



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

June 26, 2008

Contact: Andy Nielsen  
515/281-5834

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

The City 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 for the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,807,418 for the year ended June 30, 2007. The receipts included \$523,353 in property tax, \$780,891 from charges for service, \$190,842 from operating grants, contributions and restricted interest, \$37,399 from capital grants, contributions and restricted interest, \$193,218 from local option sales tax, \$59,683 from unrestricted interest on investments and \$22,032 from other general receipts.

Disbursements for the year totaled \$1,891,156, and included \$454,653 for public works, \$329,395 for culture and recreation and \$288,304 for public safety. Also, disbursements for business type activities totaled \$643,457.

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 BUFFALO**

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

**JUNE 30, 2007**

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**City of Buffalo**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Carson	Mayor	Jan 2010
Mitch Greer	Mayor Pro Tem	Jan 2012
Gina Guizar	Council Member	Jan 2010
Christine Carson	Council Member	Jan 2010
Dana Jo Smith	Council Member	Jan 2010
Judy Hammons	Council Member	Jan 2012
William Bowers	City Clerk	Indefinite
William McCullough	Attorney	Indefinite

**City of Buffalo**



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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 Buffalo, 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 of Buffalo's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effect 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 preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo as of June 30, 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 12, 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 June 11, 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 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

June 11, 2008

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

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The City of Buffalo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 decreased 24.7%, or approximately \$476,000, due primarily to using general obligation refunding bond proceeds held at the beginning of the year to redeem \$430,000 of bonds.
- The cash basis net assets of the City's business type activities decreased by 27.3%, or approximately \$38,000, due primarily to disbursements exceeding receipts in the Water Fund.

### **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 to the City's budget for the year.

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

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and operational results of 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 that 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 and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and electric systems. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

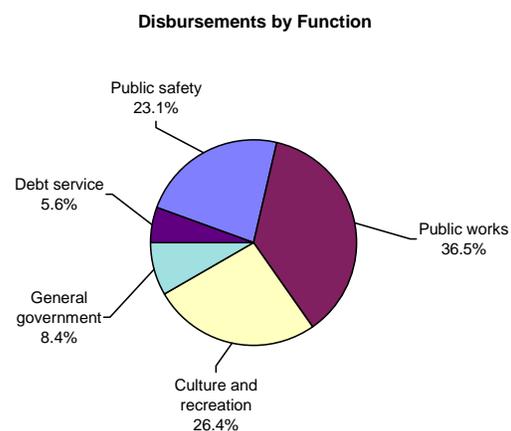
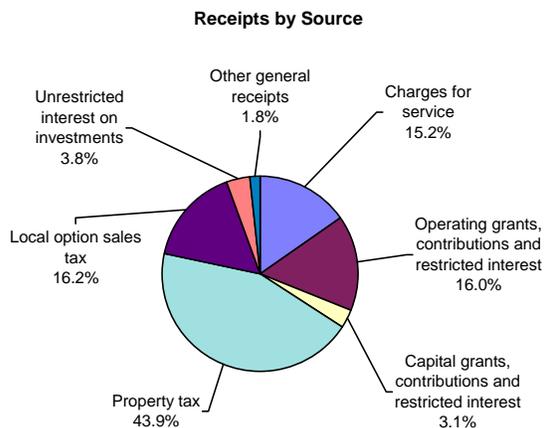
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and electric operations, considered to be major funds of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1,927,974 at June 30, 2006 to \$1,452,229 at June 30, 2007. 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	\$ 181,488
Operating grants, contributions and restricted interest	190,842
Capital grants, contributions and restricted interest	37,399
General receipts:	
Property tax	523,353
Local option sales tax	193,218
Unrestricted interest on investments	44,955
Other general receipts	22,032
<b>Total receipts</b>	<b>1,193,287</b>
Disbursements:	
Public safety	288,304
Public works	454,653
Culture and recreation	329,395
General government	105,105
Debt service	70,242
<b>Total disbursements</b>	<b>1,247,699</b>
Change in cash basis net assets before transfers and bonds refunded	(54,412)
Transfers, net	8,667
Bonds refunded	(430,000)
Change in cash basis net assets	(475,745)
Cash basis net assets beginning of year	1,927,974
Cash basis net assets end of year	<b>\$ 1,452,229</b>



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 62,368
Sewer	124,182
Electric	412,853
General receipts:	
Unrestricted interest on investments	14,728
Total receipts	<u>614,131</u>
Disbursements:	
Water	100,883
Sewer	120,964
Electric	421,610
Total disbursements	<u>643,457</u>
Change in cash basis net assets before transfers	(29,326)
Transfers, net	<u>(8,667)</u>
Change in cash basis net assets	(37,993)
Cash basis net assets beginning of year	<u>139,288</u>
Cash basis net assets end of year	<u><u>\$ 101,295</u></u>

Total business type activities cash balance decreased from \$139,288 at June 30, 2006 to \$101,295 at June 30, 2007. The decrease is due primarily to disbursements exceeding receipts in the Water Fund.

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

As the City of Buffalo completed the year, its governmental funds reported a combined fund balance of \$1,452,229, a decrease of \$475,745 from last year's total of \$1,927,974. 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 decreased \$53,183 from June 30, 2006 to \$902,364 at June 30, 2007. The decrease is a result of an increase in public works disbursements.
- The Special Revenue, Road Use Tax Fund cash balance increased \$17,764 from June 30, 2006 to \$422,053 at June 30, 2007.
- The Special Revenue, Buffalo Community Center Fund cash balance increased \$8,475 from June 30, 2006 to \$23,998 at June 30, 2007. The increase is a result of receipts from bingo, rental income, concessions and other receipts exceeding disbursements.
- The Debt Service Fund cash balance decreased \$445,490 from June 30, 2006 to \$17,538 at June 30, 2007. The decrease is attributable to the redemption of bonds with bond proceeds received in June 2006.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$38,062 to a year-end deficit balance of \$169,719. The decrease was due to disbursements exceeding receipts during the year.
- The Sewer Fund cash balance decreased \$4,996 to a year-end deficit balance of \$357,702.
- The Electric Fund cash balance increased \$5,065 to a year-end balance of \$628,716.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 7, 2007, and resulted in an increase in budgeted disbursements of \$70,000. The amendment increased budgeted disbursements in the public works, culture and recreation and debt service functions while decreasing budgeted disbursements in the public safety, general government and business type activities functions. The amendment was made for curb and gutter design, land preparation for a skateboard park, air conditioning at the Buffalo Activities Center and principal and interest on debt.

Even with the budget amendment, the City exceeded the amounts budgeted in the public works, culture and recreation and debt service functions for the year ended June 30, 2007. The City had sufficient cash balances to absorb these additional disbursements.

The City's actual receipts were \$127,611 more than budgeted. The City received \$96,685 more than budgeted in miscellaneous receipts due to including the Buffalo Community Center which was not included in the City's budget.

## DEBT ADMINISTRATION

At June 30, 2007, the City had \$462,600 in long-term debt outstanding, compared to \$955,402 last year.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation bonds	\$ 405,000	880,000
Capital lease	57,600	75,402
Total	\$ 462,600	955,402

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 is \$462,600 is significantly below its constitutional debt limit of approximately \$4,345,000.

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

The City of Buffalo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. The City's total taxable valuation increased less than 1%, or \$206,597, over the FY2007 level. The FY2008 levy is \$11.103.75 per \$1,000 of taxable valuation, which is the same levy rate used in FY2007.

The FY2008 budget contains total receipts of \$1,704,029 and disbursements of \$1,784,328. This budget is not a significant change from the original FY2007 budget that contained total receipts of \$1,609,807 and disbursements of \$1,794,705.

## **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 William Bowers, City Clerk, 329 Dodge Street, Buffalo, Iowa 52728.

## **Basic Financial Statements**

City of Buffalo

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
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 288,304	18,296	28,780	-
Public works	454,653	14,360	110,099	37,399
Culture and recreation	329,395	147,904	1,963	-
General government	105,105	928	-	-
Debt service	70,242	-	50,000	-
Total governmental activities	<u>1,247,699</u>	<u>181,488</u>	<u>190,842</u>	<u>37,399</u>
Business type activities:				
Water	100,883	62,368	-	-
Sewer	120,964	124,182	-	-
Electric	421,610	412,853	-	-
Total business type activities	<u>643,457</u>	<u>599,403</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,891,156</u>	<u>780,891</u>	<u>190,842</u>	<u>37,399</u>

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
    Debt service  
Local option sales tax  
Unrestricted interest on investments  
Miscellaneous  
Transfers  
Bonds refunded  
Total general receipts, transfers and bonds refunded  
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  
    Debt service  
    Cemetery perpetual care  
    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
(241,228)	-	(241,228)
(292,795)	-	(292,795)
(179,528)	-	(179,528)
(104,177)	-	(104,177)
(20,242)	-	(20,242)
<u>(837,970)</u>	<u>-</u>	<u>(837,970)</u>
-	(38,515)	(38,515)
-	3,218	3,218
-	(8,757)	(8,757)
<u>-</u>	<u>(44,054)</u>	<u>(44,054)</u>
<u>(837,970)</u>	<u>(44,054)</u>	<u>(882,024)</u>
518,601	-	518,601
4,752	-	4,752
193,218	-	193,218
44,955	14,728	59,683
22,032	-	22,032
8,667	(8,667)	-
<u>(430,000)</u>	<u>-</u>	<u>(430,000)</u>
<u>362,225</u>	<u>6,061</u>	<u>368,286</u>
(475,745)	(37,993)	(513,738)
<u>1,927,974</u>	<u>139,288</u>	<u>2,067,262</u>
<u>\$ 1,452,229</u>	<u>101,295</u>	<u>1,553,524</u>
\$ 422,053	-	422,053
17,538	-	17,538
81,050	-	81,050
29,224	-	29,224
<u>902,364</u>	<u>101,295</u>	<u>1,003,659</u>
<u>\$ 1,452,229</u>	<u>101,295</u>	<u>1,553,524</u>

City of Buffalo

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	Buffalo Community Center
Receipts:			
Property tax	\$ 518,601	-	-
Other city tax	193,218	-	-
Licenses and permits	13,596	-	-
Use of money and property	72,213	-	111
Intergovernmental	15,751	147,498	-
Charges for service	17,569	-	-
Miscellaneous	27,087	-	118,334
Total receipts	858,035	147,498	118,445
Disbursements:			
Operating:			
Public safety	270,603	-	-
Public works	324,919	129,734	-
Culture and recreation	219,258	-	109,970
General government	105,105	-	-
Debt service	-	-	-
Total disbursements	919,885	129,734	109,970
Excess (deficiency) of receipts over (under) disbursements	(61,850)	17,764	8,475
Other financing sources (uses):			
Operating transfers in	8,667	-	-
Bonds refunded	-	-	-
Total other financing sources (uses)	8,667	-	-
Net change in cash balances	(53,183)	17,764	8,475
Cash balances beginning of year	955,547	404,289	15,523
Cash balances end of year	\$ 902,364	422,053	23,998
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	902,364	-	-
Special revenue funds	-	422,053	23,998
Permanent fund	-	-	-
Total cash basis fund balances	\$ 902,364	422,053	23,998

See notes to financial statements.

Debt Service	Nonmajor	Total
4,752	-	523,353
-	-	193,218
-	-	13,596
-	-	72,324
50,000	-	213,249
-	-	17,569
-	14,557	159,978
54,752	14,557	1,193,287
-	17,701	288,304
-	-	454,653
-	167	329,395
-	-	105,105
70,242	-	70,242
70,242	17,868	1,247,699
(15,490)	(3,311)	(54,412)
-	-	8,667
(430,000)	-	(430,000)
(430,000)	-	(421,333)
(445,490)	(3,311)	(475,745)
463,028	89,587	1,927,974
17,538	86,276	1,452,229
17,538	-	17,538
-	-	902,364
-	5,226	451,277
-	81,050	81,050
17,538	86,276	1,452,229

**Exhibit C**

## City of Buffalo

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	Electric	
Operating receipts:				
Charges for service	\$ 62,368	122,408	408,253	593,029
Miscellaneous	-	1,774	4,600	6,374
Total operating receipts	62,368	124,182	412,853	599,403
Operating disbursements:				
Business type activities	100,883	120,964	421,610	643,457
Excess (deficiency) of operating receipts over (under) operating disbursements	(38,515)	3,218	(8,757)	(44,054)
Non-operating receipts:				
Interest on investments	453	453	13,822	14,728
Excess (deficiency) of receipts over (under) disbursements	(38,062)	3,671	5,065	(29,326)
Operating transfers out	-	(8,667)	-	(8,667)
Net change in cash balances	(38,062)	(4,996)	5,065	(37,993)
Cash balances beginning of year	(131,657)	(352,706)	623,651	139,288
Cash balances end of year	\$ (169,719)	(357,702)	628,716	101,295
<b>Cash Basis Fund Balances</b>				
Reserved for meter deposits	\$ -	-	22,322	22,322
Unreserved	(169,719)	(357,702)	606,394	78,973
Total cash basis fund balances	\$ (169,719)	(357,702)	628,716	101,295

See notes to financial statements.

City of Buffalo

Notes to Financial Statements

June 30, 2007

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

The City of Buffalo is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in 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 funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Buffalo Community Center Fund is used to account for activity relating to the operation of the Buffalo Community Center.

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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 amounts budgeted in the public works, culture and recreation and debt service functions.

**(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 No. 3, as amended by Statement No. 40.

**(3) Bonds Payable**

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

Year Ending June 30,	Principal	Interest	Total
2008	\$ 40,000	16,483	56,483
2009	40,000	14,962	54,962
2010	40,000	13,403	53,403
2011	40,000	11,842	51,842
2012	45,000	10,203	55,203
2013-2016	200,000	21,670	221,670
Total	\$ 405,000	88,563	493,563

In June 2006, the City issued \$450,000 of general obligation refunding bonds. In August 2006, the City used the proceeds of the bonds to retire the outstanding balance of the 1996 general obligation water bonds of \$430,000.

The City refunded the bonds to reduce its total debt service payments by \$27,331 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$22,627.

**(4) Capital Lease Purchase Agreement**

The City of Buffalo leases a fire truck under a capital lease. The total cost of the asset acquired under the capital lease is \$200,194. The following is a schedule of the future minimum lease payments, including interest at 3.78% per annum, and the present value of the net minimum lease payments under the capital lease in effect at June 30, 2007:

Year Ending June 30,	Total
2008	\$ 20,689
2009	20,689
2010	20,689
Total minimum lease payments	62,067
Less amount representing interest	(4,467)
Present value of net minimum lease payments	\$ 57,600

Payments under the agreement were \$20,689 during the year ended June 30, 2007.

**(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 \$28,558, equal to the required contribution for the year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and personal day 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, sick leave and personal day hours payable to employees at June 30, 2007, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 14,000
Sick leave	37,000
Personal	5,000
Total	<u>\$ 56,000</u>

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

**(7) Interfund Transfers/Loan**

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

Transfer to	Transfer from	Amount
General	Enterprise: Sewer	<u>\$ 8,667</u>

During the year ended June 30, 1991, the City loaned \$205,176 from the General Fund to the Enterprise, Sewer Fund. The City makes annual transfers to repay the loan. At June 30, 2007, the balance of the loan is \$75,171.

**(8) Community Health Bonds**

During the year ended June 30, 2007, the City issued \$2,500,000 of facility revenue bonds for Community Health Care, Inc., under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the revenue generated for charges for services and the bond principal and interest do not constitute liabilities of the City.

**(9) 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.

**(10) Deficit Balance**

At June 30, 2007, the Enterprise, Water and Sewer Funds had deficit balances of \$169,716 and \$357,702, respectively. The deficit balances were a result of operating costs exceeding receipts.

**(11) Subsequent Event**

In March 2008, the City entered into a contract for a curb and gutter project for \$302,152. The project will be funded by the Special Revenue, Road Use Tax Fund.

**(12) 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.

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 523,353	-	523,353
Other city tax	193,218	-	193,218
Licenses and permits	13,596	-	13,596
Use of money and property	72,324	14,728	87,052
Intergovernmental	213,249	-	213,249
Charges for service	17,569	593,029	610,598
Miscellaneous	159,978	6,374	166,352
Total receipts	<u>1,193,287</u>	<u>614,131</u>	<u>1,807,418</u>
Disbursements:			
Public safety	288,304	-	288,304
Public works	454,653	-	454,653
Culture and recreation	329,395	-	329,395
General government	105,105	-	105,105
Debt service	70,242	-	70,242
Business type activities	-	643,457	643,457
Total disbursements	<u>1,247,699</u>	<u>643,457</u>	<u>1,891,156</u>
Excess (deficiency) of receipts over (under) disbursements	(54,412)	(29,326)	(83,738)
Other financing sources (uses), net	<u>(421,333)</u>	<u>(8,667)</u>	<u>(430,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(475,745)	(37,993)	(513,738)
Balances beginning of year	<u>1,927,974</u>	<u>139,288</u>	<u>2,067,262</u>
Balances end of year	<u>\$ 1,452,229</u>	<u>101,295</u>	<u>1,553,524</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
518,278	518,278	5,075
184,167	184,167	9,051
10,325	10,325	3,271
58,270	128,270	(41,218)
125,700	125,700	87,549
643,400	643,400	(32,802)
69,667	69,667	96,685
<u>1,609,807</u>	<u>1,679,807</u>	<u>127,611</u>
320,651	317,151	28,847
389,687	439,687	(14,966)
195,814	245,814	(83,581)
141,899	120,399	15,294
4,820	64,820	(5,422)
741,834	676,834	33,377
<u>1,794,705</u>	<u>1,864,705</u>	<u>(26,451)</u>
(184,898)	(184,898)	101,160
-	-	(430,000)
(184,898)	(184,898)	(328,840)
<u>1,392,751</u>	<u>1,392,751</u>	<u>674,511</u>
<u>1,207,853</u>	<u>1,207,853</u>	<u>345,671</u>

City of Buffalo

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund and the 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 \$70,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works, culture and recreation and debt service functions.

**Other Supplementary Information**

**City of Buffalo**

## City of Buffalo

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

As of and for the year ended June 30, 2007

	Special Revenue	Permanent	
	Volunteer	Cemetery	
	Fire	Perpetual	
	Department	Care	Total
Receipts:			
Miscellaneous	\$ 13,147	1,410	14,557
Disbursements:			
Operating:			
Public safety	17,701	-	17,701
Culture and recreation	-	167	167
Total disbursements	17,701	167	17,868
Net change in cash balances	(4,554)	1,243	(3,311)
Cash balances beginning of year	9,780	79,807	89,587
Cash balances end of year	\$ 5,226	81,050	86,276
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue fund	\$ 5,226	-	5,226
Permanent fund	-	81,050	81,050
Total cash basis fund balances	\$ 5,226	81,050	86,276

See accompanying independent auditor's report.

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City of Buffalo  
Schedule of Indebtedness  
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Water	Nov 1, 1996	4.80-7.50%	\$ 690,000
Refunding	Jun 2, 2006	3.75-4.250	450,000
Total general obligation bonds			
Capital lease:			
Fire truck	Nov 7, 2002	3.78%	\$ 125,194

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
430,000	-	430,000	-	4,112
450,000	-	45,000	405,000	18,170
<u>\$ 880,000</u>	<u>-</u>	<u>475,000</u>	<u>405,000</u>	<u>22,282</u>
<u>75,402</u>	<u>-</u>	<u>17,802</u>	<u>57,600</u>	<u>2,887</u>

**Schedule 3**

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City of Buffalo  
Bond Maturities  
June 30, 2007

Year Ending June 30,	General Obligation Bonds	
	Refunding	
	Issued Jun 2, 2006	
	Interest Rates	Amount
2008	3.80%	\$ 40,000
2009	3.90	40,000
2010	3.90	40,000
2011	4.10	40,000
2012	4.10	45,000
2013	4.10	45,000
2014	4.10	50,000
2015	4.25	50,000
2016	4.25	55,000
Total		<u>\$ 405,000</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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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 Buffalo, 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 June 11, 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 Buffalo's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Buffalo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Buffalo's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. 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 Buffalo's 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 Buffalo's financial statements that is more than inconsequential will not be prevented or detected by the City of Buffalo'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 Buffalo's 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), (D), (G) and (H) are material weaknesses.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Buffalo's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Buffalo's responses and, accordingly, we express no opinion on them.

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 11, 2008

City of Buffalo

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.

For the City, one of two employees has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – Initiating cash receipt and disbursement functions, handling and recording cash and bank reconciliations.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (5) Utility receipts – billing, collecting, posting and reconciling.
- (6) Disbursements – check preparation, purchasing, check signing and recording.
- (7) Long-term debt – recording, reconciling and performing cash functions.
- (8) Information system (computer usage) – performing all general accounting functions and controlling all data and output.
- (9) Financial reporting – preparing and approving financial reports.

For the Buffalo Community Center, one individual has control over receipts – opening mail, collecting and depositing.

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

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

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

City of Buffalo

Schedule of Findings

Year ended June 30, 2007

Response – Processes will be created to provide an independent review.

Conclusion – Response accepted.

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

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

Response – A policy will be written for the City credit card.

Conclusion – Response accepted.

- (C) Information Systems – The City does not have written policies for:

- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords to be changed at least every 60 to 90 days.
- Requiring password history to be maintained to prevent employees from using the same password.
- Requiring a computer log to determine who recorded a transaction.
- Usage of the internet.

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

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

Response – Policies will be written.

Conclusion – Response accepted.

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – A reconciliation of utility billings, collections and delinquent accounts was not performed.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The reviews should be evidenced by initials or signature of the reviewer and the date of the reviews.

City of Buffalo

Schedule of Findings

Year ended June 30, 2007

Response – A reconciliation will be implemented. The Mayor and Council will continue to monitor delinquencies.

Conclusion – Response accepted.

- (E) 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 staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – A manual will be created.

Conclusion – Response accepted.

- (F) Bank Reconciliation – Although monthly bank to book reconciliations were prepared by the City, the reconciliation did not include the City's investments. In addition, variances between bank and book balances were not investigated and resolved.

Recommendation – Monthly bank to book reconciliations should be prepared for all City bank accounts and investments. Variances should be investigated and resolved in a timely manner.

Response – Investments will be included in the monthly reconciliations and book and bank variances will be resolved.

Conclusion – Response accepted.

- (G) Financial Reporting – The following items related to the City's financial reporting were noted:

- Although the City reports on the cash basis of accounting, the City posted certain disbursements using the accrual basis of accounting. Adjustments were necessary to convert the City's disbursements to a cash basis.
- The City used reserve accounts to set aside funds for future equipment purchases. The amounts set aside in the reserve accounts were included in disbursements and credited to a fund balance reserve while the purchases made from the reserve accounts were adjustments to cash and fund balance reserve. Since the City reports on a cash basis, adjustments were necessary to properly record the cash activity related to the reserve transactions.

City of Buffalo

Schedule of Findings

Year ended June 30, 2007

- The City posted a reimbursement for a portion of the costs of a road repair project as a credit to disbursements rather than a receipt. An adjustment was subsequently made to properly record the reimbursement in receipts.
- The City recorded the final principal and interest payment made on refunded general obligation bonds as an reduction to fund balance. An adjustment was subsequently made to properly record the transaction.
- The City recorded meter deposits and cemetery perpetual care financial transactions directly to fund balance rather than as receipts or disbursements. Adjustments were subsequently made to properly record the transactions.
- The amounts reported as receipts and disbursements in the City's annual financial report did not always agree with the City's accounting records.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded in the City's financial records using the cash basis of accounting and the amounts reported in the annual financial report agree with the City's accounting records.

Response – These deficiencies will be corrected.

Conclusion – Response accepted.

- (H) Disbursements – Disbursements had no evidence of review of supporting documentation, dual signatures are not required on checks and supporting documentation is not canceled.

Recommendation – The City should implement procedures to ensure supporting documentation has evidence of review, dual signatures are required on checks and supporting documentation is canceled to prevent reuse.

Response – Documentation of the review of the support for disbursements will be improved. We will consider requiring dual signatures on checks and will begin canceling all supporting documentation.

Conclusion – Response accepted.

- (I) Transfer – The City transferred \$8,667 from the Enterprise, Water Fund to the General Fund. However, the transfer was not approved by the Council.

Recommendation – The City should approve all transfers between funds and document approval as a part of the minutes record.

Response – All transfers will be made through payables/claims.

Conclusion – Response accepted.

- (J) Records of Accounts/Separately Maintained Accounts – The Buffalo Community Center, Buffalo Volunteer Fire Department and Buffalo Police Department each maintain bank accounts separate from the City Clerk's accounting records. The City Clerk also maintains accounts for Buffalo Days and Disaster Relief separate from the City Clerk's accounting records. The transactions and resulting balances

City of Buffalo

Schedule of Findings

Year ended June 30, 2007

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." However, the financial transactions and the resulting balances of the separately maintained accounts have been included in these financial statements.

Recommendation – The financial transactions and balances of the separately maintained accounts should be included in the Clerk's monthly reports. Internal control could be strengthened and operating efficiency could be increased by integrating the accounts with the City's accounting records.

Response – This will be discussed with Council.

Conclusion – Response accepted.

- (K) Volunteer Fire Department Account – Accounting records are not maintained to account for receipts and disbursements. Invoices and supporting documentation were not retained for disbursements. Prenumbered receipts are not issued for collections. Bank reconciliations are not performed.

Recommendation – The following items should be implemented to improve financial reporting and internal controls:

- A ledger should be maintained of receipts and disbursements by category.
- Invoices should be retained to support all disbursements.
- Prenumbered receipts should be issued for all collections.
- Bank reconciliations should be prepared monthly and reviewed by an independent person.

Response – This will be discussed with Council.

Conclusion – Response accepted.

- (L) Community Center – Supporting documentation was not always retained for disbursements. Although prenumbered bingo cards are sold, the numeric sequence of the cards is not used to calculate the number of cards sold and the amount of sales in order to substantiate the total collected.

Recommendation – Supporting documentation should be retained for all disbursements. The numeric sequence of bingo cards should be used to reconcile sales and collections. A reconciliation form should be maintained documenting the beginning and ending card numbers, number of cards sold, calculated amount of sales and actual collections. The form should be signed by the individual preparing the reconciliation and should be verified and signed by another individual.

Response – This will be discussed with Council.

Conclusion – Response accepted.

City of Buffalo

Schedule of Findings

Year ended June 30, 2007

(M) DARE Account – The City police department maintains a separate savings account identified as the DARE account. The following items were noted regarding the account:

- Although the account name is DARE, the account is not used for DARE activity, but includes police department donations used to fund department expenses.
- A cash withdrawal of \$1,000 was made from the account on December 6, 2006 for the purchase of an AR-15 assault rifle and ammunition. The Department did not retain supporting documentation for the purchase, but we obtained supporting documentation from the vendor. The Police Chief indicated the assault rifle purchase was consistent with other law enforcement agencies in Scott County.
- A cash withdrawal of \$30 was made from the account on December 15, 2006. Supporting documentation was not retained for the purchase. The Police Chief indicated the withdrawal was used to purchase cookies for the Senior Light Tour.

Recommendation – The City should rename the bank account to properly reflect the purpose and use of the account. If disbursements continue to be made from the account, the City should convert the account to a checking account to allow for disbursements to be made by check rather than as cash withdrawals. Supporting documentation should be maintained for all disbursements.

Response – This account will be placed on the City’s books and documentation will be maintained.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Buffalo  
 Schedule of Findings  
 Year ended June 30, 2007

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

- (1) Certified Budget – Disbursements during the year ending June 30, 2007 exceeded the amounts budgeted in the public works, culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continual appropriation.”

In addition, the disbursements adopted in the City’s budget amendment exceeded the amounts published in the proposed amendment for the public safety and debt service functions. The Department of Management budget instructions indicate the total disbursements can not be greater than the amount published. As a result, the City’s final budgeted disbursements were limited to the amounts published.

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

The City should not adopt disbursements greater than the amount published in accordance with the Department of Management budget instructions established pursuant to Chapter 384.16(3) of the Code of Iowa.

Response – The City will amend the budget in the future, if necessary. The City will not adopt disbursements greater than the amount published.

Conclusion – Response accepted.

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

Paid to	Purpose	Amount
Lamps Flower Shoppe	Flowers for former employee’s funeral	\$ 115
Riefe’s Restaurant	Appreciation dinner	1,448
Hy-Vee	Cake for appreciation dinner	70
Machine Shed	Dinner for Community Center Board	293
Cash	Cookies for Senior Light Tour	30

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

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

City of Buffalo  
Schedule of Findings  
Year ended June 30, 2007

Response – These expenses will be reviewed and appropriate policies written.

Conclusion – Response accepted.

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

Although minutes of Council proceedings were published, they were not always published within fifteen days and the publication did not include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes timely and include a summary of receipts as required.

Response – Minutes are not sent to publication until at least one member of Council has tentatively reviewed them. Secondly, the newspaper requires a week lead time which sometimes is not possible. Every effort will be made to comply with this law.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted, except the City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

Response – A policy will be written.

Conclusion – Response accepted.

- (8) Local Option Sales Tax – The City deposits local option sales tax receipts into the General Fund of the City.

Recommendation – The City should establish a special revenue fund for local option sales tax receipts to aid the City in tracking the receipts, disbursements and balances of local option sales tax collections.

City of Buffalo  
 Schedule of Findings  
 Year ended June 30, 2007

Response – This was corrected when the City converted computer systems in July of 2007.

Conclusion – Response accepted.

- (9) Financial Condition – At June 30, 2007, the following funds had deficit balances as follows:

Fund	Amount
Enterprise:	
Water	\$ 169,719
Sewer	357,702

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response – This will be discussed with Council.

Conclusion – Response accepted.

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

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

Response – The report will be filed as required.

Conclusion – Response accepted.

- (11) 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 the actual cancelled checks or retain cancelled checks through electronic image.

Recommendation – Since the City does not received cancelled checks, the City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will work with the bank to meet this requirement.

Conclusion – Response accepted.

City of Buffalo

Schedule of Findings

Year ended June 30, 2007

- (12) Interest Allocation – The City did not credit interest to the Debt Service Fund as required by Chapter 12C.9 of the Code of Iowa.

Recommendation – Interest should be credited to the Debt Service Fund as required.

Response – The Debt Service Fund is not funded until the end of the fiscal year (payment from the Landfill in May). The tax levy does not cover the interest payment due in December.

Conclusion – Response acknowledged. The City should allocate interest to the Debt Service Fund as required.

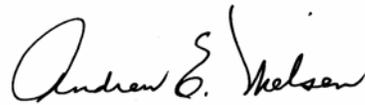
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City of Buffalo

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Billie Jo Heth, Senior Auditor  
Michael J. Hackett, Staff 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 a distinct "E".

Andrew E. Nielsen, CPA  
Deputy Auditor of State