

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 _____ March 15, 2013

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$167,617 for the year ended June 30, 2012. The receipts included \$22,258 in property tax, \$59,359 from charges for service, \$30,339 from operating grants, contributions and restricted interest, \$45,000 from capital grants, contributions and restricted interest, \$878 from unrestricted interest on investments and \$9,783 from other general receipts.

Disbursements for the year totaled \$198,558, and included \$87,344 for public safety, \$31,509 for public works and \$29,232 for general government. Also, disbursements for business type activities totaled \$38,745.

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/1222-0839-B00F.pdf>.

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CITY OF BLOCKTON

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

JUNE 30, 2012

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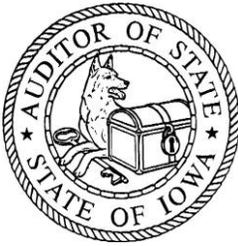
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City of Blockton

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|-----------------|---------------------|
| (Before January 2012) | | |
| Donald Weaver | Mayor | Jan 2012 |
| Richard Brown | Council Member | Jan 2012 |
| John Shimer | Council Member | Jan 2012 |
| John Cavin | Council Member | Jan 2014 |
| Katie Constant | Council Member | Jan 2014 |
| Jodi Lawrence | Council Member | Jan 2014 |
| Debbie Marcum | Clerk/Treasurer | Indefinite |
| Richard L. Wilson | Attorney | Indefinite |
| (After January 2012) | | |
| Richard Brown | Mayor | Jan 2016 |
| John Cavin | Council Member | Jan 2014 |
| Katie Constant | Council Member | Jan 2014 |
| Jodi Lawrence | Council Member | Jan 2014 |
| Sharon Groff | Council Member | Jan 2016 |
| Ardna Walsh | Council Member | Jan 2016 |
| Debbie Marcum | Clerk/Treasurer | Indefinite |
| Richard L. Wilson | Attorney | Indefinite |

City of Blockton



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Blockton, Iowa, as of and for the year ended June 30, 2012, 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 Blockton'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, 2011.

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, 2011, 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 Blockton as of June 30, 2012, 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.

The City of Blockton has not presented Management's Discussion and Analysis which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2013 on our consideration of the City of Blockton'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Blockton's basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Blockton's basic financial statements. Budgetary comparison information on pages 18 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 28, 2013

Basic Financial Statements

City of Blockton

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

| | Disbursements | Program Receipts | | |
|-------------------------------|---------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 87,344 | 4,152 | 15,083 | 45,000 |
| Public works | 31,509 | 17,769 | 14,988 | - |
| Culture and recreation | 11,728 | 2,035 | 268 | - |
| General government | 29,237 | 405 | - | - |
| Total governmental activities | 159,818 | 24,361 | 30,339 | 45,000 |
| Business type activities: | | | | |
| Water | 38,745 | 34,998 | - | - |
| Total | \$ 198,563 | 59,359 | 30,339 | 45,000 |

General Receipts:

Property and other city tax levied for general purposes

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

Cash Basis Net Assets

Restricted:

 Streets

 Fire

 Ambulance

 Customer deposits

 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|-----------------------------|----------|
| Governmental Activities | Business Type Activities | Total |
| (23,109) | - | (23,109) |
| 1,248 | - | 1,248 |
| (9,425) | - | (9,425) |
| (28,832) | - | (28,832) |
| (60,118) | - | (60,118) |
| - | (3,747) | (3,747) |
| (60,118) | (3,747) | (63,865) |
| 22,258 | | 22,258 |
| 848 | 30 | 878 |
| 9,783 | - | 9,783 |
| 32,889 | 30 | 32,919 |
| (27,229) | (3,717) | (30,946) |
| 128,944 | 6,799 | 135,743 |
| \$ 101,715 | 3,082 | 104,797 |
| \$ 1,878 | - | 1,878 |
| 26,108 | - | 26,108 |
| 43,161 | - | 43,161 |
| - | 1,194 | 1,194 |
| 14,846 | - | 14,846 |
| 15,722 | 1,888 | 17,610 |
| \$ 101,715 | 3,082 | 104,797 |

Exhibit B

City of Blockton

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

As of and for the year ended June 30, 2012

| | General | Special Revenue | | Total |
|---------------------------------|-----------|-----------------|----------|----------|
| | | Road Use Tax | Nonmajor | |
| Receipts: | | | | |
| Property tax | \$ 17,416 | - | 2,915 | 20,331 |
| Other city tax | 1,646 | - | 281 | 1,927 |
| Use of money and property | 2,423 | - | - | 2,423 |
| Intergovernmental | 60,351 | 14,988 | - | 75,339 |
| Charges for service | 20,974 | - | - | 20,974 |
| Miscellaneous | 11,595 | - | - | 11,595 |
| Total receipts | 114,405 | 14,988 | 3,196 | 132,589 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 83,749 | - | 3,595 | 87,344 |
| Public works | 17,535 | 13,110 | 864 | 31,509 |
| Culture and recreation | 10,668 | - | 1,060 | 11,728 |
| General government | 28,582 | - | 655 | 29,237 |
| Total disbursements | 140,534 | 13,110 | 6,174 | 159,818 |
| Change in cash balances | (26,129) | 1,878 | (2,978) | (27,229) |
| Cash balances beginning of year | 123,176 | - | 5,768 | 128,944 |
| Cash balances end of year | \$ 97,047 | 1,878 | 2,790 | 101,715 |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Streets | \$ - | 1,878 | - | 1,878 |
| Fire | 26,108 | - | - | 26,108 |
| Ambulance | 41,746 | - | 1,415 | 43,161 |
| Other purposes | 13,471 | - | 1,375 | 14,846 |
| Unassigned | 15,722 | - | - | 15,722 |
| Total cash basis fund balances | \$ 97,047 | 1,878 | 2,790 | 101,715 |

See notes to financial statements.

City of Blockton

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

As of and for the year ended June 30, 2012

| | <u>Enterprise</u> <u>Water</u> |
|---|-----------------------------------|
| Operating receipts: | |
| Charges for service | \$ 34,998 |
| Operating disbursements: | |
| Business type activities | <u>38,745</u> |
| Deficiency of operating receipts under operating disbursements | (3,747) |
| Non-operating receipts: | |
| Interest on investments | <u>30</u> |
| Change in cash balance | (3,717) |
| Cash balance beginning of year | <u>6,799</u> |
| Cash balance end of year | <u><u>\$ 3,082</u></u> |
| Cash Basis Fund Balance | |
| Restricted for customer deposits | \$ 1,194 |
| Unrestricted | <u>1,888</u> |
| Total cash basis fund balance | <u><u>\$ 3,082</u></u> |

See notes to financial statements.

City of Blockton

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Blockton is a political subdivision of the State of Iowa located in Taylor County. It was first incorporated in 1890 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, and general government services. The City also provides water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Blockton 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 Blockton (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Blockton Ambulance Association is legally separate from the City, but is so intertwined with the City it is, in substance, part of the City. The Association collects donations which are used to purchase items not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

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: Taylor County Assessor's Conference Board, City Assessor's Conference Board, Taylor County Emergency Management Commission and Taylor 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:

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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) Notes Payable

The City entered into a promissory note with Great Western Bank for \$50,746 on March 1, 2005. The note proceeds were used to purchase a perpetual right to use the water transmission line constructed by Southern Iowa Rural Water Association and a perpetual right to purchase a certain capacity of water carried by the transmission line. The City has agreed to make annual payments of \$6,196, including interest at 3.75% per annum, for 10 years. A schedule of remaining debt requirements are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------------|-----------|----------|--------|
| 2013 | \$ 5,540 | 656 | 6,196 |
| 2014 | 5,750 | 446 | 6,196 |
| 2015 | 5,969 | 227 | 6,196 |
| Total | \$ 17,259 | 1,329 | 18,588 |

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012 was \$2,349, the required contribution for the year.

(5) 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.

(6) Subsequent Event

Pursuant to City Council action taken in June 2012, Public Measure B, included on the November 6, 2012 general election ballot, was passed and adopted as follows:

“Summary: Adopts an ordinance granting to the Southern Iowa Rural Water Association, State of Iowa, the nonexclusive franchise to own the water utility properties of the City of Blockton, Taylor County, Iowa for the period of 40 years.”

Other Information

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

Other Information

Year ended June 30, 2012

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 20,331 | - | - |
| Other city tax | 1,927 | - | - |
| Use of money and property | 2,423 | - | - |
| Intergovernmental | 75,339 | - | - |
| Charges for service | 20,974 | 34,998 | - |
| Miscellaneous | 11,595 | 30 | - |
| Total receipts | 132,589 | 35,028 | - |
| Disbursements: | | | |
| Public safety | 87,344 | - | 3,052 |
| Public works | 31,509 | - | - |
| Culture and recreation | 11,728 | - | - |
| General government | 29,237 | - | - |
| Business type activities | - | 38,745 | - |
| Total disbursements | 159,818 | 38,745 | 3,052 |
| Excess (deficiency) of receipts over (under) disbursements | (27,229) | (3,717) | (3,052) |
| Balances beginning of year | 128,944 | 6,799 | 4,467 |
| Balances end of year | \$ 101,715 | 3,082 | 1,415 |

See accompanying independent auditor's report.

| Total | Budgeted Amounts | | Final to Total Variance |
|----------|------------------|---------|-------------------------------|
| | Original | Final | |
| 20,331 | 21,056 | 21,056 | (725) |
| 1,927 | 1,932 | 1,932 | (5) |
| 2,423 | 3,500 | 3,500 | (1,077) |
| 75,339 | 104,000 | 108,400 | (33,061) |
| 55,972 | 64,500 | 64,500 | (8,528) |
| 11,625 | 3,000 | 9,000 | 2,625 |
| 167,617 | 197,988 | 208,388 | (40,771) |
| 84,292 | 99,500 | 99,500 | 15,208 |
| 31,509 | 33,900 | 33,900 | 2,391 |
| 11,728 | 11,600 | 11,600 | (128) |
| 29,237 | 17,492 | 33,492 | 4,255 |
| 38,745 | 35,000 | 39,000 | 255 |
| 195,511 | 197,492 | 217,492 | 21,981 |
| (27,894) | 496 | (9,104) | (18,790) |
| 131,276 | - | - | 131,276 |
| 103,382 | 496 | (9,104) | 112,486 |

City of Blockton

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$20,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the culture and recreation function.

Supplementary Information

Schedule 1

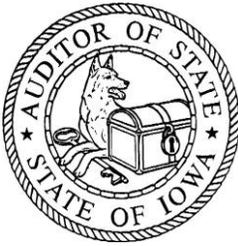
City of Blockton

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

As of and for the year ended June 30, 2012

| | Special Revenue | | Total |
|---------------------------------|-------------------|-----------------------|---------|
| | Employee Benefits | Ambulance Association | |
| Receipts: | | | |
| Property tax | \$ 2,915 | - | 2,915 |
| Other city tax | 281 | - | 281 |
| Total receipts | 3,196 | - | 3,196 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 543 | 3,052 | 3,595 |
| Public works | 864 | - | 864 |
| Culture and recreation | 1,060 | - | 1,060 |
| General government | 655 | - | 655 |
| Total disbursements | 3,122 | 3,052 | 6,174 |
| Change in cash balances | 74 | (3,052) | (2,978) |
| Cash balances beginning of year | 1,301 | 4,467 | 5,768 |
| Cash balances end of year | \$ 1,375 | 1,415 | 2,790 |
| Cash Basis Fund Balances | | | |
| Restricted for other purposes | \$ 1,375 | 1,415 | 2,790 |

See accompanying independent auditor's report.



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 Blockton, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 28, 2013. 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, 2011. 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

The management of the City of Blockton is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Blockton'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 an opinion on the effectiveness of the City of Blockton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Blockton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over 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 Blockton'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 (D) 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 (E) through (O) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Blockton'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, 2012 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 Blockton's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Blockton'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 Blockton and other parties to whom the City of Blockton may report and 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 Blockton 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

February 28, 2013

City of Blockton

City of Blockton

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City, one individual has control over each of the following areas.
- (1) Cash – handling, reconciling and recording.
 - (2) Investments – investing, recording and reconciling earnings.
 - (3) Receipts – collecting, recording, depositing, journalizing and reconciling.
 - (4) Utilities – billing, collecting, depositing, posting, recordkeeping for accounts receivable and write-offs.
 - (5) Disbursements – purchasing, invoice processing, preparing checks, mailing and recording.
 - (6) Payroll – recordkeeping, preparing, posting and distributing.
 - (7) Computer systems – performing all general accounting functions and controlling all data and output.

For the Blockton Ambulance Association, one individual has control over each of the following areas.

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, recording, depositing and reconciling.
- (3) Disbursements – preparing checks, signing checks, mailing and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Ambulance Association should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing current personnel, including elected officials.

Response – The City will continue to have the Council Members review the bank statements and will step up their involvement by having the bank statements mailed to one of them and asking them to reconcile the statements.

The City will ask the Blockton Ambulance Association to add a second person to their bank account signature card.

The City will continue to look for other ways to increase the segregation of duties.

Conclusion – Response accepted.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

- (B) Financial Reporting – During the audit, we identified material activity related to the Blockton Fire Department account omitted from the accounting records. In addition, the City Clerk did not allocate disbursements from the Special Revenue, Employee Benefits Fund. This was properly adjusted for reporting purposes.

Recommendation – The City should implement procedures to ensure all outside bank account activity is properly recorded in the City’s accounting records and financial statements.

Response – The Blockton Fire Department account (which was actually the Blockton Fire Association account, operating in the same way as the Blockton Ambulance Association, but with a name and tax ID number that tied it to the city) has been closed and that money transferred to the City accounts. The Blockton Fire Association now has an account which clearly separates it from the City accounts.

The City learned from the audit process how to distinguish City Department accounts from Association accounts and will discourage Departments from having separate accounts and will ensure any Department accounts which do exist are properly recorded in the City’s financial statements in the future.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled each month. The City Clerk generates an “open balances” report every month to identify which customers should receive delinquent notices.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – Since the audit, the City has turned the Water Utility billings over to SIRWA so utility accounting will be much simpler with just garbage to handle. Efforts will be made to develop procedures to better track delinquencies and better reconcile the billings and collections for each month.

Conclusion – Response accepted.

- (D) Expense Allocation – The City has no formal policy detailing how payroll expenses should be allocated among the General, Special Revenue, Road Use Tax and Enterprise, Water Funds. In addition, employee benefit disbursements were all allocated to the general administration function rather than by function.

Recommendation – The City should review current methods of allocating payroll and should establish a written policy providing guidelines for proper and consistent allocation of these costs. To improve financial accountability, budgetary control and consistency in reporting financial information, the City should group employee benefits by function and determine a procedure to properly allocate employee benefits.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

Response – Corrections were made to the 2012 Annual Financial Report to properly allocate employee benefits. The City will review current methods of allocating payroll and establish a written policy providing guidelines for proper and consistent allocation of these costs.

Conclusion – Response accepted.

- (E) Debit Cards and Charge Accounts – The City has a debit card and charge accounts for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of debit cards or charge accounts and to establish procedures for the proper accounting of debit card purchases and charge account activity.

Recommendation – The City should adopt a formal written policy regulating the use of City debit cards and charge accounts. The policy, at a minimum, should address who controls the debit card, who is authorized to use the debit card and for what purposes, as well as the types of supporting documentation required to validate the purchase. The City should also have a written policy which includes where charge accounts are established, who is allowed to use the charge accounts and for what purposes, as well as establish a limit for the purchases without prior approval.

The City's policy should identify the types of supporting documentation required to substantiate charges.

Response – The City will develop a written policy regulating the use of City debit cards and charge accounts, including the above suggestions in the policy.

Conclusion – Response accepted.

- (F) Prenumbered Receipts - Prenumbered receipts were not issued for collections by the City.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

Response – Prenumbered receipts are now issued for all cash transactions.

Conclusion – Response accepted.

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

The City does not have written policies for:

- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

- Requiring backups of system information.
- Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- Running an anti-virus program on computers.
- Usage of the internet.
- Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan and has not adequately backed up the City's computer.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems. A written disaster recovery plan should be developed. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, weekly back up computer files, copies of user documentation and the disaster recovery plan should be maintained at an off-site location.

Response - The City will work on developing and implementing these suggested policies and plans.

Conclusion – Response accepted.

- (H) Accounting Policies and Procedures Manual - The City does not have an accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to 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) Ensure City accounts are properly utilized.

Response – The City will work on developing an Accounting Policies and Procedures Manual.

Conclusion – Response accepted.

- (I) Restrictive Endorsement – A restrictive endorsement was not placed on checks upon receipt.

Recommendation – A restrictive endorsement should be placed on all checks when received to help provide protection in case of theft or loss.

Response – A restrictive endorsement is now placed on all checks when received.

Conclusion – Response accepted.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

- (J) Bank Reconciliations – Bank reconciliations did not evidence independent review.

Recommendation – To improve financial accountability and control, the bank reconciliation should be prepared and independently reviewed, and evidence of the independent review should be documented and retained. Any variances should be investigated and resolved in a timely manner.

Response – Independent bank reconciliations will be done and documented.

Conclusion – Response accepted.

- (K) Delinquent Utility Policies – Delinquent utility policies per the City Ordinances were not followed consistently.

Recommendation – All policies should be followed or amended if not feasible.

Response – Since the audit, the City has turned the Water Utility over to SIRWA so utility accounting will be much simpler with just garbage to handle. Efforts will be made to develop practices related to delinquent accounts which consistently follow the City Ordinances.

Conclusion – Response accepted.

- (L) Utility Policies – The City's maintenance employee was allowed to have free utilities in lieu of pay. However, the City did not report this to the IRS as a taxable non-cash benefit.

Recommendation – All IRS regulations should be followed.

Response – This person is no longer employed by the City and no longer receives free utilities. Employees of the City will not receive free utilities in lieu of pay in the future.

Conclusion – Response accepted.

- (M) Contracts with Townships – The City currently provides ambulance, fire and cemetery services to nearby townships. The City does not have 28E agreements with the townships indicating the amount the townships should levy for the services. In addition, the City does not have procedures to determine whether the City is receiving all the tax money it is due.

Recommendation – The City and townships should enter into 28E agreements, including a dollar amount the township will pay the City and the terms of payment. The City should establish procedures to monitor receipt of the payments.

Response – The City will attempt to draw up written contracts with the townships and establish procedures to monitor the receipt of payments.

Conclusion – Response accepted.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

- (N) Purchasing Policies – The City does not have a policy indicating when a purchase needs City Council approval or when competitive bids or quotes are required.

Recommendation – The City should adopt a policy which clearly states when an employee can purchase items prior to City Council approval. In addition, the policy should state when competitive quotes or bids should be received.

Response – The City will work on developing a written purchasing policy.

Conclusion – Response accepted.

- (O) SIRWA Purchases – The City purchased water from SIRWA to provide water to residents. The City is responsible for reading residents meters, monthly billings and collections. During our review, we found the City was billed for 20.6% more water than City residences, businesses or City facilities showed using. The variance in water purchased varied from month to month. In January 2012, the City paid for 35% more water than consumed, while in March the City paid for 3% more water than was consumed. While some water loss can be expected due to water leaks and defective meters, the inconsistency and size of the variances seems unreasonable.

Recommendation – The City should investigate why the water purchased is so much greater than the water used.

Response – Since the audit, the City has turned the Water Utility over to SIRWA so this is their problem now!

Conclusion – Response acknowledged. The City should work with SIRWA to identify and resolve this issue. Otherwise, the City may be paying for water not used.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the culture and recreation function. 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 sufficient amount in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

Response – During the audit process in September 2012, the City learned employee benefits need to be allocated to the various functions from which the salary was taken, rather than all allocated to the General Fund. Only after this adjustment was made for the 2012 AFR (and when it was too late to do a budget amendment) did the disbursements exceed the amounts budgeted in the culture and recreation function.

The City will continue to be diligent to amend its budget as necessary to be in compliance with the Code of Iowa.

Conclusion – Response accepted.

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

| Name, Title, and Business Connection | Transaction Description | Amount |
|---|--|----------|
| Richard Brown, Mayor, Owner of Brown’s Service | Fuel, repair and maintenance of vehicles | \$ 1,456 |
| D. Earl Drake, son-in-law of Donald Weaver, Council Member, Owner of Drake Electric | Repair of water main | 508 |
| Katie Constant, Council Member, Ambulance crew member | Wages | 115 |
| Scott Marcum, spouse of City Clerk, Ambulance crew member | Wages | 156 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- (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 City Council minutes but were not.
- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

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

Response - The City will endeavor to adopt a written investment policy that complies with the provisions of the Code of Iowa.

Conclusion – Response accepted.

- (8) Separately Maintained Records – The Blockton Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports. However, the transactions and resulting balances are included in these financial statements.

Recommendation – 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.” 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 annual budget and should be reported to the City Council on a monthly basis.

Response – The Blockton Fire Department account (which was actually the Blockton Fire Association account, operating in the same way as the Blockton Ambulance Association, but with a name and tax ID number that tied it to the City) has been closed and those monies transferred to the City accounts. The Blockton Fire Association now has an account which clearly separates it from the City accounts.

The City learned from the audit process how to distinguish City Department accounts from Association accounts and will ensure any Department accounts are included in the City’s accounting records, monthly reports and annual budget in the future.

Conclusion – Response accepted.

- (9) 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 does not retain electronic images of the back of cancelled checks.

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

Response – The City now receives and retains electronic images of both the front and the back of each cancelled check.

Conclusion – Response accepted.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

- (10) Audit Requirement – City ordinance, Chapter 91.09 states, in part, “The utility shall establish a proper system of accounts and shall keep proper records, books and accounts in which complete and correct entries shall be made of all transactions relative to the water system and at regular annual intervals the Council shall cause to be made an audit by an independent audit concern or the State of Iowa of the books to show the receipts and disbursements of the water system.”

The City has not had annual audits of the water utility.

Recommendation – The City should have annual audits of the water utility as required by City ordinance, Chapter 91.09 or amend the ordinance if annual audits are not otherwise deemed necessary or required.

Response – City ordinances will be amended to reflect the fact that Blockton no longer has a water utility and to remove this requirement for annual audits.

Conclusion – Response accepted.

- (11) Council Member Wages – According to the October 5, 2009 City Council minutes, “A motion was made by Lawrence and seconded by Maxson to pay a council member to reconcile the bank statements and ledger book each month. Council members will receive an extra \$10 per month for this job. They will rotate on a quarterly basis. Motion carried unanimously.”

Chapter 372.13(8) of the Code of Iowa states, in part:

“By ordinance, the council shall prescribe the compensation of the mayor, council members, and other elected city officer, but a change in the compensation of the mayor does not become effective during the term in which the change is adopted, and the council shall not adopt an ordinance changing the compensation of the mayor, council members, or other elected officers during the months of November and December in the year of a regular city election. A change in the compensation of council members becomes effective for all council members at the beginning of the term of the council members elected at the election next following the change in compensation.”

We were unable to determine the propriety of these extra payments to City Council members since the City enacted this change in compensation by motion rather than by ordinance. We did not determine whether the City complied with the delayed implementation requirements for changes in Council member compensation, prescribed by Chapter 372.13(8) of the Code of Iowa as noted above. The City appropriately included these wages in the City Council members’ IRS form W-2.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including corrective action to comply with Chapter 372.13(8) of the Code of Iowa.

City of Blockton

Schedule of Findings

Year ended June 30, 2012

Response – The extra payments to Council members will be discontinued until the City consults legal counsel to determine the disposition of this matter and/or passes a new ordinance setting Council member wages.

Conclusion – Response accepted.

- (12) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Blockton

Staff

This audit was performed by:

Susan D. Battani, CPA, Director
Donna F. Kruger, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Tyler J. Guffy, 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