



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE December 12, 2003

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$1,521,834 for the year ended June 30, 2003. The receipts included \$330,823 in property tax, \$496,133 from the state, \$22,067 from the federal government and \$11,881 from interest on investments. The City also received \$24,000 in loan proceeds that are reported as an other financing source.

Disbursements for the year totaled \$1,384,351, and included \$586,979 for business type activities, \$379,092 for public safety and \$245,397 for public works.

The report contains recommendations to the City Council and other City officials. For example, operating procedures should be reviewed to obtain the maximum internal control possible and utility billings, collections and delinquencies should be reconciled. The City has responded favorably to the comments.

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

###

**CITY OF BLUE GRASS**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2003**



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## City of Blue Grass

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul R. Barnes	Mayor	Jan 2004
Bonita Strong	Mayor Pro tem	Jan 2004
Mary Hatfield	Council Member	Jan 2004
Lowell Tennyson	Council Member	Jan 2004
Brinson Kinzer	Council Member	Jan 2006
Bradley Schutte	Council Member	Jan 2006
Ann M. Schmidt	City Clerk/Financial Officer	Indefinite
Roberta Perreault	Assistant City Clerk/Financial Officer	Indefinite
William T. McCullough	Attorney	Indefinite

**City of Blue Grass**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Blue Grass, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Blue Grass' management. Our responsibility is to express an opinion on these financial statements based on our audit.

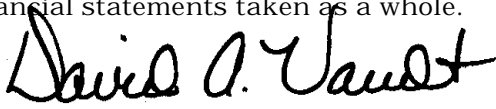
Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United 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, 2002.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Blue Grass as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2003 on our consideration of the City of Blue Grass' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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 6, is presented for the 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, 2002, as discussed in the third preceding paragraph, 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

September 16, 2003



## **Financial Statements**

City of Blue Grass  
 Combined Statement of Cash Transactions  
 All Fund Types  
 Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 223,325	85,263	22,235
Tax increment financing collections	-	21,050	-
Other city tax	4,476	130,461	-
Use of money and property	8,413	-	-
Licenses and permits	21,638	-	-
Intergovernmental	79,115	478,190	-
Charges for service	-	-	-
Miscellaneous	103,262	-	-
Total receipts	<u>440,229</u>	<u>714,964</u>	<u>22,235</u>
Disbursements:			
Public safety	325,292	53,800	-
Public works	109,086	136,311	-
Culture and recreation	16,311	-	-
General government	116,380	12,707	-
Debt service	-	-	22,698
Business type activities	-	-	-
Non-program	-	-	-
Total disbursements	<u>567,069</u>	<u>202,818</u>	<u>22,698</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(126,840)</u>	<u>512,146</u>	<u>(463)</u>

Proprietary Fund Types		Fiduciary	Total
Enterprise	Internal Service	Fund Type Trust	(Memorandum Only)
-	-	-	330,823
-	-	-	21,050
-	-	-	134,937
3,468	-	-	11,881
-	-	-	21,638
-	-	-	557,305
319,577	-	-	319,577
21,361	-	-	124,623
344,406	-	-	1,521,834
-	-	-	379,092
-	-	-	245,397
-	-	-	16,311
-	-	350	129,437
-	-	-	22,698
586,979	-	-	586,979
-	4,437	-	4,437
586,979	4,437	350	1,384,351
(242,573)	(4,437)	(350)	137,483

City of Blue Grass  
 Combined Statement of Cash Transactions  
 All Fund Types  
 Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Other financing sources (uses):			
Loan proceeds	24,000	-	-
Operating transfers in	88,436	10,008	8,366
Operating transfers out	(38,436)	(228,340)	-
Total other financing sources (uses)	<u>74,000</u>	<u>(218,332)</u>	<u>8,366</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(52,840)	293,814	7,903
Balance beginning of year	<u>177,492</u>	<u>353,139</u>	<u>202</u>
Balance end of year	<u>\$ 124,652</u>	<u>646,953</u>	<u>8,105</u>

See notes to financial statements.

Proprietary Fund Types		Fiduciary	Total
Enterprise	Internal Service	Fund Type Trust	(Memorandum Only)
-	-	-	24,000
230,526	-	-	337,336
(70,560)	-	-	(337,336)
159,966	-	-	24,000
(82,607)	(4,437)	(350)	161,483
314,701	8,911	350	854,795
232,094	4,474	-	1,016,278

City of Blue Grass

Comparison of Receipts, Disbursements and Changes in Balances -  
Actual to Budget

Year ended June 30, 2003

	Actual	Less Funds not Required to be Budgeted	Net	Amended Budget
<b>Receipts:</b>				
Property tax	\$ 330,823	-	330,823	376,163
Tax increment financing collections	21,050	-	21,050	20,000
Other city tax	134,937	-	134,937	143,790
Use of money and property	11,881	-	11,881	48,641
Licenses and permits	21,638	-	21,638	15,775
Intergovernmental	557,305	-	557,305	588,911
Charges for service	319,577	-	319,577	337,320
Miscellaneous	124,623	-	124,623	13,024
<b>Total receipts</b>	<b>1,521,834</b>	<b>-</b>	<b>1,521,834</b>	<b>1,543,624</b>
<b>Disbursements:</b>				
Public safety	379,092	-	379,092	383,912
Public works	245,397	-	245,397	246,690
Culture and recreation	16,311	-	16,311	51,041
General government	129,437	-	129,437	121,167
Debt service	22,698	-	22,698	22,698
Capital projects	-	-	-	37,723
Business type activities	586,979	-	586,979	588,240
Non-program	4,437	4,437	-	-
<b>Total disbursements</b>	<b>1,384,351</b>	<b>4,437</b>	<b>1,379,914</b>	<b>1,451,471</b>
Excess (deficiency) of receipts over (under) disbursements	137,483	(4,437)	141,920	92,153
Other financing sources, net	24,000	-	24,000	25,505
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	161,483	(4,437)	165,920	117,658
Balance beginning of year	854,795	8,911	845,884	798,010
<b>Balance end of year</b>	<b>\$ 1,016,278</b>	<b>4,474</b>	<b>1,011,804</b>	<b>915,668</b>

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Net as</u> <u>% of</u> <u>Amended</u> <u>Budget</u>
(45,340)	88%
1,050	105%
(8,853)	94%
(36,760)	24%
5,863	137%
(31,606)	95%
(17,743)	95%
111,599	957%
<u>(21,790)</u>	<u>98%</u>
4,820	99%
1,293	99%
34,730	32%
(8,270)	107%
-	100%
37,723	0%
1,261	100%
-	
<u>71,557</u>	<u>95%</u>

City of Blue Grass  
Statement of Indebtedness  
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan note:			
Storm sewer improvement	Nov 15, 2001	4.40%	\$ 231,000
Revenue capital loan notes:			
Water	Mar 1, 2002	3.35%	\$ 132,500
Loans:			
Police radio equipment	May 21, 1999	0.00%	\$ 23,167
Backhoe	Jun 23, 1999	4.20	21,000
Building	May 10, 2000	4.75	108,730
Fire truck	Feb 5, 2002	3.80	67,008
Fire truck	Jun 21, 2002	3.80	146,864
Utility tractor	Jul 16, 2002	3.80	24,000
Total			
Lease-purchase agreement:			
Copier	Oct 9, 2000	10.71%	\$ 7,551

See notes to financial statements.



Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
231,000	-	7,000	224,000	15,698
132,500	-	33,000	99,500	5,548
7,723	-	7,723	-	-
7,994	-	4,764	3,230	236
102,990	-	11,882	91,108	4,636
67,008	-	67,008	-	1,116
146,864	-	14,311	132,553	5,165
-	24,000	-	24,000	-
\$ 332,579	24,000	105,688	250,891	11,153
5,352	-	1,454	3,898	503

City of Blue Grass

Notes to Financial Statements

June 30, 2003

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

The City of Blue Grass is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1903 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, general government and business type activities.

A. Reporting Entity

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

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

B. 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 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.

Internal Service Fund - The Internal Service Fund is utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to governments, on a cost-reimbursement basis.

#### Fiduciary Funds

Trust Funds - The Trust Funds are utilized to account for monies and properties received and held by the City in a trustee capacity. These include an Expendable Trust Fund.

#### C. Basis of Accounting

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

#### 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 Internal Service 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 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.

#### E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is 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, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation			Water Revenue Notes		
	Storm Sewer Improvement Note			Interest		
	Interest Rates	Principal	Interest	Rates	Principal	Interest
2004	4.40%	\$ 9,000	9,856	3.35%	\$ 33,000	3,333
2005	4.40	9,000	9,460	3.35	33,000	2,227
2006	4.40	10,000	9,064	3.35	33,500	1,122
2007	4.40	10,000	8,624	-	-	-
2008	4.40	10,000	8,184	-	-	-
2009	4.40	11,000	7,744	-	-	-
2010	4.40	11,000	7,260	-	-	-
2011	4.40	12,000	6,776	-	-	-
2012	4.40	12,000	6,248	-	-	-
2013	4.40	12,000	5,720	-	-	-
2014	4.40	13,000	5,192	-	-	-
2015	4.40	13,000	4,620	-	-	-
2016	4.40	14,000	4,048	-	-	-
2017	4.40	14,000	3,432	-	-	-
2018	4.40	15,000	2,816	-	-	-
2019	4.40	16,000	2,156	-	-	-
2020	4.40	16,000	1,452	-	-	-
2021	4.40	17,000	748	-	-	-
Total		\$ 224,000	103,400	\$ 99,500		6,682

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the Water Revenue Sinking Account for the sole purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to the Water Reserve Account until a specified minimum balance has been accumulated. This account is restricted for the purpose of making any note principal and interest payments which the Sinking Account may be unable to make.

**(4) Loan Agreements**

On May 21, 1999, the City entered into an interest free loan agreement for \$23,167 to purchase police radio equipment. The loan requires three annual payments of \$7,723, beginning July 1, 2001. During the year ended June 30, 2003, the final payment of \$7,723 was paid under this agreement.

On June 23, 1999, the City entered into a loan agreement for \$21,000 to purchase a backhoe. The loan requires two equal semiannual installments of \$2,500, followed by seven equal semiannual payments of \$2,314, with the final payment of \$2,292 due June 30, 2004. All payments include interest at 4.20% per annum. During the year ended June 30, 2003, the City paid principal of \$4,764 and interest of \$236. The unpaid principal balance at June 30, 2003 was \$3,230.

On May 10, 2000, the City entered into a loan agreement for \$108,730 to purchase a building for use by public works and the police department. The loan requires monthly payments of \$1,376, with the final payment of \$1,267 due November 18, 2009. All payments include interest at 4.75% per annum. During the year ended June 30, 2003, the City paid principal of \$11,882 and interest of \$4,636. The unpaid balance at June 30, 2003 was \$91,108.

On February 5, 2002, the City entered into a loan agreement for \$67,008 to purchase a fire truck. The loan was paid in full on July 15, 2002, including interest at 3.80% per annum.

On June 21, 2002, the City entered into a loan agreement for \$146,864 to purchase a fire truck. The loan was originally payable on July 21, 2002, including interest at 3.80% per annum. On July 16, 2002, the City paid principal of \$1,487 and interest of \$389, leaving a balance of \$145,377. The City entered into an amended agreement to repay this balance by making nineteen semiannual payments of \$8,800, with the final payment of \$8,396 due June 20, 2012. All payments include interest at 3.80% per annum. During the year ended June 30, 2003, the City paid principal of \$12,824 and interest of \$4,776 on the amended agreement. The unpaid balance at June 30, 2003 totaled \$132,553.

On July 16, 2002, the City entered into a loan agreement for \$24,000 to purchase a utility tractor. Beginning December 1, 2003, the loan will be repaid by the City in nine yearly installments of \$2,750, with the final payment of \$2,697 due June 1, 2008. All payments include interest at 3.80% per annum. The unpaid balance at June 30, 2003 totaled \$24,000.

**(5) Lease Purchase Agreement**

On October 2, 2000, the City entered into an agreement to lease a copier under a non-cancelable capital lease. The following is a schedule of the future minimum rental payments, including interest at 10.71% per annum, and the present value of net minimum rental payments under the agreement in effect at June 30, 2003:

Year Ending June 30,	Amount
2004	\$ 1,957
2005	1,957
2006	489
Total rental payments	4,403
Less amount representing interest	(505)
Present value of net rental payments	<u>\$ 3,898</u>

During the year ended June 30, 2003, \$1,957 was paid under this lease.

**(6) 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 payroll except for police employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$20,040, equal to the required contribution for the year.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation 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 payments payable to employees at June 30, 2003, primarily relating to the General Fund, is \$14,000. This liability has been computed based on rates of pay in effect at June 30, 2003.

**(8) Risk Management**

The City of Blue Grass 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 the fiscal year ended June 30, 2003.

**(9) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the general government function exceeded the amount budgeted.

**(10) Pending Litigation**

The City is currently appealing an unfavorable District Court judgment awarding compensatory damages of \$40,700. The probable outcome of this appeal is unknown.

**City of Blue Grass**



## **Supplemental Information**

**Schedule 1**

City of Blue Grass  
Combining Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

	General	Fire Township	General Reserve	Total
Receipts:				
Property tax	\$ 223,325	-	-	223,325
Other city tax:				
Utility tax replacement excise tax	4,476	-	-	4,476
Use of money and property:				
Interest on investments	7,813	600	-	8,413
Licenses and permits	21,638	-	-	21,638
Intergovernmental:				
State allocation	12,489	-	-	12,489
Bank franchise tax	5,454	-	-	5,454
Township contributions	-	38,134	-	38,134
Public Safety and Community				
Policing grant	17,696	-	4,371	22,067
Miscellaneous	971	-	-	971
	36,610	38,134	4,371	79,115
Miscellaneous:				
Fines and fees	10,760	-	-	10,760
Refunds and reimbursements	76,551	-	3,968	80,519
Miscellaneous	11,983	-	-	11,983
	99,294	-	3,968	103,262
Total receipts	393,156	38,734	8,339	440,229
Disbursements:				
Public safety:				
Police:				
Personal services	105,780	-	-	105,780
Services and commodities	39,537	-	7,345	46,882
Capital outlay	-	-	26,000	26,000
Debt service:				
Principal redeemed	2,970	-	7,723	10,693
Interest paid	1,159	-	-	1,159
	149,446	-	41,068	190,514

City of Blue Grass  
Combining Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

	General	Fire Township	General Reserve	Total
Disbursements (continued):				
Public safety				
Fire:				
Personal services	2,102	-	-	2,102
Services and commodities	43,393	-	-	43,393
Capital outlay	1,505	-	-	1,505
Debt service:				
Principal redeemed	-	81,319	-	81,319
Interest paid	-	6,281	-	6,281
	47,000	87,600	-	134,600
Animal control:				
Contractual services	178	-	-	178
	196,624	87,600	41,068	325,292
Public works:				
Roads, bridges and sidewalks:				
Personal services	28,981	-	-	28,981
Services and commodities	25,537	-	-	25,537
Capital outlay	28,376	-	-	28,376
Debt service:				
Principal redeemed	2,972	-	-	2,972
Interest paid	1,159	-	-	1,159
	87,025	-	-	87,025
Street lighting:				
Services and commodities	18,385	-	-	18,385
Traffic control and safety:				
Personal services	2,726	-	-	2,726
Services and commodities	950	-	-	950
	3,676	-	-	3,676
	109,086	-	-	109,086
Culture and recreation:				
Parks:				
Services and commodities	16,311	-	-	16,311
General government:				
Mayor and council members:				
Personal services	5,180	-	-	5,180

**Schedule 1**

City of Blue Grass  
Combining Schedule of Cash Transactions  
General Fund  
Year ended June 30, 2003

	General	Fire Township	General Reserve	Total
Disbursements (continued):				
General government:				
Clerk and treasurer:				
Personal services	48,283	-	-	48,283
Services and commodities	31,099	-	13,900	44,999
Debt service:				
Principal redeemed	1,454	-	-	1,454
Interest paid	503	-	-	503
	<u>81,339</u>	-	13,900	<u>95,239</u>
Legal and professional:				
Contractual services	15,961	-	-	15,961
	<u>102,480</u>	-	13,900	<u>116,380</u>
Total disbursements	<u>424,501</u>	<u>87,600</u>	<u>54,968</u>	<u>567,069</u>
Deficiency of receipts under disbursements	<u>(31,345)</u>	<u>(48,866)</u>	<u>(46,629)</u>	<u>(126,840)</u>
Other financing sources (uses):				
Loan proceeds	24,000	-	-	24,000
Operating transfers in (out):				
Special Revenue:				
Local Option Sales Tax	50,000	-	-	50,000
General:				
General	(38,436)	-	-	(38,436)
General Reserve	-	-	38,436	38,436
Total other financing sources (uses)	<u>35,564</u>	-	<u>38,436</u>	<u>74,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	4,219	(48,866)	(8,193)	(52,840)
Balance beginning of year	<u>29,226</u>	<u>96,004</u>	<u>52,262</u>	<u>177,492</u>
Balance end of year	<u>\$ 33,445</u>	<u>47,138</u>	<u>44,069</u>	<u>124,652</u>

See accompanying independent auditor's report.

**City of Blue Grass**

City of Blue Grass  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2003

	Road Use Tax	Road Use Tax Reserve	Local Option Sales Tax
Receipts:			
Property tax	\$ -	-	-
Tax increment financing collections	-	-	-
Other city tax:			
Local option sales tax	-	-	130,461
Intergovernmental:			
Road use tax allocation	95,172	-	-
Transfer of jurisdiction (Old Hwy 61)	-	-	-
	<u>95,172</u>	<u>-</u>	<u>-</u>
Total receipts	<u>95,172</u>	<u>-</u>	<u>130,461</u>
Disbursements:			
Public safety:			
Personal services	-	-	-
Public works:			
Personal services	31,974	-	-
Services and commodities	36,478	-	-
Capital outlay	12,997	32,520	-
Debt service:			
Principal redeemed	-	4,764	-
Interest paid	-	236	-
	<u>81,449</u>	<u>37,520</u>	<u>-</u>
General government:			
Mayor and council	-	-	-
Executive and administration	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>81,449</u>	<u>37,520</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>13,723</u>	<u>(37,520)</u>	<u>130,461</u>

Tax Increment Financing	Employee Benefits	Future Street Improvements	Tax Credit	Total
-	85,263	-	-	85,263
21,050	-	-	-	21,050
-	-	-	-	130,461
-	-	-	-	95,172
-	-	383,018	-	383,018
-	-	383,018	-	478,190
21,050	85,263	383,018	-	714,964
-	53,800	-	-	53,800
-	10,854	-	-	42,828
-	-	210	-	36,688
6,278	-	-	-	51,795
-	-	-	-	4,764
-	-	-	-	236
6,278	10,854	210	-	136,311
-	451	-	-	451
-	12,256	-	-	12,256
-	12,707	-	-	12,707
6,278	77,361	210	-	202,818
14,772	7,902	382,808	-	512,146

City of Blue Grass  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2003

	Road Use Tax	Road Use Tax Reserve	Local Option Sales Tax
Other financing sources (uses):			
Operating transfers in (out):			
General:			
General	-	-	(50,000)
Special Revenue:			
Road Use Tax	(10,008)	-	-
Road Use Tax Reserve	-	10,008	-
Debt Service	-	-	-
Enterprise:			
Water	-	-	(10,000)
Water Improvement	-	-	(138,926)
Total other financing sources (uses)	(10,008)	10,008	(198,926)
 Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	 3,715	 (27,512)	 (68,465)
 Balance beginning of year	 57,080	 77,592	 203,786
 Balance end of year	 \$ 60,795	 50,080	 135,321

See accompanying independent auditor's report.



Tax Increment Financing	Employee Benefits	Future Street Improvements	Tax Credit	Total
-	-	-	-	(50,000)
-	-	-	-	(10,008)
-	-	-	-	10,008
-	-	-	(8,366)	(8,366)
-	-	(8,972)	-	(18,972)
-	-	(2,068)	-	(140,994)
-	-	(11,040)	(8,366)	(218,332)
14,772	7,902	371,768	(8,366)	293,814
-	6,315	-	8,366	353,139
14,772	14,217	371,768	-	646,953

**Schedule 3**

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City of Blue Grass  
Schedule of Cash Transactions  
Debt Service Fund  
Year ended June 30, 2003

Receipts:	
Property tax	<u>\$ 22,235</u>
Disbursements:	
Debt service:	
Principal redeemed	7,000
Interest paid	<u>15,698</u>
Total disbursements	<u>22,698</u>
Deficiency of receipts under disbursements	(463)
Other financing sources:	
Operating transfers in:	
Special Revenue:	
Tax Credit	<u>8,366</u>
Excess of receipts and other financing sources over disbursements	7,903
Balance beginning of year	<u>202</u>
Balance end of year	<u><u>\$ 8,105</u></u>

See accompanying independent auditor's report.

**City of Blue Grass**

City of Blue Grass  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2003

	Water	Water Revenue Sinking	Water Reserve
Receipts:			
Use of money and property:			
Interest on investments	\$ 1,009	-	-
Charges for service:			
Sale of water	134,140	-	-
Sewer rental fees	-	-	-
Sanitation fees	-	-	-
Penalties	3,705	-	-
Installations and connections	1,520	-	-
	<u>139,365</u>	-	-
Miscellaneous:			
Sales tax collected	10,169	-	-
Customer deposits	1,780	-	-
Miscellaneous	6,038	-	-
	<u>17,987</u>	-	-
Total receipts	<u>158,361</u>	-	-
Disbursements:			
Business type activities:			
Personal services	56,296	-	-
Services and commodities	57,460	-	-
Capital outlay	-	-	-
Debt service:			
Principal redeemed	2,970	33,000	-
Interest paid	1,159	5,548	-
Total disbursements	<u>117,885</u>	<u>38,548</u>	-

Water Improve- ment	Water Tower	Sewer Rental	Sewer Improve- ment	Sanitation	Total
-	-	2,459	-	-	3,468
-	-	-	-	-	134,140
-	-	126,894	-	-	126,894
-	-	-	-	49,718	49,718
-	-	-	-	-	3,705
-	-	3,600	-	-	5,120
-	-	130,494	-	49,718	319,577
-	-	-	-	-	10,169
-	-	-	-	-	1,780
1,500	-	1,703	-	171	9,412
1,500	-	1,703	-	171	21,361
1,500	-	134,656	-	49,889	344,406
-	-	53,601	-	-	109,897
7,238	-	37,479	134,816	52,957	289,950
138,926	1,400	-	-	-	140,326
-	-	2,970	-	-	38,940
-	-	1,159	-	-	7,866
146,164	1,400	95,209	134,816	52,957	586,979

City of Blue Grass  
Combining Schedule of Cash Transactions  
Enterprise Funds  
Year ended June 30, 2003

	Water	Water	
	Revenue	Sinking	Reserve
	Water	Sinking	Reserve
Excess (deficiency) of receipts over (under) disbursements	40,476	(38,548)	-
Other financing sources (uses):			
Operating transfers in (out):			
General:			
General Reserve	8,972	-	-
Special Revenue:			
Local Option Sales Tax	10,000	-	-
Enterprise:			
Water	-	38,556	-
Water Revenue Sinking	(38,556)	-	-
Water Improvement	(6,000)	-	-
Water Tower	(2,004)	-	-
Sewer Rental	-	-	-
Sewer Improvement	-	-	-
Total other financing sources (uses)	(27,588)	38,556	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	12,888	8	-
Balance beginning of year	4,729	21,377	32,000
Balance end of year	\$ 17,617	21,385	32,000

See accompanying independent auditor's report.

Water Improve- ment	Water Tower	Sewer Rental	Sewer Improve- ment	Sanitation	Total
(144,664)	(1,400)	39,447	(134,816)	(3,068)	(242,573)
2,068	-	-	-	-	11,040
138,926	-	-	-	-	148,926
6,000	2,004	-	-	-	46,560
-	-	-	-	-	(38,556)
-	-	-	-	-	(6,000)
-	-	-	-	-	(2,004)
-	-	-	24,000	-	24,000
-	-	(24,000)	-	-	(24,000)
146,994	2,004	(24,000)	24,000	-	159,966
2,330	604	15,447	(110,816)	(3,068)	(82,607)
5,013	4,008	75,425	135,684	36,465	314,701
7,343	4,612	90,872	24,868	33,397	232,094

**Schedule 5**

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City of Blue Grass  
Schedule of Cash Transactions  
Internal Service Fund  
Year ended June 30, 2003

	<u>Medical Reimbursements</u>
Receipts:	
None	\$ -
Disbursements:	
Non-program:	
Services and commodities	<u>4,437</u>
Deficiency of receipts under disbursements	(4,437)
Balance beginning of year	<u>8,911</u>
Balance end of year	<u><u>\$ 4,474</u></u>

See accompanying independent auditor's report.



City of Blue Grass  
 Schedule of Cash Transactions  
 Trust Funds  
 Year ended June 30, 2003

	Expendable Trust
	Performance and Maintenance Bonds
Receipts:	
None	\$ -
Disbursements:	
General government:	
Services and commodities	350
Deficiency of receipts under disbursements	(350)
Balance beginning of year	350
Balance end of year	\$ -

See accompanying independent auditor's report.

**City of Blue Grass**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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 Blue Grass, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 16, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

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 Blue Grass' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003 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 item (8).

Internal Control Over Financial Reporting


In planning and performing our audit, we considered the City of Blue Grass' 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 Blue Grass' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

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 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 items (A) and (C) are material weaknesses. Prior audit reportable conditions have not been resolved and are repeated as items (A), (B) and (C).

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

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

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 16, 2003

City of Blue Grass

Schedule of Findings

Year ended June 30, 2003

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- (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. One person has primary control over utility collections and posting to utility records.

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

Response – We feel that the internal control is as controlled as possible for two employees. As with one posting all utility records, we have a check and balance system. We print all reports that are compared and balanced on a monthly basis to postings. We complete a monthly Clerk's report that is also compared to all postings. We are very thorough.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Electronic Data Processing Systems – The City does not have written policies for:
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
  - requiring a timeout and/or logoff function or a screensaver password to protect a terminal if left unattended.
  - usage of the Internet.
  - personal use of City owned computer equipment or software.

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 systems. Also, a written disaster recovery plan should be developed and kept off site.

Response – Currently we are implementing a policy that would define the use of passwords, the Internet and use of City owned equipment. We are in the process of updating our equipment and software and will implement a written disaster recovery plan.

Conclusion – Response accepted.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2003

- (C) Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared.

Recommendation - A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - A listing of the utility delinquent accounts was printed every month. However, a report consisting of all collections was not prepared. We recommended the State give us the guidelines of a reconciliation as recommended and we would implement it immediately. We have received those guidelines and will perform reconciliations from now on. A utility delinquent listing is given to the Mayor monthly for review.

Conclusion - Response accepted.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2003

**Findings Related to Required Statutory Reporting:**

- (1) Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.
- (2) Certified Budget - Disbursements during the year ended June 30, 2003 exceeded the amount budgeted in the general government function. 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 amount in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The Council was informed at a special meeting that due to the GASB 34 transition, we were unable to meet the City's budget amendment obligations. We also contacted the State to see if there was any adjustment that could be made. I also feel that the State had a major role in this transition, due to the GASB 34 and was a burden to the small cities trying to get everything implemented into their current adopted budgets. We are most confident that if we did not have to implement GASB 34 that fiscal budget year, we would not have exceeded the budget. In the past five years, we have never exceeded the budget.

Conclusion - Response acknowledged. The City should have amended the budget as required.

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

Name, Title, and Business Connection	Transaction Description	Amount
Bonita Strong, Mayor Pro tem, owner of Strong Lawn Care	Spraying	\$400

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Bonita Strong do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2003

- (6) 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.
- (7) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments - 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 - We will review other City policies to help us develop our own policy.

Conclusion - Response accepted.

- (9) Revenue Notes - The City has complied with the requirements of the revenue note provisions.



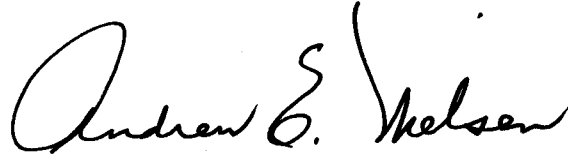
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City of Blue Grass

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
Kelly Rea, CPA, Staff Auditor  
John Vanis, CGFM, Senior Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State