



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

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NEWS RELEASE

FOR RELEASE _____

May 30, 2008

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Blue Grass, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2007, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,432,848 for the year ended June 30, 2007. The receipts included \$397,192 in property tax, \$198,780 from tax increment financing, \$406,485 from charges for service, \$189,049 from operating grants, contributions and restricted interest, \$20,485 from capital grants, contributions and restricted interest, \$154,801 from local option sales tax, \$12,460 from unrestricted interest on investments and \$53,596 from other general receipts.

Disbursements for the year totaled \$1,317,132, and included \$293,736 for public safety, \$240,426 for public works and \$180,293 for capital projects. Also, disbursements for business type activities totaled \$399,632.

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/reports.htm>.

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CITY OF BLUE GRASS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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City of Blue Grass

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul R. Barnes	Mayor	Jan 2008
Larry Brown	Mayor Pro tem	Jan 2008
Lowell Tennyson	Council Member	Jan 2008
Robert Powell	Council Member	(Resigned)
Leonard Wriedt (Appointed)	Council Member	Nov 2007
Brinson Kinzer	Council Member	Jan 2010
Ray Hicks	Council Member	Jan 2010
Ann M. Schmidt	City Clerk/Financial Officer	Indefinite
Roberta Perreault	Assistant City Clerk/Financial Officer	Indefinite
William T. McCullough	Attorney	Indefinite

City of Blue Grass



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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 Blue Grass, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City'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, 2006.

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, 2006, as described 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 as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

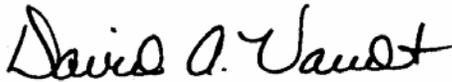
As described in Note 10, during the year ended June 30, 2007, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective differences.

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant

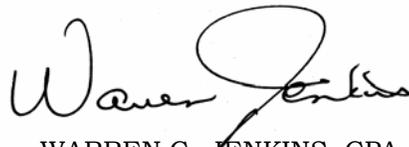
agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 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'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, 2006, 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

May 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Blue Grass 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2007 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$101,000, due primarily to public safety building donations received during the year which were not yet spent for the construction of the facility and tax increment proceeds retained for low and moderate income housing assistance.
- The cash basis net assets of the City's business type activities increased approximately \$14,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's outstanding 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, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer and the garbage 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, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

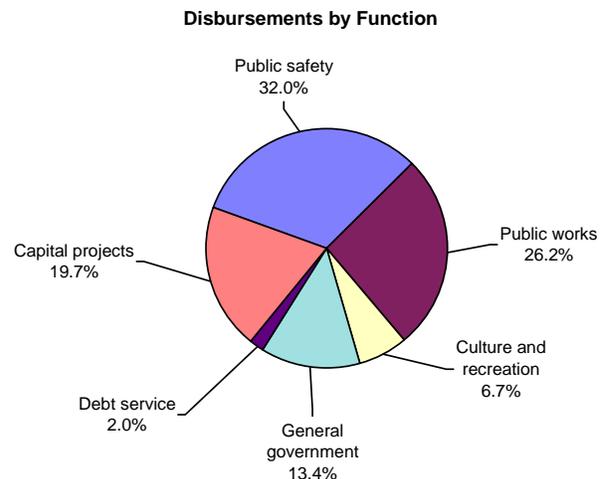
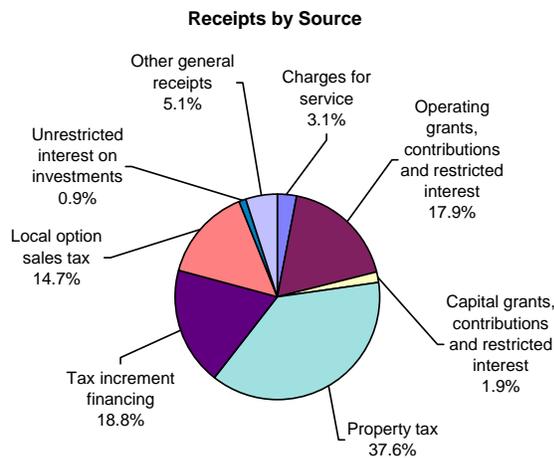
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and garbage operations. The Water and Sewer Funds are considered to be major funds of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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$784,509 to \$886,002. The analysis that 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, 2007
Receipts:	
Program receipts:	
Charges for service	\$ 33,013
Operating grants, contributions and restricted interest	189,049
Capital grants, contributions and restricted interest	20,485
General receipts:	
Property tax	397,192
Tax increment financing	198,780
Local option sales tax	154,801
Unrestricted interest on investments	9,077
Other general receipts	53,596
Total receipts	1,055,993
Disbursements:	
Public safety	293,736
Public works	240,426
Culture and recreation	61,214
General government	123,207
Debt service	18,624
Capital projects	180,293
Total disbursements	917,500
Change in cash basis net assets before transfers	138,493
Transfers, net	(37,000)
Change in cash basis net assets	101,493
Cash basis net assets beginning of year	784,509
Cash basis net assets end of year	\$ 886,002



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 166,409
Sewer	152,179
Sanitation	54,884
General receipts:	
Unrestricted interest on investments	3,383
Total receipts	<u>376,855</u>
Disbursements:	
Water	218,076
Sewer	123,641
Sanitation	57,915
Total disbursements	<u>399,632</u>
Change in cash basis net assets before transfers	(22,777)
Transfers	<u>37,000</u>
Change in cash basis net assets	14,223
Cash basis net assets beginning of year	<u>267,542</u>
Cash basis net assets end of year	<u>\$ 281,765</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Blue Grass completed the year, its governmental funds reported a combined fund balance of \$886,002, an increase of more than \$101,000 above last year's total of \$784,509. 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 \$46,662 from the prior year to \$126,705. \$60,000 was provided from local option sales tax transferred in from the Special Revenue, Local Option Sales Tax Fund during the year ended June 30, 2007. The City intends to use these receipts to help offset future property tax increases.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$29,074 to \$213,202 during the fiscal year. This decrease was attributable to additional road work completed during the fiscal year.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$6,401 to \$250,078. The increase was due to less spending of local option sales tax collections.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for a major urban renewal project within the City's urban renewal district. At the end of the fiscal year the cash balance was \$168,738, an increase of \$58,662 from the previous year. The increase was the result of incremental taxes received which were retained for low to moderate income housing assistance and for rebate payments under development agreements with the City. These proceeds will be used for various construction and refurbishing for low and moderate income projects within the urban renewal district.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$13,653 to \$62,833, due primarily to ongoing water main extensions and related construction costs.
- The Sewer Fund cash balance increased \$30,716 to \$201,354, due primarily to receipts for services exceeding actual costs during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2007 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$272,106 on various maintenance projects involving road work and public safety building construction. The City had sufficient cash balances to absorb these additional costs.

The City’s receipts were \$134,463 less than budgeted. This was primarily due to the City receiving less tax increment financing than anticipated and donations toward the public safety building have not come in as anticipated. In addition, the City received less in sewer and water charges for service than anticipated during the fiscal year.

Even with the budget amendment, total disbursements were \$208,318 less than the amended budget. Actual disbursements for the public works, culture and recreation, general government, debt service, capital projects and business type activity functions were \$3,409, \$2,381, \$9,624, \$236,507 and \$21,492, respectively, less than the amended budget. This was primarily due to the City’s road work and public safety building construction activity.

The City exceeded the amount budgeted in the public safety function for the year ended June 30, 2007 by \$65,095, primarily due to the City not including the Blue Grass Volunteer Fire Department activity in the original budget or the budget amendment for the year ended June 30, 2007.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$357,389 in notes and other long-term debt outstanding, compared to \$406,035 last year.

<u>Outstanding Debt at Year-End</u>	
	<u>June 30, 2007</u>
General obligation notes	\$ 186,000
Loan agreements	48,926
Revenue notes	<u>122,463</u>
Total	<u>\$ 357,389</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$234,926 is significantly below its constitutional debt limit of \$3,542,590.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The elected and appointed officials of Blue Grass considered many factors when adopting the fiscal year 2008 budget. Their main objective was not to increase property tax. Therefore, the City is cautiously finding alternate solutions in maintaining public services to residents of Blue Grass until other financing options become available. Several factors considered were as follows:

Property tax levy for fiscal year 2008 is as follows:

- General property tax levy is currently at the \$8.10 per \$1,000 of taxable value levy rate totaling \$269,296.

Additional property tax levies totaling \$3.5576 per \$1,000 of taxable value as follows:

- Liability, property and self insurance costs total \$38,241
- Ag land total \$3,033
- FICA and IPERS total \$27,874
- Other employee benefits total \$37,854
- Debt service total \$17,724
- FY 2008 receipts: Budgeted total \$1,461,088
- FY 2008 disbursements: Budgeted total \$1,344,212

Reserves

The City has reserve accounts where monies are transferred monthly from the General Fund, Water Fund or Sewer Fund. These monies are to be used to fund either future equipment purchases and/or fund a specific project.

Utilities

The City of Blue Grass currently owns and operates both the water and sewer utilities. The City Council has considered a rate increase in both the water and sewer utilities to maintain the utility systems. To date, the Council has held two public meetings to better educate the public on the proposed rate increases and, after careful consideration, the Council elected to have the Iowa Water Rural Association conduct a rate study analysis to compare to the proposed rate increase. This rate study has not yet been released. The City's last rate increase for both the water and sewer utilities was April 1, 1999.

The City is also exploring the sale of the City's water utility due to rising costs to maintain our outdated system. The Iowa-American Water Company is approximately two miles from the City limits. The City has been in contact with representatives from the Iowa-American Water Company and they have shown an interest. This decision would rest in the hands of its residents. However, the City is researching any and all options.

The State of Iowa is also mandating any cities with a lagoon system prepare for the "Clean Water Act" which will have a major impact on the City. Preparations are underway if and when this Act becomes effective.

The City contracts its sanitation utility with Allied Waste Service. We are currently in the second year of a 3-year agreement. The City increased the sanitation rates by \$1.00 per household per month effective January 1, 2008.

Projects anticipated in fiscal year 2008

The City is currently undergoing a major project with the construction of a new Public Safety Building that will house the Blue Grass Volunteer Fire Department, the Blue Grass Police Department and the Buffalo Ambulance Service. After careful consideration and much discussion, the City amended its urban renewal area plan to utilize tax increment monies to finance the Public Safety Building project. The City Council approved a general obligation bond issue, not to exceed \$2,000,000, to finance the project. The City anticipates the project will be complete within an eighteen month period. Once the project is complete, the City will utilize its reserves to decrease its total obligation to \$1,500,000 over a 20-year period.

The City has outstanding general obligation debt issued in November 2001 in the amount of \$231,000 for a storm sewer project. As of July 1, 2007, the principal balance was \$186,000. After careful consideration, the Council unanimously agreed to pay off the debt utilizing local option sales tax funds, thereby reducing the debt of the City.

Economic Development

The City currently has six subdivisions under construction, consisting of residential, multi-family, commercial and industrial zones. These subdivisions are in the beginning stages. During fiscal year 2007, the City issued 24 new construction permits. Due to the City's location, only ten miles from the City of Davenport and eighteen miles from the City of Muscatine, the residential growth has been in demand. A 22-lot industrial park subdivision consisting of eight commercial zoned lots and fourteen industrial zoned lots was recently platted. The industrial park has water and sewer and the streets are paved, curbed and guttered. The City anticipates this subdivision will bring other areas of growth along the Highway 61 corridor.

Approximately 85% of the City's valuation is within an urban renewal area. As a result, the taxes on the incremental value in the urban renewal area will be divided among three developers based on certain development agreements with the City. Although the utility revenues will increase, there are additional services the City must provide, such as police and fire protection and additional snow plowing and maintenance of the additional streets. Therefore, the City will have to provide these services without additional revenues. With these demands, the City will need additional staff and equipment. With the loss of the bank franchise tax and property tax replacement revenues being eliminated, the City will have to continue to find other revenue alternatives until funding is available.

The City implemented a Citizen's Trail Committee in 2005 to design a multi-use trail to better serve the community and promote economic development. The City was awarded an Iowa Department of Transportation Region 9 Enhancement of \$170,925 with the City matching 20%, or \$34,185. Construction of the trail is anticipated to begin in the spring of 2009 and be completed near or around late fall 2009. Other grants have also been applied for as well.

Economic Factors

The City amends its budget annually due to the fact there are a lot of unknown factors to consider, such as the weather, the rising costs of fuel, electric, shipping costs, etc., when preparing its annual budget. It is very difficult to budget expenditure items since the costs are steadily rising every year and the revenues are subject to the economic cycle. Therefore, departments are continuously trying to maintain their outdated equipment.

Employee benefits and pay increases are also becoming difficult for the City to maintain due to rising prescription costs and medical expenses. The City currently has seven full-time employees and three part-time employees and is constantly trying to find alternate solutions to maintain these benefits as our employees are a major part of the City's operation. Because most of the employees have been with the City for over eight years, the change over is very slim.

The Fire Department is strictly a volunteer staff and they, too, are finding it difficult to maintain their equipment and to extend the life of the equipment. The Fire Department is in need of additional volunteers with the growth of Blue Grass and its surrounding subdivisions. The calls are steadily increasing and several members are near retirement. The Police Department is also in need of additional staff and equipment. Currently the City is exploring the possibility of hiring a part-time police officer due to the increase in demand. These short falls will have to be dealt with in a matter of time.

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 Ann Schmidt, City Clerk, 114 N Mississippi Street, Blue Grass, Iowa 52726-9719.

Basic Financial Statements

City of Blue Grass

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 293,736	29,404	88,814	-
Public works	240,426	1,729	97,430	-
Culture and recreation	61,214	-	-	-
General government	123,207	1,880	2,805	-
Debt service	18,624	-	-	-
Capital projects	180,293	-	-	20,485
Total governmental activities	917,500	33,013	189,049	20,485
Business type activities:				
Water	218,076	166,409	-	-
Sewer	123,641	152,179	-	-
Sanitation	57,915	54,884	-	-
Total business type activities	399,632	373,472	-	-
Total	\$ 1,317,132	406,485	189,049	20,485

General Receipts:

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

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 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
(175,518)	-	(175,518)
(141,267)	-	(141,267)
(61,214)	-	(61,214)
(118,522)	-	(118,522)
(18,624)	-	(18,624)
(159,808)	-	(159,808)
(674,953)	-	(674,953)
-	(51,667)	(51,667)
-	28,538	28,538
-	(3,031)	(3,031)
-	(26,160)	(26,160)
(674,953)	(26,160)	(701,113)
378,616	-	378,616
198,780	-	198,780
18,576	-	18,576
154,801	-	154,801
9,077	3,383	12,460
53,596	-	53,596
(37,000)	37,000	-
776,446	40,383	816,829
101,493	14,223	115,716
784,509	267,542	1,052,051
\$ 886,002	281,765	1,167,767
\$ 213,202	-	213,202
168,738	-	168,738
7,408	16,941	24,349
369,949	-	369,949
126,705	264,824	391,529
\$ 886,002	281,765	1,167,767

City of Blue Grass

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

As of and for the year ended June 30, 2007

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 314,170	-	-	-
Tax increment financing	-	-	-	198,780
Other city tax	12,523	-	154,801	-
Licenses and permits	31,284	-	-	-
Use of money and property	9,078	-	-	-
Intergovernmental	49,801	97,430	-	-
Miscellaneous	43,053	-	-	-
Total receipts	459,909	97,430	154,801	198,780
Disbursements:				
Operating:				
Public safety	184,959	-	-	-
Public works	121,034	102,619	-	-
Culture and recreation	59,814	-	1,400	-
General government	107,440	-	-	-
Debt service	-	-	-	-
Capital projects	-	23,885	-	140,118
Total disbursements	473,247	126,504	1,400	140,118
Excess (deficiency) of receipts over (under) disbursements	(13,338)	(29,074)	153,401	58,662
Other financing sources (uses):				
Operating transfers in	60,000	-	-	-
Operating transfers out	-	-	(147,000)	-
Total other financing sources (uses)	60,000	-	(147,000)	-
Net change in cash balances	46,662	(29,074)	6,401	58,662
Cash balances beginning of year	80,043	242,276	243,677	110,076
Cash balances end of year	\$ 126,705	213,202	250,078	168,738
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	126,705	-	-	-
Special revenue funds	-	213,202	250,078	168,738
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 126,705	213,202	250,078	168,738

See notes to financial statements.

Nonmajor	Total
83,022	397,192
-	198,780
-	167,324
-	31,284
2,520	11,598
-	147,231
59,531	102,584
<u>145,073</u>	<u>1,055,993</u>

108,777	293,736
16,773	240,426
-	61,214
15,767	123,207
18,624	18,624
16,290	180,293
<u>176,231</u>	<u>917,500</u>
<u>(31,158)</u>	<u>138,493</u>

50,000	110,000
-	(147,000)
<u>50,000</u>	<u>(37,000)</u>

18,842	101,493
<u>108,437</u>	<u>784,509</u>
<u>127,279</u>	<u>886,002</u>

7,408	7,408
-	126,705
41,769	673,787
78,102	78,102
<u>127,279</u>	<u>886,002</u>

Exhibit C

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

As of and for the year ended June 30, 2007

	Enterprise			Total
	Water	Sewer	Nonmajor - Sanitation	
Operating receipts:				
Charges for service	\$ 163,674	147,061	54,513	365,248
Miscellaneous	2,735	5,118	371	8,224
Total operating receipts	<u>166,409</u>	<u>152,179</u>	<u>54,884</u>	<u>373,472</u>
Operating disbursements:				
Business type activities	120,910	123,641	57,915	302,466
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>45,499</u>	<u>28,538</u>	<u>(3,031)</u>	<u>71,006</u>
Non-operating receipts (disbursements):				
Interest on investments	1,014	2,178	191	3,383
Capital outlay	(62,509)	-	-	(62,509)
Debt service	(34,657)	-	-	(34,657)
Net non-operating receipts (disbursements)	<u>(96,152)</u>	<u>2,178</u>	<u>191</u>	<u>(93,783)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(50,653)</u>	<u>30,716</u>	<u>(2,840)</u>	<u>(22,777)</u>
Operating transfers in	<u>37,000</u>	-	-	<u>37,000</u>
Net change in cash balances	<u>(13,653)</u>	<u>30,716</u>	<u>(2,840)</u>	<u>14,223</u>
Cash balances beginning of year	<u>76,486</u>	<u>170,638</u>	<u>20,418</u>	<u>267,542</u>
Cash balances end of year	<u>\$ 62,833</u>	<u>201,354</u>	<u>17,578</u>	<u>281,765</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 16,941	-	-	16,941
Unreserved	<u>45,892</u>	<u>201,354</u>	<u>17,578</u>	<u>264,824</u>
Total cash basis fund balances	<u>\$ 62,833</u>	<u>201,354</u>	<u>17,578</u>	<u>281,765</u>

See notes to financial statements.

City of Blue Grass

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Blue Grass is a political subdivision of the State of Iowa located in the counties of Scott and Muscatine. It was first incorporated in 1903 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, sewer and sanitation utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Blue Grass 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 of Blue Grass 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 Joint E911 Service Board and Scott County Emergency Management Commission.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Blue Grass 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the public safety function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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) Long-Term Debt

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

Year Ending June 30,	General Obligation			Water Revenue			Total	
	Storm Sewer Improvement							
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2008	4.40%	\$ 10,000	8,184	3.50%	\$ 29,857	4,286	39,857	12,470
2009	4.40	11,000	7,744	3.50	30,379	3,241	41,379	10,985
2010	4.40	11,000	7,260	3.50	30,911	2,178	41,911	9,438
2011	4.40	12,000	6,776	3.50	31,316	1,096	43,316	7,872
2012	4.40	12,000	6,248	-	-	-	12,000	6,248
2013-2017	4.40	66,000	23,012	-	-	-	66,000	23,012
2018-2021	4.40	64,000	7,172	-	-	-	64,000	7,172
Total		<u>\$ 186,000</u>	<u>66,396</u>		<u>\$ 122,463</u>	<u>10,801</u>	<u>308,463</u>	<u>77,197</u>

The resolution providing for the issuance of the water revenue capital loan notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a Water Revenue Note Sinking Account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a Water Reserve Account within the Enterprise Funds until specific minimum balances have been accumulated. This account is restricted for the purpose of making any note principal and interest payments which the Sinking Account may be unable to make.
- (d) Rates for all services shall be established at a level which produces net revenues at a level not less than 125% of the principal and interest due on the notes each fiscal year.
- (e) The City will cause the books and accounts to be audited annually.

The City did not cause the books and accounts of the water utility system to be audited for the years ended June 30, 2005 and 2006.

(4) Loan Agreements

On July 16, 2002, the City entered into a loan agreement for \$24,000 to purchase a utility tractor. The loan requires semiannual installments of \$2,750, including interest at a rate of 3.80% per annum, with the final payment due June 1, 2008. During the year ended June 30, 2007, the City paid principal of \$5,148 and interest of \$352. The unpaid principal balance at June 30, 2007 was \$5,276.

On December 20, 2005, the City entered into a loan agreement for \$50,029 to purchase a dump truck. The loan requires semiannual installments of \$3,000, including interest at a rate of 3.75% per annum, with the final payment due January 8, 2016. During the year ended June 30, 2007, the City paid principal of \$4,155 and interest of \$1,845. The unpaid principal balance at June 30, 2007 was \$43,650.

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of 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, 2007 was \$21,245, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory hours payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 20,000
Compensatory hours	<u>10,500</u>
Total	<u>\$ 30,500</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 60,000
Capital Projects	Local Option Sales Tax	<u>50,000</u>
		110,000
Enterprise:	Special Revenue:	
Water	Local Option Sales Tax	<u>37,000</u>
Total		<u>\$ 147,000</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) Development and Rebate Agreements

The City has entered into three development agreements dated November 19, 2001, May 5, 2003 and April 21, 2004 to assist in urban renewal projects.

The City agreed to rebate 66.14% and 73.80%, respectively, of the incremental tax paid by developers in exchange for development of certain commercial and residential development and installation of certain infrastructure improvements made by the developers. The remaining 33.86% and 26.20%, respectively, of the incremental tax are retained by the City to provide assistance to low to moderate income (LMI) families in the City. Developers have first rights to the LMI funds if the project qualifies under the LMI

rules and regulations. The portion of the incremental tax received by the City will be paid to the developers in the form of economic development tax increment payments, pursuant to Chapters 15A and 403 of the Code of Iowa. The rebates will be made for a period of ten years for all residential properties and twenty years for all commercial and/or industrial properties, beginning on the agreement date or beginning on such later date the incremental tax becomes available. The total payments made shall not exceed the actual cost of the improvements.

The payments are not a general obligation of the City. Each payment in the succeeding year is subject to annual appropriation by the City Council. During the year ended June 30, 2007, the City rebated \$140,118 of incremental tax under these agreements.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

(11) Subsequent Events

In November 2007, the City approved the issuance of a general obligation public safety facility loan agreement anticipation project note, not to exceed \$2,000,000.

Also, in November 2007, the City authorized redemption of outstanding existing general obligation capital loan notes totaling \$186,000 plus accrued interest. The principal and interest will be paid using local option sales tax receipts.

(12) Litigation

The City is subject to pending litigation. The probability of loss, if any, is undeterminable.

Required Supplementary Information

City of Blue Grass
 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, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 397,192	-
Tax increment financing	198,780	-
Other city tax	167,324	-
Licenses and permits	31,284	-
Use of money and property	11,598	3,383
Intergovernmental	147,231	-
Charges for service	-	365,248
Miscellaneous	102,584	8,224
Total receipts	1,055,993	376,855
Disbursements:		
Public safety	293,736	-
Public works	240,426	-
Culture and recreation	61,214	-
General government	123,207	-
Debt service	18,624	-
Capital projects	180,293	-
Business type activities	-	399,632
Total disbursements	917,500	399,632
Excess (deficiency) of receipts over (under) disbursements	138,493	(22,777)
Other financing sources (uses), net	(37,000)	37,000
Excess of receipts and other financing sources over disbursements and other financing uses	101,493	14,223
Balances beginning of year	784,509	267,542
Balances end of year	\$ 886,002	281,765

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
397,192	385,814	385,814	11,378
198,780	303,000	303,000	(104,220)
167,324	156,193	175,443	(8,119)
31,284	17,625	19,750	11,534
14,981	46,462	161,811	(146,830)
147,231	126,720	138,743	8,488
365,248	365,150	380,950	(15,702)
110,808	2,300	1,800	109,008
<u>1,432,848</u>	<u>1,403,264</u>	<u>1,567,311</u>	<u>(134,463)</u>
293,736	201,772	228,641	(65,095)
240,426	203,322	243,835	3,409
61,214	43,162	63,595	2,381
123,207	132,061	132,831	9,624
18,624	18,624	18,624	-
180,293	303,000	416,800	236,507
399,632	351,403	421,124	21,492
<u>1,317,132</u>	<u>1,253,344</u>	<u>1,525,450</u>	<u>208,318</u>
115,716	149,920	41,861	73,855
-	-	-	-
115,716	149,920	41,861	73,855
<u>1,052,051</u>	<u>1,084,807</u>	<u>1,084,807</u>	<u>(32,756)</u>
<u>1,167,767</u>	<u>1,234,727</u>	<u>1,126,668</u>	<u>41,099</u>

City of Blue Grass

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$272,106. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the public safety function.

Other Supplementary Information

City of Blue Grass

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

As of and for the year ended June 30, 2007

	Special Revenue	
	Employee Benefits	Blue Grass Volunteer Fire Department
Receipts:		
Property tax	\$ 64,446	-
Use of money and property	-	253
Miscellaneous	1,379	39,934
Total receipts	65,825	40,187
Disbursements:		
Operating:		
Public safety	40,430	68,347
Public works	16,773	-
General government	15,767	-
Debt service	-	-
Capital projects	-	-
Total disbursements	72,970	68,347
Excess (deficiency) of receipts over (under) disbursements	(7,145)	(28,160)
Other financing sources:		
Operating transfers in	-	-
Net change in cash balances	(7,145)	(28,160)
Cash balances beginning of year	35,441	41,633
Cash balances end of year	\$ 28,296	13,473
Cash Basis Fund Balances		
Reserved for debt service	\$ -	-
Unreserved:		
Special revenue funds	28,296	13,473
Capital projects fund	-	-
Total cash basis fund balances	\$ 28,296	13,473

See accompanying independent auditor's report.

	Capital Projects	
Debt Service	Public Safety Building	Total
18,576	-	83,022
-	2,267	2,520
-	18,218	59,531
18,576	20,485	145,073
-	-	108,777
-	-	16,773
-	-	15,767
18,624	-	18,624
-	16,290	16,290
18,624	16,290	176,231
(48)	4,195	(31,158)
-	50,000	50,000
(48)	54,195	18,842
7,456	23,907	108,437
7,408	78,102	127,279
7,408	-	7,408
-	-	41,769
-	78,102	78,102
7,408	78,102	127,279

City of Blue Grass
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Storm sewer improvement	Nov 15, 2000	4.40%	\$ 231,000
Revenue capital loan notes:			
Water	Dec 20, 2004	3.50%	\$ 209,614
Loan agreements:			
Utility tractor	Jul 16, 2002	3.80%	\$ 24,000
Dump truck	Dec 20, 2005	3.75	50,029
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
196,000	10,000	186,000	8,624
151,806	29,343	122,463	5,314
10,424	5,148	5,276	352
47,805	4,155	43,650	1,845
\$ 58,229	9,303	48,926	2,197

City of Blue Grass



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited 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 Blue Grass, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 14, 2008. 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, 2006. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Blue Grass' 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 Blue Grass' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Blue Grass' 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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Blue Grass' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Blue Grass' financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Blue Grass' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B) and (C) are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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.

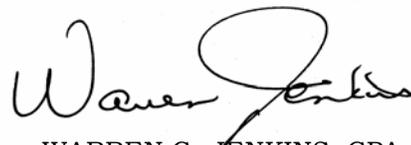
The City of Blue Grass' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

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 Blue Grass and other parties to whom the City 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 Blue Grass 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

May 14, 2008

City of Blue Grass

City of Blue Grass

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

For the Blue Grass Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – check writing, approval, posting and reconciling.
- (3) Cash – handling and recording cash and preparing bank reconciliations.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Blue Grass Volunteer Fire Department should review their control procedures to obtain the maximum internal control possible under the circumstances. The City and the Volunteer Fire Department should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such independent reviews should be performed by an independent individual(s) and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – We feel every step has been taken in order to control the segregation of duties due to the limited number of staff that the City currently has employed. Reports generated from the CMS software allows us the control to balance on a monthly basis. The City Clerk generates a monthly Clerk's Report that also is balanced to the CMS reports on a monthly basis and is approved by the City Council. The City will begin to have the Mayor and a Council member sign off on the Clerk's Report monthly. We feel that this balancing system is very thorough. For the Blue Grass Volunteer Fire Department, the City will discuss the segregation of duties with the Fire Department and find an alternate solution of their control procedures.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Although all financial information is available, the City did not prepare monthly utility billings, collections and delinquent account reconciliations throughout the year and a delinquent accounts listing was not prepared.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations, monitor delinquencies and initial and date approval on each month's reconciliation.

City of Blue Grass

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Year ended June 30, 2007

Response – Currently, the Utility Billing Clerk prepares a monthly delinquency report which is reviewed by both the City Clerk and Mayor. Since this requirement and/or recommendation has never been brought to our attention, the City Clerk will generate a report based on your recommendation and have the report approved by the City Council. The report will also require a signature from both the Mayor and a Council member on a monthly basis.

Conclusion – Response accepted.

- (C) Records of Accounts/Separately Maintained Records – The Blue Grass Volunteer Fire Department maintains bank accounts separate from the City Clerk’s accounting records. The transactions and resulting balances of these accounts were not reported to the City Council each month and were not recorded in the City Clerk’s accounting records. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose.”

Additionally, prenumbered receipts were not issued. Also, the accounting records did not include classification of receipts or disbursements by source and function, respectively. Also, only one signature is required to validate fire department checks and supporting documentation for disbursements was not always available to support fire department disbursements.

Recommendation – The Blue Grass Volunteer Fire Department financial transactions and balances should be included in the Clerk’s monthly financial reports. Internal control could be strengthened and operating efficiency could be increased by integrating the accounts with the City’s accounting records.

Prenumbered receipts should be issued for all collections. The accounting records should include the classification of receipts and disbursements by source and function, respectively.

Checks should be signed by the preparer and then provided to an independent individual for review and counter signature to provide control over disbursements. Original invoices and other supporting should be available and retained by the department to support all department disbursements.

Response – The City will assist the clerk/treasurer of the Fire Department and Fire Chief on requiring a second signature on their checks and assist them with a prenumbered receipt book. We will also give them assistance in filing invoices and other supporting documentation to keep a more accurate accounting system.

Conclusion – Response accepted.

- (D) Electronic Data Processing Systems – The City does not have written policies for:
- requiring password changes because software does not require the user to change log-in/passwords periodically.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2007

- requiring a timeout and/or logoff function or a screensaver password to protect a terminal if left unattended.

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 computer-based systems. Additionally, a written disaster recovery plan should be developed and kept off site.

Response – The City adopted a resolution establishing a policy regarding the use of e-mail and internet access systems in May of 2004. However, log-in and passwords and/or a timeout or logoff function were not included. The City Clerk currently changes passwords on the main server quarterly and logs in daily. Without this password the other two work stations would not have access to City files. With your recommendations, the City will adopt a resolution to include those requirements.

The City does not have a written disaster plan. However, the City is in the process of constructing a new public safety building which would be considered a shelter if a disaster were to occur at City Hall. The City Clerk currently backs up City files on a daily basis and the back up tape is then taken off site. The City will draft and adopt a disaster recovery plan.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2007

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the public safety 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 – Although the budget was amended, 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 – The City exceeded the amount budgeted in the public safety function primarily due to not including the Blue Grass Volunteer Fire Department activity. Due to the increasing demand of responsibilities within City staff and the City not being able to financially increase City staff, the City amends their budget annually every May as required. The City will take into consideration this requirement. However, the budget will be amended before May 31 every year.

Conclusion – Response acknowledged. Disbursements within each budget function should be monitored throughout the year to control spending and to address needed amendments in a timely manner.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (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 or employees 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 insure 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.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted, except as follows:

The City has not approved a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should approve a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Response – The City currently has no investment policy. An investment policy will be drafted and adopted as recommended.

Conclusion – Response accepted.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2007

- (8) Water Revenue Notes – During the year ended June 30, 2005, the City issued water revenue capital loan notes. The City has complied with the revenue note resolution provisions except the provision requiring “the books and accounts to be audited annually and reported upon not later than 180 days after the end of each fiscal year by an independent auditor.” The City did not cause the books and records to be audited for the fiscal years ended June 30, 2005 and 2006 to be audited.

Recommendation – City officials should review the revenue note resolution and comply with the annual audit requirement.

Response – The City Council, at their April 21, 2008 regular Council meeting, unanimously agreed to conform to the provisions written in the Water Revenue Capital Loan Note issued in December 2004 beginning fiscal year 2007-2008. The City will hire an independent auditor to perform an audit on the City’s revenue note as stated in the Note provisions.

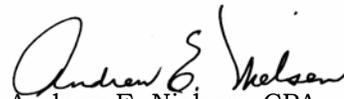
Conclusion – Response accepted.

City of Blue Grass

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
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