



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

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FOR RELEASE \_\_\_\_\_ August 1, 2003 \_\_\_\_\_ 515/281-5515

Auditor of State David A. Vaudt today released an audit report on the City of Blairstown, Iowa for the years ended June 30, 2002 and June 30, 2001. The audit was requested by the City as a result of federal funds received by the city.

The City's receipts totaled \$822,610 for the year ended June 30, 2002, and included \$94,279 in property tax, \$92,097 from tax increment financing collections, \$86,454 from the state, and \$9,783 from interest on investments. The City also received \$657,642 in proceeds from general obligation and water revenue bonds that are reported as other financing sources. Receipts totaled \$660,858 for the year ended June 30, 2001, and included \$90,548 in property tax, \$81,246 from tax increment financing collections, \$93,512 from the state, and \$10,529 from interest on investments. The City also received \$414,342 in proceeds from general obligation bonds and \$225,000 in proceeds from sewer revenue notes that are reported as other financing sources.

Disbursements for the year ended June 30, 2002 totaled \$1,161,023, and included \$93,783 for community protection, \$64,414 for human development, \$968,068 for home and community environment and \$34,758 for policy and administration. Disbursements for the year ended June 30, 2001 totaled \$1,110,905, and included \$212,699 for community protection, \$55,124 for human development, \$807,528 for home and community environment and \$35,554 for policy and administration.

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

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

City officials have responded to each item in the report and stated that corrective action is being taken.

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

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**CITY OF BLAIRSTOWN**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEARS ENDED JUNE 30, 2002 AND 2001**

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**City of Blaiirstown**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>June 30, 2002</b>		
Jay Lieb	Mayor	Jan 2004
James Arndt (Appointed)	Council Member	Nov 2003
Melanie Long (Appointed)	Council Member	Nov 2003
Tami Fisher	Council Member	Jan 2006
Terry Gewecke	Council Member	Jan 2006
Kelly Emanuel	Council Member	Jan 2006
Brenda Brenneman	Clerk	Indefinite
John C. Wagner	Attorney	Indefinite
<b>June 30, 2001</b>		
Rodney Kubichek	Mayor	Jan 2002
Pam Gorsch	Council Member	Jan 2002
Jason Rabe	Council Member	Jan 2002
Peggy Rabe	Council Member	Jan 2002
Jay Lieb	Council Member	Resigned
Joel Thys	Council Member	Resigned
Brenda Brenneman	Clerk	Indefinite
John C. Wagner	Attorney	Indefinite

**City of Blirstown**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Blairstown, Iowa, as of and for the two years ended June 30, 2002. These financial statements are the responsibility of the City of Blairstown's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. 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, 2000.

As described in note 9, certain Volunteer Fire Department, Library and Athletic Association funds have not been included in the audit report for the years ended June 30, 2002 and June 30, 2001 since these funds have not been accounted for or reported by the City.

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, 2000 and the omission of certain Volunteer Fire Department, Library and Athletic Association funds, as discussed in the preceding two paragraphs, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Blairstown as of and for the two years ended June 30, 2002, and its indebtedness at June 30, 2002 and June 30, 2001, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 8, 2003 on our consideration of the City of Blairstown's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the 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, 2000 and the omission of certain Volunteer Fire Department, Library and Athletic Association funds, as discussed in the third and fourth paragraphs, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 8, 2003

## **Financial Statements**



**Exhibit A**

City of Blairstown  
 Combined Statement of Cash Transactions

All Fund Types

Year ended June 30, 2002

	Governmental Fund Types			Proprietary Fund Type Enterprise	Total (Memorandum Only)
	General	Special Revenue	Debt Service		
Receipts:					
Property tax	\$ 94,279	-	-	-	94,279
Tax increment financing collections	-	-	92,097	-	92,097
Licenses and permits	2,481	-	-	-	2,481
Use of money and property	16,331	1,327	-	-	17,658
Intergovernmental	31,827	54,627	-	-	86,454
Charges for service	38,290	-	-	257,938	296,228
Miscellaneous	49,768	170,696	-	12,949	233,413
Total receipts	232,976	226,650	92,097	270,887	822,610
Disbursements:					
Community Protection Program	93,783	-	-	-	93,783
Human Development Program	64,414	-	-	-	64,414
Home and Community Environment Program	-	158,280	20,400	789,388	968,068
Policy and Administration Program	34,758	-	-	-	34,758
Total disbursements	192,955	158,280	20,400	789,388	1,161,023
Excess (deficiency) of receipts over (under) disbursements	40,021	68,370	71,697	(518,501)	(338,413)
Other financing sources:					
Proceeds from general obligation drinking water bonds	-	-	-	44,572	44,572
Proceeds from water revenue bonds	-	-	-	613,070	613,070
Total other financing sources	-	-	-	657,642	657,642
Excess of receipts and other financing sources over disbursements	40,021	68,370	71,697	139,141	319,229
Balance beginning of year	(48,799)	66,532	215,426	223,891	457,050
Balance end of year	\$ (8,778)	134,902	287,123	363,032	776,279

See notes to financial statements.

City of Blainstown  
 Combined Statement of Cash Transactions  
 All Fund Types  
 Year ended June 30, 2001

	Governmental Fund Types			Proprietary	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Fund Type Enterprise	
<b>Receipts:</b>					
Property tax	\$ 90,548	-	-	-	90,548
Tax increment financing collections	-	-	81,246	-	81,246
Licenses and permits	2,616	-	-	-	2,616
Use of money and property	20,674	710	-	-	21,384
Intergovernmental	39,389	54,123	-	-	93,512
Charges for service	43,551	-	-	246,859	290,410
Miscellaneous	42,482	27,805	-	10,855	81,142
<b>Total receipts</b>	<b>239,260</b>	<b>82,638</b>	<b>81,246</b>	<b>257,714</b>	<b>660,858</b>
<b>Disbursements:</b>					
Community Protection Program	212,699	-	-	-	212,699
Human Development Program	55,124	-	-	-	55,124
Home and Community Environment Program	-	104,649	47,714	655,165	807,528
Policy and Administration Program	35,554	-	-	-	35,554
<b>Total disbursements</b>	<b>303,377</b>	<b>104,649</b>	<b>47,714</b>	<b>655,165</b>	<b>1,110,905</b>
Excess (deficiency) of receipts over (under) disbursements	(64,117)	(22,011)	33,532	(397,451)	(450,047)
<b>Other financing sources (uses):</b>					
Proceeds from general obligation ambulance notes	25,000	-	-	-	25,000
Proceeds from sewer revenue bonds	-	-	-	225,000	225,000
Proceeds from general obligation drinking water bonds (net of initiation fees of \$13,440)	-	-	-	414,342	414,342
Operating transfers in	14,000	-	-	-	14,000
Operating transfers out	-	-	(14,000)	-	(14,000)
<b>Total other financing sources (uses)</b>	<b>39,000</b>	<b>-</b>	<b>(14,000)</b>	<b>639,342</b>	<b>664,342</b>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(25,117)	(22,011)	19,532	241,891	214,295
Balance beginning of year	(23,682)	88,543	195,894	(18,000)	242,755
Balance end of year	\$ (48,799)	66,532	215,426	223,891	457,050

See notes to financial statements.

**Exhibit C**

## City of Blairstown

## Comparison of Receipts, Disbursements and Changes in Balances –

## Actual to Budget

Year ended June 30, 2002

	Actual	Less Funds Not Required to be Budgeted	Net	Budget	Variance Favorable (Unfavorable)	Net as % of Budget
<b>Receipts:</b>						
Property tax	\$ 94,279	-	94,279	93,080	1,199	101%
Tax increment financing collections	92,097	-	92,097	87,252	4,845	106%
Licenses and permits	2,481	-	2,481	2,025	456	123%
Use of money and property	17,658	1,327	16,331	21,500	(5,169)	76%
Intergovernmental	86,454	-	86,454	89,902	(3,448)	96%
Charges for service	296,228	-	296,228	267,000	29,228	111%
Miscellaneous	233,413	170,696	62,717	12,400	50,317	506%
Total receipts	822,610	172,023	650,587	573,159	77,428	114%
<b>Disbursements:</b>						
Community Protection Program	93,783	-	93,783	104,063	10,280	90%
Human Development Program	64,414	-	64,414	46,676	(17,738)	138%
Home and Community Environment Program	968,068	27,657	940,411	319,804	(620,607)	294%
Policy and Administration Program	34,758	-	34,758	102,616	67,858	34%
Total disbursements	1,161,023	27,657	1,133,366	573,159	(560,207)	198%
Excess (deficiency) of receipts over (under) disbursements	(338,413)	144,366	(482,779)	-		
Other financing sources, net	657,642	-	657,642	-		
Excess of receipts and other financing sources over disbursements and other financing uses	319,229	144,366	174,863	-		
Balance beginning of year	457,050	30,156	426,894	577,400		
Balance end of year	\$ 776,279	174,522	601,757	577,400		

See notes to financial statements.

City of Blaiirstown

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2001

	Actual	Less Funds Not Required to be Budgeted	Net	Budget	Variance Favorable Unfavorable)	Net as % of Budget
<b>Receipts:</b>						
Property tax	\$ 90,548	-	90,548	89,988	560	101%
Tax increment financing collections	81,246	-	81,246	83,485	(2,239)	97%
Licenses and permits	2,616	-	2,616	2,025	591	129%
Use of money and property	21,384	710	20,674	17,000	3,674	122%
Intergovernmental	93,512	-	93,512	78,350	15,162	119%
Charges for service	290,410	-	290,410	375,882	(85,472)	77%
Miscellaneous	81,142	27,805	53,337	6,800	46,537	784%
Total receipts	660,858	28,515	632,343	653,530	(21,187)	97%
<b>Disbursements:</b>						
Community Protection Program	212,699	-	212,699	88,748	(123,951)	240%
Human Development Program	55,124	-	55,124	41,729	(13,395)	132%
Home and Community Environment Program	807,528	19,880	787,648	485,397	(302,251)	162%
Policy and Administration Program	35,554	-	35,554	37,656	2,102	94%
Total disbursements	1,110,905	19,880	1,091,025	653,530	(437,495)	167%
Excess (deficiency) of receipts over (under) disbursement	(450,047)	8,635	(458,682)	-		
Other financing sources, net	664,342	21,521	642,821	-		
Excess of receipts and other financing sources over disbursements and other financing uses	214,295	30,156	184,139	-		
Balance beginning of year	242,755	-	242,755	224,368		
Balance end of year	\$ 457,050	30,156	426,894	224,368		

See notes to financial statements.

City of Blairstown  
Statement of Indebtedness  
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire equipment	Jan 6, 1998	5.06%	\$ 120,000
Ambulance	Sep 11, 2000	5.60	25,000
			<u>\$ 145,000</u>
Sewer revenue notes	Dec 12, 2000	6.00%	<u>\$ 225,000</u>
General obligation bonds:			
Water	Feb 1, 1992	5.40-7.20%	185,000
Drinking water	Jun 12, 2000	3.53	582,000
			<u>\$ 767,000</u>
Water revenue bonds	Jul 10, 2000	3.53%	<u>\$ 762,000</u>

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
80,445	-	14,541	65,904	4,071
20,000	-	5,000	15,000	1,136
100,445	-	19,541	80,904	5,207
225,000	-	22,948	202,052	13,275
90,000	-	15,000	75,000	5,400
406,782	44,572	21,000	430,354	14,957
496,782	44,572	36,000	505,354	20,357
-	613,070	-	613,070	15,229

City of Blainstown  
Statement of Indebtedness  
Year ended June 30, 2001

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire equipment	Jan 6, 1998	5.06%	\$ 120,000
Ambulance	Sep 11, 2000	5.60	25,000
			<u>\$ 145,000</u>
Sewer revenue notes	Dec 12, 2000	6.00%	<u>\$ 225,000</u>
Revenue bonds:			
Urban renewal tax increment	Dec 12, 1994	6.90%	\$ 55,000
Urban renewal tax increment	Dec 12, 1994	6.50	45,000
Water	Jul 10, 2000	3.53	762,000
			<u>\$ 862,000</u>
General obligation bonds:			
Water	Feb 1, 1992	5.40-7.20%	\$ 185,000
Drinking water	Jun 12, 2000	3.53	582,000
			<u>\$ 767,000</u>
Loans:			
Iowa Community and Rural Development	Jul 21, 1989	3.00%	<u>\$ 54,609</u>

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
94,286	-	13,841	80,445	4,771
-	25,000	5,000	20,000	1,022
94,286	25,000	18,841	100,445	5,793
-	225,000	-	225,000	-
12,281	-	12,281	-	414
12,961	-	12,961	-	788
-	-	-	-	-
25,242	-	25,242	-	1,202
105,000	-	15,000	90,000	6,270
-	427,782	21,000	406,782	1,972
105,000	427,782	36,000	496,782	8,242
6,215	-	6,215	-	186



City of Blairstown

Notes to Financial Statements

June 30, 2002 and 2001

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

The City of Blairstown is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1862 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

Except as explained in note 9, for financial reporting purposes, the City of Blairstown has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Blairstown (the primary government) and a component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Benton County Assessor's Conference Board and the Benton County Regional Service Agency.

B. Fund Accounting

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

Governmental Funds

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

All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid through other funds.

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

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

Proprietary Funds

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

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

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

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2002 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.

**(3) Bonds Payable**

At June 30, 2002, annual debt service requirements to maturity for the general obligation notes and bonds and revenue notes for which repayment schedules have been adopted are as follows:

Year Ending June 30,	General Obligation Notes								
	Fire Equipment				Ambulance			Total	
	Issued Jan 6, 1998				Issued Sep 11, 2000				
	Interest		Principal		Interest		Principal		
Rates	Principal	Interest	Rates	Principal	Interest	Principal	Interest		
2003	5.06%	\$ 15,277	3,335	5.60%	\$ 5,000	852	\$ 20,277	4,187	
2004	5.06	16,050	2,562	5.60	5,000	569	21,050	3,131	
2005	5.06	16,862	1,750	5.60	5,000	284	21,862	2,034	
2006	5.06	17,715	896	-	-	-	17,715	896	
2007	-	-	-	-	-	-	-	-	
2008	-	-	-	-	-	-	-	-	
2009	-	-	-	-	-	-	-	-	
Total		\$ 65,904	8,543		\$ 15,000	1,705	\$ 80,904	10,248	

Year Ending June 30,	General Obligation Bonds				Revenue Notes		
	Water				Sewer		
	Issued Feb 1, 1992				Issued Dec 12, 2000		
	Interest		Principal		Interest		Principal
Rates	Principal	Interest	Rates	Principal	Interest	Principal	
2003	6.00%	\$ 15,000	4,500	6.00%	\$ 23,932	12,291	
2004	6.00	15,000	3,600	6.00	25,387	10,836	
2005	6.00	15,000	2,700	6.00	26,906	9,317	
2006	6.00	15,000	1,800	6.00	28,569	7,654	
2007	6.00	15,000	900	6.00	30,307	5,917	
2008	-	-	-	6.00	32,150	4,073	
2009	-	-	-	6.00	34,801	2,123	
		\$ 75,000	13,500		\$ 202,052	52,211	

On June 12, 2000, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$582,000 of general obligation drinking water bonds with interest at 3.53% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction improvement and extensions to the municipal waterworks system. The City will receive disbursements from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2002, the City had drawn \$472,354 of the \$582,000 authorized, and had repaid \$42,000. Wells Fargo Bank Iowa, N.A. has the remaining \$109,646 held in trust which the City will request as the project progresses. Since the City is still drawing funds on the general obligation drinking water bonds with a June 30, 2002 balance of \$430,354, a formal repayment schedule has not yet been adopted for that debt.

On July 10, 2000, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$762,000 of water revenue bonds with interest at 3.53% per annum. The bonds were issued pursuant to the provisions of Chapter 455B.291 of the Code of Iowa for the purpose of paying the costs of constructing drinking water treatment facilities. At June 30, 2002, the City had drawn \$613,070 of the \$762,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$148,930 held in trust which the City will request as the project progresses. Since the City is still drawing funds on the water revenue bonds with a June 30, 2002 balance of \$613,070, a formal repayment schedule has not yet been adopted for that debt.

An initiation fee of 1% of the combined authorized borrowing for the general obligation drinking water bonds and the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the proceeds of the general obligation drinking water bonds, the first proceeds drawn by the City.

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

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

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

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

#### **(4) Pension and Retirement Benefits**

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

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

**(5) Risk Management**

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

**(6) Deficit Balances**

The City had General Fund deficits at June 30, 2002 and 2001 of \$8,778 and \$48,799, respectively. The Special Revenue, Road Use Tax Fund had a deficit balance of \$39,620 at June 30, 2002.

**(7) Budget Overexpenditures**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002, disbursements in the Human Development and Home and Community Environment Programs exceeded the amounts budgeted. During the year ended June 30, 2001, disbursements in the Community Protection, Human Development and Home and Community Environment Programs exceeded the amounts budgeted.

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$12,428 during the year ended June 30, 2002 and \$7,772 during the year ended June 30, 2001.

**(9) Volunteer Fire Department, Library and Athletic Association**

As described in finding II-E-02, the City accounts for the transactions of the Volunteer Fire Department and Library in the City's General Fund. However, the Volunteer Fire Department also has a separate checking account with a June 30, 2002 balance of \$4,430 and the Library has a savings account with a June 30, 2002 balance of \$2,645. Also, the City has an Athletic Association that has a separate checking account with a June 30, 2002 balance of \$9,229. These checking accounts balances have not been accounted for or reported by the City or in these financial statements.

**Supplemental Information**

**Schedule 1**

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City of Blainstown  
Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2002

Receipts:	
Property tax	\$ 94,279
Licenses and permits	2,481
Use of money and property:	
Interest on investments	8,456
Rent	7,875
	<u>16,331</u>
Intergovernmental:	
State allocation	9,996
Bank franchise tax	7,592
County library	5,100
Fire contracts	9,139
	<u>31,827</u>
Charges for service:	
Ambulance fees	38,290
Miscellaneous:	
Ambulance donations	5,274
Library donations	4,575
Fines and penalties	39,919
	<u>49,768</u>
Total receipts	<u>232,976</u>
Disbursements:	
Community Protection Program:	
Police:	
Contractual services	14,040
Fire:	
Commodities	14,850
Capital outlay	2,589
Debt service:	
Principal redeemed	14,541
Interest paid	4,071
	<u>36,051</u>
First Responders:	
Contractual services	4,334
Commodities	17,144
Capital outlay	3,097
Debt service:	
Principal redeemed	5,000
Interest paid	1,136
	<u>30,711</u>
Street lighting	12,981
	<u>93,783</u>

City of Blairstown  
 Schedule of Cash Transactions  
 General Fund  
 Year ended June 30, 2002

Disbursements (continued):	
Human Development Program:	
Library:	
Personal services	17,864
Contractual services	3,044
Commodities	11,503
	<u>32,411</u>
Park:	
Personal services	8,054
Contractual services	4,761
Commodities	9,038
Capital outlay	10,150
	<u>32,003</u>
	<u>64,414</u>
Policy and Administration Program:	
Personal services:	
Mayor	2,723
Clerk	17,920
	<u>20,643</u>
Contractual services:	
Legal fees	1,926
Other	10,141
	<u>12,067</u>
Commodities	2,048
	<u>34,758</u>
Total disbursements	<u>192,955</u>
Excess of receipts over disbursements	40,021
Balance beginning of year	<u>(48,799)</u>
Balance end of year	<u>\$ (8,778)</u>

See accompanying independent auditor's report.



**Schedule 2**

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City of Blirstown  
Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2001

Receipts:	
Property tax	\$ 90,548
Licenses and permits	<u>2,616</u>
Use of money and property:	
Interest on investments	9,819
Rent	<u>10,855</u>
	<u>20,674</u>
Intergovernmental:	
State allocation	10,637
Bank franchise tax	6,230
County library	4,600
Fire contracts	12,250
Ambulance agreements	5,000
Gas tax refund	672
	<u>39,389</u>
Charges for service:	
Ambulance fees	<u>43,551</u>
Miscellaneous:	
Ambulance donations	14,403
Library donations	1,247
Community building donations	12,509
Miscellaneous	14,323
	<u>42,482</u>
Total receipts	<u>239,260</u>
Disbursements:	
Community Protection Program:	
Police:	
Contractual services	<u>14,040</u>
Fire:	
Commodities	19,339
Capital outlay	3,801
Debt service:	
Principal redeemed	13,841
Interest paid	4,771
	<u>41,752</u>

City of Blairstown  
 Schedule of Cash Transactions  
 General Fund  
 Year ended June 30, 2001

## Disbursements (continued):

## Community Protection Program :

## First responders:

Contractual services	3,550
Commodities	19,424
Capital outlay	92,019
Debt service:	
Principal redeemed	5,000
Interest paid	1,022
	<u>121,015</u>

## Community building:

Contractual	3,445
Contributions for building remitted to Foundation	19,331
	<u>22,776</u>

## Street lighting

13,116
<u>212,699</u>

## Human Development Program :

## Library:

Personal services	16,760
Contractual services	3,815
Commodities	11,062
Capital outlay	499
	<u>32,136</u>

## Park:

Personal services	8,200
Contractual services	3,646
Commodities	11,142
	<u>22,988</u>
	<u>55,124</u>

## Policy and Administration Program :

## Personal services:

Mayor	2,527
Clerk	17,001
	<u>19,528</u>

## Contractual services:

Legal fees	3,450
Other	5,434
	<u>8,884</u>

## Commodities

7,142
<u>35,554</u>

## Total disbursements

<u>303,377</u>
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**Schedule 2**

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City of Blaiirstown  
Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2001

Deficiency of receipts under disbursements	<u>(64,117)</u>
Other financing sources:	
Proceeds from general obligation ambulance notes	25,000
Operating transfers in:	
Debt Service	<u>14,000</u>
Total other financing sources	<u>39,000</u>
Deficiency of receipts and other financing sources under disbursements	(25,117)
Balance beginning of year	<u>(23,682)</u>
Balance end of year	<u>\$ (48,799)</u>

See accompanying independent auditor's report.

City of Blairstown  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2002

	Road Use Tax	Blairstown Community Foundation	Total
Receipts:			
Use of money and property:			
Interest on investments	\$ -	1,327	1,327
Intergovernmental:			
Road use tax allocation	54,627	-	54,627
Miscellaneous:			
Donations and contributions	-	170,696	170,696
Total receipts	<u>54,627</u>	<u>172,023</u>	<u>226,650</u>
Disbursements:			
Home and Community Environment Program:			
Personal services	31,249	-	31,249
Contractual services	68,025	27,657	95,682
Commodities	31,349	-	31,349
Total disbursements	<u>130,623</u>	<u>27,657</u>	<u>158,280</u>
Excess (deficiency) of receipts over (under) disbursements	(75,996)	144,366	68,370
Balance beginning of year	36,376	30,156	66,532
Balance end of year	<u>\$ (39,620)</u>	<u>174,522</u>	<u>134,902</u>

See accompanying independent auditor's report.

**Schedule 4**

City of Blairstown  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2001

	Road Use Tax	Blairstown Community Foundation	Total
Receipts:			
Use of money and property:			
Interest on investments	\$ -	710	710
Intergovernmental:			
Road use tax allocation	54,123	-	54,123
Miscellaneous:			
Donations and contributions	-	8,474	8,474
Contributions for building remitted from General Fund	-	19,331	19,331
	-	27,805	27,805
Total receipts	54,123	28,515	82,638
Disbursements:			
Home and Community Environment Program:			
Personal services	29,434	-	29,434
Contractual services	30,792	19,880	50,672
Commodities	24,543	-	24,543
Total disbursements	84,769	19,880	104,649
Excess (deficiency) of receipts over (under) disbursements	(30,646)	8,635	(22,011)
Balance beginning of year	67,022	21,521	88,543
Balance end of year	\$ 36,376	30,156	66,532

See accompanying independent auditor's report.

City of Blaiirstown  
Schedule of Cash Transactions  
Debt Service Fund  
Year ended June 30, 2002

Receipts:	
Tax increment financing collections	\$ 92,097
	<hr/>
Disbursements:	
Home and Community Environment Program:	
Debt service:	
Principal redeemed	15,000
Interest paid	5,400
Total disbursements	<hr/> 20,400
	<hr/>
Excess of receipts over disbursements	71,697
	<hr/>
Balance beginning of year	215,426
	<hr/>
Balance end of year	<u>\$ 287,123</u>

See accompanying independent auditor's report.

**Schedule 6**

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City of Blairstown  
Schedule of Cash Transactions  
Debt Service Fund  
Year ended June 30, 2001

Receipts:	
Tax increment financing collections	<u>\$ 81,246</u>
Disbursements:	
Home and Community Environment Program:	
Debt service:	
Principal redeemed	40,242
Interest paid	<u>7,472</u>
Total disbursements	<u>47,714</u>
Excess of receipts over disbursements	33,532
Other financing uses:	
Operating transfers out:	
General	<u>(14,000)</u>
Excess of receipts over disbursements and other financing uses	19,532
Balance beginning of year	<u>195,894</u>
Balance end of year	<u><u>\$ 215,426</u></u>

See accompanying independent auditor's report.

City of Blaiirstown  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2002

	Water	Sewer Rental	Solid Waste	Total
Receipts:				
Charges for service:				
Sale of water	\$ 144,760	-	-	144,760
Sewer rental fees	-	72,350	-	72,350
Refuse collection	-	-	40,828	40,828
	<u>144,760</u>	<u>72,350</u>	<u>40,828</u>	<u>257,938</u>
Miscellaneous:				
Customer deposits	1,500	-	-	1,500
Sales tax collected	7,254	-	-	7,254
Late payment penalty	2,786	-	-	2,786
Miscellaneous	1,409	-	-	1,409
	<u>12,949</u>	<u>-</u>	<u>-</u>	<u>12,949</u>
Total receipts	<u>157,709</u>	<u>72,350</u>	<u>40,828</u>	<u>270,887</u>
Disbursements:				
Home and Community Environment Program:				
Personal services	4,922	4,007	-	8,929
Contractual services	10,593	17,155	27,217	54,965
Commodities	20,698	2,542	-	23,240
Capital outlay	558,328	56,517	-	614,845
	<u>594,541</u>	<u>80,221</u>	<u>27,217</u>	<u>701,979</u>
Debt service:				
Principal redeemed	21,000	22,948	-	43,948
Interest paid	30,186	13,275	-	43,461
	<u>51,186</u>	<u>36,223</u>	<u>-</u>	<u>87,409</u>
Total disbursements	<u>645,727</u>	<u>116,444</u>	<u>27,217</u>	<u>789,388</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(488,018)</u>	<u>(44,094)</u>	<u>13,611</u>	<u>(518,501)</u>



**Schedule 7**

City of Blairstown  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2002

	Water	Sewer Rental	Solid Waste	Total
Other financing sources:				
Proceeds from general obligation drinking water bonds	44,572	-	-	44,572
Proceeds from water revenue bonds	613,070	-	-	613,070
Total other financing sources	<u>657,642</u>	<u>-</u>	<u>-</u>	<u>657,642</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	169,624	(44,094)	13,611	139,141
Balance beginning of year	167,686	45,007	11,198	223,891
Balance end of year	<u>\$ 337,310</u>	<u>913</u>	<u>24,809</u>	<u>363,032</u>

See accompanying independent auditor's report.

City of Blairstown  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2001

	Water	Sewer Rental	Solid Waste	Total
<b>Receipts:</b>				
Charges for service:				
Sale of water	\$ 141,504	-	-	141,504
Sewer rental fees	-	66,511	-	66,511
Refuse collection	-	-	38,844	38,844
	<u>141,504</u>	<u>66,511</u>	<u>38,844</u>	<u>246,859</u>
Miscellaneous:				
Customer deposits	1,250	-	-	1,250
Sales tax collected	7,066	-	-	7,066
Late payment penalty	1,916	-	-	1,916
Miscellaneous	623	-	-	623
	<u>10,855</u>	<u>-</u>	<u>-</u>	<u>10,855</u>
Total receipts	<u>152,359</u>	<u>66,511</u>	<u>38,844</u>	<u>257,714</u>
<b>Disbursements:</b>				
Home and Community Environment Program:				
Personal services	4,681	3,741	-	8,422
Contractual services	12,066	11,523	27,646	51,235
Commodities	15,964	1,305	-	17,269
Capital outlay	325,332	223,534	-	548,866
	<u>358,043</u>	<u>240,103</u>	<u>27,646</u>	<u>625,792</u>
Debt service:				
Principal redeemed	21,000	6,215	-	27,215
Interest paid	1,972	186	-	2,158
	<u>22,972</u>	<u>6,401</u>	<u>-</u>	<u>29,373</u>
Total disbursements	<u>381,015</u>	<u>246,504</u>	<u>27,646</u>	<u>655,165</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(228,656)</u>	<u>(179,993)</u>	<u>11,198</u>	<u>(397,451)</u>

**Schedule 8**

City of Blainstown  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2001

	Water	Sewer Rental	Solid Waste	Total
Other financing sources:				
Proceeds from sewer revenue bonds	-	225,000	-	225,000
Proceeds from general obligation drinking water bonds (net of origination fees of \$13,440)	414,342	-	-	414,342
Total other financing sources	414,342	225,000	-	639,342
Excess of receipts and other financing sources over disbursements	185,686	45,007	11,198	241,891
Balance beginning of year	(18,000)	-	-	(18,000)
Balance end of year	\$ 167,686	45,007	11,198	223,891

See accompanying independent auditor's report.

City of Blaiirstown  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2002

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expend- itures
Indirect:			
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water			
State Revolving Fund			
	66.468	FS-96-98-DWSRF-087	<u>\$552,324</u>

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

See accompanying independent auditor's report.

**Schedule 10**

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City of Blainstown  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2001

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expend- itures
Indirect:			
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water			
State Revolving Fund	66.468	FS-96-98-DWSRF-087	<u>\$325,053</u>

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

See accompanying independent auditor’s report.



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STATE OF IOWA

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Blainstown, Iowa, as of and for the two years ended June 30, 2002, and have issued our report thereon dated April 8, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion for the omission of certain Volunteer Fire Department, Library and Athletic Association funds and since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2000.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the two years ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved except for IV-A-02, IV-B-02, IV-C-02, IV-E-02 and IV-G-02.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Blainstown's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Blainstown's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements


in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe that items II-A-02 and II-B-02 are material weaknesses. Prior audit reportable conditions have not been resolved and are reported as items II-A-02, II-B-02, II-C-02, and II-F-02.

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 8, 2003

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



**City of Blirstown**



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

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

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Blainstown, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the two years ended June 30, 2002. The City of Blainstown's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Blainstown's management. Our responsibility is to express an opinion on the City of Blainstown's compliance based on our audit.

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

In our opinion, the City of Blainstown complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the two years ended June 30, 2002.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Blirstown's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-02 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Blirstown and other parties to whom the City of Blirstown may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 8, 2003

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

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

- (a) A qualified opinion was issued on the financial statements, which were prepared in conformity with a comprehensive basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2000 and the omission of certain Volunteer Fire Department, Library and Athletic Association funds.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, that was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Blairstown did not qualify as a low-risk auditee.

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-02 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City one person had control over each of the following areas:

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

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

Response – Segregation of duties were discussed at the April Council meeting and will be implemented in the near future.

Conclusion – Response accepted.

II-B-02 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled.

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

Response – A reconciliation of delinquent accounts will be performed each month and a copy of the delinquent utility report will be given to each Council member at the Council meetings.

Conclusion – Response accepted.

City of Blirstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

II-C-02 Record of Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate, amount of principal and interest received.

Response – An investment transaction record is currently being implemented.

Conclusion – Response accepted.

II-D-02 Unused Checks – Unused checks are not properly safeguarded.

Recommendation – Unused checks should be properly safeguarded.

Response – Unused checks are being locked up as of April 3, 2003.

Conclusion – Response accepted.

II-E-02 Volunteer Fire Department, Library and Athletic Association – The City accounts for the transactions of the Volunteer Fire Department and Library in the City's General Fund. However, the Volunteer Fire Department also has a separate checking account and the Library has a separate savings account that have not been accounted for or reported by the City in the City's financial statements and reports, and these accounts have not been included in the audit report.

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

Recommendation – The City, Volunteer Fire Department, Library and Athletic Association should determine the status of the separate accounts for accountability and reporting purposes. If the Volunteer Fire Department, Library and Athletic Association wish to maintain custody and control over the separate accounts, they would need to establish legally separate Associations from the City, including Articles of Incorporation and by-laws. Legal counsel should be consulted for assistance, as necessary, to resolve this issue.

Response – Legal counsel will be consulted before the option of incorporation is offered to the various departments.

Conclusion – Response accepted.

II-F-02 Disbursements – Although disbursements were approved by the Council, certain items were paid prior to the Council's approval. The City does not have written policies and procedures to authorize certain items to be paid prior to the Council's approval. Also, certain invoices and supporting documentation were not marked paid or canceled to prevent possible duplicate payment.

Recommendation – All City disbursements should be approved by the Council prior to payment with the exception of those specifically allowed by a policy. The City may wish to adopt written policies and procedures to authorize payment of certain bills prior to the Council's approval. Also, all invoices and supporting documentation should be canceled to prevent possible duplicate payments. In addition, all claims for payment should be supported by an invoice or contract.

City of Blirstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

Response – A disbursement policy was discussed at Council meeting and will be implemented soon. All claims and supporting documentation will be canceled to prevent duplicate payments.

Conclusion – Response acknowledged. All claims for payment should be supported by an invoice or contract.

II-G-02 Receipts – Receipts were not issued for collections.

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

Response – Prenumbered receipts were ordered and were implemented on April 8, 2003.

Conclusion – Response accepted.

II-H-02 Ambulance Charges – The City has not established an adequate system to ensure ambulance charges are billed and collected. A listing of accounts receivable is not maintained.

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

Response – New software will be ordered for Ambulance billing to comply with auditors recommendations.

Conclusion – Response accepted.

II-I-02 Financial Condition – The City had General Fund deficits at June 30, 2002 and 2001 of \$8,778 and \$48,799, respectively. The Special Revenue, Road Use Tax Fund had a deficit balance of \$39,620 at June 30, 2002.

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

Response – Clerk will watch more closely to have amounts entered in proper funds. Will do correcting permanent transfer to correct errors from prior years.

Conclusion – Response accepted.

II-J-02 Payroll – Timesheets were not always prepared and/or retained, totaled or signed by the employee. Timesheets that were available did not indicate that they had been approved before the payroll was prepared.

The City does not have a written personnel policy adopted by the Council. Adequate records were not maintained for compensatory time, vacation or sick leave hours.

Recommendation – Timesheets should be prepared and retained to support time worked and should be reviewed by a responsible official. Each timesheet should be reviewed and approved before payroll checks are prepared.

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

The City should adopt a written personnel policy that addresses compensatory time, vacation and sick leave hours.

Response – Payroll timesheets will now be prepared before paychecks will be handed out. An employee policy is currently being implemented.

Conclusion – Response accepted.

II-K-02 Annual Financial Report – The 2002 Annual Finance Report submitted to the state does not accurately reflect the activity recorded in the City’s financial records. In addition, ending balances as reported on the Annual Financial Report are overstated by \$251,318.

Recommendation – The Annual Financial Report should accurately reflect the activity recorded in the City’s financial records. The Fiscal year 2003 Annual Financial Report should reflect accurate beginning balances and ending balances should reconcile to the City’s financial balances.

Response – The financial year-end report due June 30, 2003 will reflect the correct balances.

Conclusion – Response accepted.

II-L-02 Blairstown Community Foundation – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. The following weaknesses exist in the design of internal control of the Blairstown Community Foundation.

- Accounting policies and procedures have not been developed and reduced to a detailed written format.
- Employees handling money are not covered by fidelity bonds.
- Duties are not properly segregated for all accounting duties as one person is responsible for all phases of the transaction due to a limited number of available personnel. The independent person who prepares the initial list of pledge receipts does not compare this initial listing to the deposits.
- Prenumbered receipts were not issued/used and checks issued contained only one signature.

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

- Accounting policies and procedures should be developed and reduced to a detailed written format to help ensure that activities are performed properly and consistently.



City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

- In order to provide proper protection of assets, all employees handling money should be properly bonded.
- To strengthen controls, the initial listing of pledge receipts should be compared to deposit.
- Prenumbered receipts should be issued/used to increase control over collections and checks issued should be signed or countersigned by an independent person after appropriate substantiating documents have been reviewed and approved.

Response – In response to the Auditor’s recommendations and concerns at the audit conducted in March and April of 2003, the Blairstown Community Foundation shall enact the following measures.

- 1) Accounting policies and procedures shall be developed and approved at the next regular meeting of the Blairstown Community Foundation. These policies will include the following:
  - a) The Treasurer of the Foundation shall submit monthly reports to the Foundation Board regarding all monetary transactions, including income, expenses, donations, pledges, etc.
  - b) This information shall be reconciled monthly to bank account statements.
  - c) A second member of the Foundation Board shall review this information to verify correctness and sign that they have done so.
- 2) All Blairstown Community Foundation Board Members are now covered by Errors and Omissions coverage purchased.
- 3) An internal audit of the pledge receipts and their corresponding deposits shall be conducted by James Kullmer and be completed by April 30, 2003. This information will be verified by a second Foundation Board member and presented to the Foundation Board at the next regular meeting.
- 4) A prenumbered receipt book has been purchased and will be used to increase control over collections and pledge receipts. All checks issued by the Blairstown Community Foundation Building Project Fund shall require two signatures, James Kullmer and Steven Meyer, and corresponding documentation shall be retained. Each expense item shall be reviewed and approved by the Foundation Board.

The Blairstown Community Foundation acknowledge a lack of segregated duties due to the limited number of personnel available. By enacting the above measures, it is felt that enough supervision and control has been put in place to alleviate any concerns the Auditor may have.

Conclusion – Response accepted.

City of Blirstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

**CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Fund  
Pass-through Agency Number: FS-96-98-DWSRF-087  
Federal Award Year: 2001  
U.S. Environmental Protection Agency  
Passed through the Iowa Department of Natural Resources**

III-A-02 Cash Management – The Iowa Department of Natural Resources established procedures allowing recipients to receive funds in advance for a designated six week time period. The City requested \$330,000 in October 2001. Funds were not completely disbursed on program purposes until December 2002.

Recommendation and Corrective Action Plan – The City should establish procedures to minimize the time between transfer of federal funds and the payout of funds for program purposes.

Response – The City's Engineer handled all the disbursements for the City.

Conclusion – Response acknowledged. In the future, the City should only request money as needed.

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

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

IV-A-02 Official Depositories – A resolution naming the official depository has not been approved by the City.

Recommendation – The City should approve a written depository resolution detailing the approved bank and the maximum deposit amount as required by Chapter 12C.2 of the Code of Iowa.

Response – Resolution #03-04, naming the depository for the City of Blairstown was read and approved at the April 2003 Council Meeting.

Conclusion – Response accepted.

IV-B-02 Certified Budget – Disbursements during the year ended June 30, 2001 exceeded the amounts budgeted in the Community Protection, Human Development, and Home and Community Environment Programs. Disbursements during the year ended June 30, 2002 exceeded the amounts budgeted in the Human Development and Home and Community Environment Programs. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Budget accounts will be amended as needed.

Conclusion – Response accepted.

IV-C-02 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

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Paid to	Purpose	Amount	
		FY 2001	FY 2002
Steve Metz	Christmas Bonus	\$ 150	150
Brenda Brennerman	Christmas Bonus	100	100
Roger Hall	Christmas Bonus	50	50

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

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

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

Response – The Council will discuss and determine if continuation of these disbursements will be made in the future and if continued, the Council will incorporate and document procedures in the new employee handbook.

Conclusion – Response accepted.

IV-D-02 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-02 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows.

Name, Title, and Business Connection	Transaction Description	Amount
Peggy Rabe, Council Member, Brother-in-law is Owner of Rabe Hardware	Supplies FY 2001	\$ 6,283
Steve Metz, Employee, Brother is Owner of Metz's Outdoor Equipment	Repairs FY 2001 Lawn mower and repair FY 2002, per bid	1,489 5,116

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Rabe Hardware may represent a conflict of interest since total transactions were more than \$2,500 during FY 2001. The transactions with Metz's Outdoor Equipment do not represent a conflict of interest since the FY 2001 transactions were less than \$2,500 and the FY 2002 transactions were entered into through competitive bidding.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will discuss this matter with the City Attorney.

Conclusion – Response accepted.

IV-F-02 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 that coverage is adequate for current operations.

IV-G-02 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

Certain minutes of the City Council meetings were not signed.

The minutes did not document the affirmative roll call vote of at least two-thirds of the Council Members before going into closed session. Also, the specific reason for which the meetings were closed was not identified and documented as required by Chapter 21.5 of the Code of Iowa.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries/compensation in accordance with an Attorney General's opinion dated April 12, 1978.

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

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

Recommendation – Minutes should be signed by the Mayor and City Clerk. Minutes should indicate the vote of each Council member present based upon Chapter 21.5 of the Code of Iowa for closed sessions. The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes and annual salaries as required. Disbursements should be listed by fund including purpose and receipts should be summarized by source as required by Chapter 372.13(6) of the Code of Iowa.

Response – Minutes will be signed each month after approval by the Council. Minutes will also be published within the time required.

The City will comply with Chapter 372.13(6) of the Code of Iowa and publish minutes and gross salaries as required. The vote of each member going into closed session will be included in minutes.

Publishing disbursements by fund was started with the minutes published for the March 2003 Council meeting. Summary of receipts by source will be published for next month's receipts.

Conclusion – Response accepted.

IV-H-02 Deposits and Investments – The City has not approved a written investment policy. Also, the interest rate on certain time certificates of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. Public fund time certificates of deposit, when renewed, should be renewed at a rate of interest which conforms with current rates for public funds on date of renewal. In addition, the City should contact the bank to obtain the appropriate amount of interest.

Response – A written investment policy was read and approved at the April 2003 Council meeting. Interest rates will be questioned when CD's are renewed.

Conclusion – Response acknowledged. The City should contact the bank and obtain any additional interest due to the City.

IV-I-02 City Code of Ordinances – The City has not compiled the City ordinances within the past five years.

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

Response – The City Code is scheduled to be recodified in this next fiscal year.

Conclusion – Response accepted.

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

- IV-J-02 TIF Taxes – The City recorded tax increment financing collections in the Debt Service Fund.

The City has a Debt Service Fund balance of \$287,123 at June 30, 2002.

Also, the City made a transfer of \$14,000 from the Debt Service Fund to the General Fund in fiscal year 2001.

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

The City should investigate the source of the Debt Service Fund balance and, if it is TIF money, the City should consult its bonding attorney to determine the disposition of the Debt Service Fund balance.

Also, the City should determine the purpose of the \$14,000 transfer and, if it is not for a TIF disbursement within the General Fund, the money should be returned to the Debt Service Fund.

Response – A Special Revenue Fund will be set up to handle this situation.

The City of Blairstown will investigate the transfer. It will be transferred back into the Debt Service Fund if nothing is found warranting the initial transfer. Also, we will contact our Bonding Attorney to determine the disposition of the Debt Service Fund balance.

Conclusion – Response accepted.

- IV-K-02 Payment of General Obligation Notes – Principal and interest on fire and ambulance general obligation notes were paid from the General Fund. Chapter 384.4 of the Code of Iowa states in part that moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund.

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

Response – The City will follow this recommendation in the future.

Conclusion – Response accepted.

- IV-L-02 Revenue Bonds and Notes – The City has not established the sinking accounts required by the water and sewer revenue bond and note resolutions.

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

Response – The City will set up these accounts per the Auditors recommendations and transfers will be done.

Conclusion – Response accepted.

City of Blairstown

Schedule of Findings and Questioned Costs

Years ended June 30, 2002 and 2001

IV-M-02 Payment of General Obligation Drinking Water Bonds – Interest on general obligation drinking water bonds was paid from the Enterprise, Water Fund. Chapter 384.24A of the Code of Iowa states in part that moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund.

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

Response – The City will set up a Debt Service Fund and transfers will be done in the future.

Conclusion – Response accepted.

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City of Blirstown

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Pamela L. Brandenburg, Senior Auditor  
Elvir Alicic, Assistant Auditor

Andrew E. Nielsen, CPA  
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