal year 2012 levy is \$9.12078 per \$1,000 of taxable valuation, which is an increase of \$0.95438 per \$1,000 of taxable valuation over the levy rate used in fiscal year 2011.

The fiscal year 2012 budget includes receipts of \$1,883,279 and disbursements of \$1,877,183. This budget is higher than the fiscal year 2011 budget, which included receipts of \$1,763,377 and disbursements of \$1,763,380. The fiscal year 2012 budget includes an increase in property valuation, which increases the property tax collected and includes a full year of the current water and sewer rates.

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

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tanna Leonard, City Clerk, 329 Dodge Street, Buffalo, Iowa 52728.

**City of Buffalo**

## **Basic Financial Statements**

City of Buffalo

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 354,679	11,845	38,806
Public works	382,624	17,535	131,086
Culture and recreation	254,165	95,810	1,300
General government	85,304	1,629	-
Debt service	52,368	-	100,000
Total governmental activities	1,129,140	126,819	271,192
Business type activities:			
Water	114,943	123,893	-
Sewer	152,081	142,434	-
Electric	493,484	447,779	721
Storm water	7,303	5,733	-
Total business type activities	767,811	719,839	721
Total	\$ 1,896,951	846,658	271,913
<b>General Receipts:</b>			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
Streets			
Debt service			
Other purposes			
Unrestricted			
<b>Total cash basis net assets</b>			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(304,028)	-	(304,028)
(234,003)	-	(234,003)
(157,055)	-	(157,055)
(83,675)	-	(83,675)
47,632	-	47,632
(731,129)	-	(731,129)
-	8,950	8,950
-	(9,647)	(9,647)
-	(44,984)	(44,984)
-	(1,570)	(1,570)
-	(47,251)	(47,251)
(731,129)	(47,251)	(778,380)
581,302	-	581,302
5,369	-	5,369
186,923	-	186,923
9,874	3,848	13,722
70,805	6,257	77,062
854,273	10,105	864,378
123,144	(37,146)	85,998
1,148,123	(62,631)	1,085,492
\$ 1,271,267	(99,777)	1,171,490
\$ 100,239	-	100,239
95,969	-	95,969
19,462	-	19,462
252,122	-	252,122
803,475	(99,777)	703,698
\$ 1,271,267	(99,777)	1,171,490

City of Buffalo

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

As of and for the year ended June 30, 2011

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
<b>Receipts:</b>			
Property tax	\$ 581,302	-	-
Other city tax	-	-	186,923
Licenses and permits	13,198	-	-
Use of money and property	19,261	-	-
Intergovernmental	25,995	118,863	-
Charges for service	17,969	-	-
Miscellaneous	62,087	-	-
<b>Total receipts</b>	<b>719,812</b>	<b>118,863</b>	<b>186,923</b>
<b>Disbursements:</b>			
Operating:			
Public safety	340,851	-	-
Public works	214,872	158,990	-
Culture and recreation	167,275	-	-
General government	85,304	-	-
Debt service	-	-	-
<b>Total disbursements</b>	<b>808,302</b>	<b>158,990</b>	<b>-</b>
Excess (deficiency) of receipts over (under) disbursements	(88,490)	(40,127)	186,923
<b>Other financing sources (uses):</b>			
Operating transfers in	93,462	46,731	-
Operating transfers out	-	-	(140,193)
<b>Total other financing sources (uses)</b>	<b>93,462</b>	<b>46,731</b>	<b>(140,193)</b>
Net change in cash balances	4,972	6,604	46,730
Cash balances beginning of year	798,503	89,365	146,147
Cash balances end of year	\$ 803,475	95,969	192,877
<b>Cash Basis Fund Balances</b>			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Streets	-	95,969	-
Debt service	-	-	-
Other purposes	-	-	192,877
Unassigned	803,475	-	-
<b>Total cash basis fund balances</b>	<b>\$ 803,475</b>	<b>95,969</b>	<b>192,877</b>

See notes to financial statements.

Nonmajor	Total
5,369	586,671
-	186,923
-	13,198
95	19,356
107,020	251,878
1,050	19,019
113,152	175,239
<u>226,686</u>	<u>1,252,284</u>
13,828	354,679
8,762	382,624
86,890	254,165
-	85,304
52,368	52,368
<u>161,848</u>	<u>1,129,140</u>
<u>64,838</u>	<u>123,144</u>
-	140,193
-	(140,193)
-	-
<u>64,838</u>	<u>123,144</u>
<u>114,108</u>	<u>1,148,123</u>
<u>178,946</u>	<u>1,271,267</u>
100,239	100,239
-	95,969
19,462	19,462
59,245	252,122
-	803,475
<u>178,946</u>	<u>1,271,267</u>

City of Buffalo

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

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Electric
Operating receipts:			
Charges for service	\$ 123,893	142,434	447,779
Miscellaneous	640	49	5,568
Total operating receipts	124,533	142,483	453,347
Operating disbursements:			
Business type activities	114,943	152,081	493,484
Excess (deficiency) of operating receipts over (under) operating disbursements	9,590	(9,598)	(40,137)
Non-operating receipts:			
Intergovernmental	-	-	721
Interest on investments	149	132	3,567
Total non-operating receipts	149	132	4,288
Excess (deficiency) of receipts over (under) disbursements	9,739	(9,466)	(35,849)
Cash balances beginning of year	(311,061)	(486,969)	743,427
Cash balances end of year	\$ (301,322)	(496,435)	707,578
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ (301,322)	(496,435)	707,578

See notes to financial statements.

Nonmajor Storm Water	Total
5,733	719,839
-	6,257
5,733	726,096
7,303	767,811
(1,570)	(41,715)
-	721
-	3,848
-	4,569
(1,570)	(37,146)
(8,028)	(62,631)
(9,598)	(99,777)
(9,598)	(99,777)

City of Buffalo

Notes to Financial Statements

June 30, 2011

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

The City of Buffalo is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1875 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, sewer, electric and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Buffalo 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: Scott County Assessor's Conference Board, Scott County Emergency Management Commission, Scott Area Solid Waste Management Commission and Scott County Joint E911 Service Board.

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows.

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements in the culture and recreation and business type activities functions exceeded the amounts budgeted.

**(2) Cash and Pooled Investments**

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

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Bonds Payable**

Annual debt service requirements to maturity for general obligation refunding bonds are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2012	4.10%	\$ 45,000	10,203	55,203
2013	4.10	45,000	8,358	53,358
2014	4.10	50,000	6,513	56,513
2015	4.25	50,000	4,463	54,463
2016	4.25	55,000	2,338	57,338
Total		\$ 245,000	31,875	276,875

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$36,609, equal to the required contribution for the year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Blue Cross/Blue Shield of Illinois. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$908 for both single and family coverage. For the year ended June 30, 2011, the City contributed \$91,347 and plan members eligible for benefits contributed \$5,450 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011, primarily relating to the General Fund, was approximately \$14,000. This liability has been computed based on rates of pay in effect at June 30, 2011.

**(7) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 93,462
Special Revenue:	Special Revenue:	
Road Use Tax	Local Option Sales Tax	46,731
Total		<u>\$ 140,193</u>

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

**(8) Risk Management**

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

**(9) Deficit Balances**

At June 30, 2011, the City had the following deficit balances:

Fund	Amount
Enterprise:	
Water	\$ 301,322
Sewer	496,435
Storm Water	9,598

The deficits in the Enterprise, Water and Sewer Funds are the result of project costs incurred during prior fiscal years. The City has increased utility rates in an effort to reduce these deficits.

**(10) Facility Revenue Bonds**

The City has issued a total of \$3,250,000 of facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$2,666,029 is outstanding at June 30, 2011. The bonds and related interest are payable solely from revenues derived from the projects financed and the bond principal and interest do not constitute liabilities of the City.

**City of Buffalo**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 586,671	-
Other city tax	186,923	-
Licenses and permits	13,198	-
Use of money and property	19,356	3,848
Intergovernmental	251,878	721
Charges for service	19,019	719,839
Miscellaneous	175,239	6,257
Total receipts	1,252,284	730,665
Disbursements:		
Public safety	354,679	-
Public works	382,624	-
Culture and recreation	254,165	-
General government	85,304	-
Debt service	52,368	-
Business type activities	-	767,811
Total disbursements	1,129,140	767,811
Excess (deficiency) of receipts over (under) disbursements	123,144	(37,146)
Balances beginning of year	1,148,123	(62,631)
Balances end of year	\$ 1,271,267	(99,777)

See accompanying independent auditor's report.

---

Total	Budgeted	Final to Total Variance
	Amounts Original and Final	
586,671	581,395	5,276
186,923	189,456	(2,533)
13,198	17,950	(4,752)
23,204	33,955	(10,751)
252,599	139,654	112,945
738,858	720,967	17,891
181,496	80,000	101,496
<u>1,982,949</u>	<u>1,763,377</u>	<u>219,572</u>
354,679	380,434	25,755
382,624	402,576	19,952
254,165	140,554	(113,611)
85,304	86,142	838
52,368	56,483	4,115
767,811	697,191	(70,620)
<u>1,896,951</u>	<u>1,763,380</u>	<u>(133,571)</u>
85,998	(3)	86,001
<u>1,085,492</u>	<u>1,138,583</u>	<u>(53,091)</u>
<u>1,171,490</u>	<u>1,138,580</u>	<u>32,910</u>

City of Buffalo

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the City did not amend its budget.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

**Other Supplementary Information**

City of Buffalo

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

As of and for the year ended June 30, 2011

	Special Revenue			
	I-Jobs	Community Disaster Grant	Volunteer Fire Department	Buffalo Community Center
Receipts:				
Property tax	\$ -	-	-	-
Use of money and property	-	-	-	94
Intergovernmental	7,020	-	-	-
Charges for service	-	-	-	-
Miscellaneous	-	-	18,073	85,079
Total receipts	7,020	-	18,073	85,173
Disbursements:				
Operating:				
Public safety	-	-	13,828	-
Public works	8,762	-	-	-
Culture and recreation	-	-	-	86,890
Debt service	-	-	-	-
Total disbursements	8,762	-	13,828	86,890
Net change in cash balances	(1,742)	-	4,245	(1,717)
Cash balances beginning of year	1,750	11,589	8,053	37,067
Cash balances end of year	\$ 8	11,589	12,298	35,350
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Debt service	-	-	-	-
Other purposes	8	11,589	12,298	35,350
Total cash basis fund balances	\$ 8	11,589	12,298	35,350

See accompanying independent auditor's report.

Debt Service	Permanent Cemetery		Total
	Perpetual Care		
5,369	-		5,369
-	1		95
100,000	-		107,020
-	1,050		1,050
-	10,000		113,152
<u>105,369</u>	<u>11,051</u>		<u>226,686</u>
-	-		13,828
-	-		8,762
-	-		86,890
<u>52,368</u>	-		<u>52,368</u>
<u>52,368</u>	-		<u>161,848</u>
53,001	11,051		64,838
(33,539)	89,188		114,108
<u>19,462</u>	<u>100,239</u>		<u>178,946</u>
-	100,239		100,239
19,462	-		19,462
-	-		59,245
<u>19,462</u>	<u>100,239</u>		<u>178,946</u>

---

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

---

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation refunding bonds	Jun 2, 2006	3.75-4.25%	\$ 450,000

---

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
285,000	-	40,000	245,000	11,843

---

**City of Buffalo**



**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 Buffalo, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 17, 2012. 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, 2010. 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

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Buffalo's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (F) through (M) to be significant deficiencies.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Buffalo and other parties to whom the City of Buffalo 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 Buffalo 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

October 17, 2012

City of Buffalo  
Schedule of Findings  
Year ended June 30, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect in designing internal control to safeguard assets and reasonably ensure 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 has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
  - (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
  - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
  - (4) Receipts – collecting, preparing deposits and recording transactions.
  - (5) Utility receipts – billing, collecting, preparing deposits, recording transactions and reconciling.
  - (6) Disbursements – purchasing, check preparation, signing, recording and reconciling.
  - (7) Payroll – preparing checks, recording transactions and check signing.
  - (8) Long-term debt – recording, reconciling and performing cash functions.
  - (9) Computer system – performing all general accounting functions and controlling all data input and output.
  - (10) Financial reporting – preparing and approving financial reports.

For the Buffalo Community Center and the Buffalo Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Receipts – opening mail, collecting and depositing.
- (2) Disbursements – check writing, signing and approval.
- (3) Cash – handling and recording cash

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Community Center and Fire Department should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by the initials or signature of the independent reviewer and the date of the review.

City of Buffalo

Schedule of Findings

Year ended June 30, 2011

Responses –

City – We will develop a segregation of duties manual for the suggested areas. We will begin utilizing office personnel, Mayor and Council Members to help ensure the optimum internal controls are met.

Buffalo Community Center – The Community Center will utilize Community Center Board Members to increase internal controls in the areas mentioned.

Buffalo Volunteer Fire Department – The Volunteer Fire Department will use its volunteers to create stronger internal controls.

Conclusions – Responses accepted.

- (B) Bank Reconciliations – The City Clerk’s balances were not reconciled to the bank accounts and investments monthly.

Recommendation – To improve financial accountability and control, the book and bank balances should be reconciled monthly and the reconciliations should be retained. Any variances should be investigated and resolved in a timely manner. In addition, the listing of outstanding checks and deposits in transit should be reviewed for propriety each month.

Response – The City will combine numerous checking accounts to aid in the ease of reconciliation monthly. Monthly reconciliation reports will be prepared in a timely manner at the end of each month and distributed to Council Members for review.

Conclusion – Response accepted.

- (C) Separately Maintained Records – The Buffalo Volunteer Fire Department and the Buffalo Community Center maintain bank accounts separate from the City Clerk’s accounting records. The transactions and resulting balances of these accounts are not reported to the City Council each month, were not recorded in the City’s accounting records and have not been included in the City’s annual budget process. 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.” These transactions and the resulting balances are included in these financial statements.

Additionally, the Employee Medical and the Mississippi Trail accounts are under the custody and control of the City at City Hall. However, these accounts are not included in the City’s accounting records and are not included in the City’s annual budget process or monthly financial reports. However, the transactions and resulting balances of these accounts are included in the General Fund in these financial statements.

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and the annual budget process and should be reported to the City Council on a monthly basis.

Response – The Employee Medical and Mississippi Trail accounts have been added into the accounting records. The Volunteer Fire Department and Community Center will continue to maintain separate accounts from the City’s accounting records.

City of Buffalo

Schedule of Findings

Year ended June 30, 2011

Conclusion – Response acknowledged. The financial activity and balances of all City accounts should be included in the City’s accounting records and the annual budget process, as required.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections, delinquent accounts and adjustments were not reconciled during the year. A delinquent account listing was not prepared for the year ended June 30, 2011. In addition, the City did not retain all of the updated or final versions of the monthly utility billing registers, adjustment reports and delinquent account listings for each billing period. Certain prior year and the July and August, 2010 monthly utility billings, collections, delinquent accounts and adjustments history information had been deleted from the utility system.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis and retained. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a City Council-designated independent person should review the reconciliations and monitor delinquent accounts. Also, proper documentation should be retained which supports the monthly billings, adjustments and delinquent accounts reconciliation. In addition, the City Council should develop policies and procedures to restrict employees from deleting history from the utility system.

Response – We have established a list of utility billing reports essential to the reconciliation of each billing period. We will prepare a manual which addresses monthly procedures to ensure proper reconciliations are completed on a monthly basis and consider developing policies and procedures which restricts employees from deleting history information. We have also been working directly with our software company to understand the correct timing to run reports.

Conclusion – Response accepted.

- (E) Financial Reporting and Fund Accounting - The City deposits road use tax and local option sales tax receipts in the proper funds. However, the related disbursements are paid from the General Fund instead of being paid from these funds. In addition, the City did not record \$9,149 of interest on investments received from a certificate of deposit. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – To provide better financial information and control, the City should record disbursements to the proper funds on a consistent basis, In addition, the City should implement procedures to ensure all receipts are properly recorded for financial reporting.

Response – All financial activity and balances will be recorded in the Clerk’s records. The City has approved a resolution transferring the monies as recommended. The Clerk is in the process of working with the software company to properly transfer the funds and set up a fund to account for community and economic development.

Conclusion – Response accepted.

City of Buffalo

Schedule of Findings

Year ended June 30, 2011

- (F) Authorized Signature Cards - Individuals no longer employed with the City are still listed as authorized signers on the signature cards held by the bank.

Recommendation - The City should develop a policy to update the signature cards anytime there is a change in employees involved with the handling, recording and approval of City receipts and disbursements.

Response - The City has updated all bank signature cards and will develop a policy to update the signature cards.

Conclusion - Response accepted.

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

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

Response - The City now has a credit card policy which will be reviewed and updated to be more thorough.

Conclusion - Response accepted.

- (H) Computer System - During our review of internal control, the existing control activities in the City's computer system were evaluated 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 City does not have written policies for:

- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Maintaining password history to prevent employees from using the same password.
- Maintaining a computer log to determine who recorded a transaction.
- Usage of the internet.

Also, the City does not have a written disaster recovery plan.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

Response - The City will prepare and implement written policies for the items listed above, including a disaster recovery plan.

Conclusion - Response accepted.

City of Buffalo

Schedule of Findings

Year ended June 30, 2011

- (I) Accounting Procedures Manual – We encourage the development of office procedures and standardized accounting manuals for the City. In addition, we encourage obtaining or developing user manuals/help guides for the accounting software the City utilizes. These manuals and guides should provide the following benefits:
- (1) Aid in training additional or replacement personnel.
  - (2) Help achieve uniformity in accounting and in the application of policies and procedures.
  - (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
  - (4) Ensure City accounts are appropriately utilized.
  - (5) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Recommendation – Office procedures and accounting manuals should be developed or obtained.

Response – The City will develop a master accounting policy and procedure manual to ensure uniformity and accuracy.

Conclusion – Response accepted.

- (J) Prenumbered Receipts – The City did not issue prenumbered receipts for collections. Also, receipts were not always deposited on a timely basis.

Recommendation – Control over cash collections would be strengthened if prenumbered receipts were written in numerical sequence with an adequate explanation as to the nature of the receipt. Additionally, to safeguard cash and increase funds available for investment, receipts should be deposited intact on a timely basis.

Response – Deposits for non-utility billing receipts will be deposited a minimum of two times per week. Utility billing receipts will be issued from a pre-numbered receipt book. Pre-numbered receipts are now issued for all other non-utility receipts.

Conclusion – Response accepted.

- (K) Volunteer Fire Department Account – Prenumbered receipts are not issued for collections. Bank reconciliations are not performed. Checks only require one signature.

Recommendation – Prenumbered receipts should be issued for all collections, bank reconciliations should be prepared monthly and reviewed by an independent person and checks should require two signatures.

Response – Effective March 13, 2012, all checks written by the Fire Department shall be signed by the Administrative Captain and countersigned by the Chief of the Department.

City of Buffalo

Schedule of Findings

Year ended June 30, 2011

The Fire Department presently gives a receipt for all donations in excess of \$1,000 and to anyone who requests a receipt regardless of the amount. As we operate strictly by donations and receive somewhere between 1,000 and 1,500 donations per year, with the majority at \$2 to \$5 each, we feel that it would be counter productive to automatically issue a receipt for each donation. So we will continue with our current practice pertaining to receipts.

Conclusion – Response acknowledged. Implementation of the recommendations noted above will help strengthen the Fire Department’s internal control.

- (L) Community Center Account – Although prenumbered bingo cards are sold, the numeric sequence of the cards is not used to calculate the number of cards sold and the amount of sales to substantiate the total collected and deposited. Bank reconciliations are not performed.

Recommendation – The numeric sequence of bingo cards should be used to reconcile sales and collections. A reconciliation form should be maintained documenting the beginning and ending card numbers, number of cards sold, calculated amount of sales and actual collections. The form should be signed by the individual preparing the reconciliation and should be verified and signed by another individual. Bank reconciliations should be prepared monthly and reviewed by an independent person.

Response – The Community Center notes the number of the pre-numbered bingo card before sales begin and after to identify the number of cards sold. Monthly bank reconciliations are now completed and are sent to City Hall for review by council.

Conclusion – Response accepted.

- (M) Disbursements – Disbursements lacked evidence of independent review of supporting documentation.

Recommendation – The City should implement procedures to ensure supporting documentation bears evidence of review by an independent party.

Response – The Clerk will ensure the Mayor or a Council Member reviews monthly supporting documentation for all claims disbursements. Supporting documentation will be initialed and dated by the independent reviewer.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

The City requested the Office of Auditor of State to perform a special investigation as a result of concerns identified with the processing of payroll by the former Assistant City Clerk. The special investigation was performed for the period September 25, 2008 through September 2, 2010. A separate report will be issued upon completion of the special investigation.

City of Buffalo  
Schedule of Findings  
Year ended June 30, 2011

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the culture and recreation and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – To avoid any future errors in budget reporting the Clerk will verify the accounting software information matches the City’s budget submissions.

Conclusion – Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Kmart	Gift cards	\$ 824
Visa	Late fee and interest	29
Cabela’s	Tee shirts	119

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 closed scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

In addition, a disbursement we believe does not follow the City’s travel policy was noted. The former Assistant City Clerk was reimbursed \$18 more than allowed by the City’s travel policy for meals during a training session.

Also, two payments for the purchase of City supplies included sales tax of \$6 and \$3, respectively. Chapter 422.5(5) of the Code of Iowa exempts the City from payment of sales tax.

Recommendation - The City 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 – The City will develop a written policy to ensure the meal reimbursement benefit is followed. The Union Contract has been revised to clarify the uniform allowance benefit and no sales tax will be paid under any circumstances. If in the future the City Council determines gift cards are necessary, the public purpose will be documented.

Conclusion – Response accepted.

City of Buffalo  
 Schedule of Findings  
 Year ended June 30, 2011

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City Council went into closed session on March 14, 2011. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

Response – The City will comply with this recommendation.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City could not locate a written investment policy which is required by Chapter 12B.10B of the Code of Iowa.

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

Response – The City will develop a written investment policy which complies with the Code of Iowa.

Conclusion – Response accepted.

- (8) Financial Condition - At June 30, 2011, the City had deficit balances in the following funds:

Fund	Amount
Enterprise:	
Water	\$ 301,322
Sewer	496,435
Storm Water	9,598

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

City of Buffalo

Schedule of Findings

Year ended June 30, 2011

Response – The City will review the options to eliminate the deficit balances and monitor balances monthly.

Conclusion – Response acknowledged. The City should closely monitor the balances of all funds to ensure the City's overall financial position is not impaired.

- (9) Cemetery Perpetual Care – The City did not file an annual report for the City's perpetual care cemetery with the State Insurance Commissioner within four months following the end of the Cemetery's fiscal year as required by Chapter 523I.813 of the Code of Iowa.

Recommendation – The City should file the required annual report for the perpetual care cemetery.

Response – The City has filed the annual cemetery report for the last three years as requested by the State.

Conclusion – Response acknowledged. In future years, the report should be filed within four months of the Cemetery's fiscal year end.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains neither the actual cancelled checks nor cancelled checks through electronic image.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City is working with the bank to receive images of checks.

Conclusion – Response accepted.

- (11) Local Option Sales Tax Warrant – The March 2011 local option sales tax warrant for \$15,929.16 from the State Treasurer's Office has not been deposited into the City's bank account, has not been redeemed and could not be located.

Recommendation – The City should monitor anticipated receipts and request a duplicate warrant from the State. The City should deposit state warrants timely.

Response – The City has requested a duplicate warrant and has requested future payments to be electronically deposited.

Conclusion – Response accepted.

- (12) Local Option Sales Tax – City resolution No. 17-88 provides for 50% of the local option sales and services tax receipts to be allocated for property tax relief, 25% to be allocated towards streets and road improvements and 25% to be allocated for community and economic development. For the year ended June 30, 2011, receipts of \$186,923 were properly credited to the Special Revenue, Local Option Sales Tax Fund. However, adjustments were subsequently necessary and made by the City to properly report the amounts in the City's financial statements. The City has not yet expended any of the collections for community and economic development.

City of Buffalo

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should transfer 50% of the local option sales tax receipts to the General Fund for property tax relief, 25% to the Special Revenue, Road Use Tax Fund for streets and road improvements and 25% for community and economic development each fiscal year in accordance with City resolution No. 17-88.

Response – The City approved a resolution to transfer the monies as recommended. The Clerk is in the process of working with the software company to transfer the funds and set up a fund to account for community and economic development.

Conclusion – Response accepted.

- (13) Official Depositories – A resolution naming official depositories has been adopted by the City Council. However, a maximum amount was not included on the depository resolution.

Recommendation – The City should adopt a new depository resolution which establishes maximum amounts for each bank and ensures the official depositories adequately secure all deposits.

Response – The City has adopted a new depository resolution which meets the above recommendations.

Conclusion - Response accepted.

---

City of Buffalo

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager  
Daniel L. Grady, Senior Auditor II  
Justin M. Scherrman, Staff Auditor  
James H. Pitcher, 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