



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

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Auditor of State

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Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

May 29, 2012

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 \$2,087,601 for the year ended June 30, 2011. The receipts included \$461,966 in property tax, \$463,763 from tax increment financing, \$161,150 from local option sales tax, \$3,528 from unrestricted interest on investments, \$586,882 from charges for service, \$395,510 from operating grants, contributions and restricted interest, \$1,611 from capital grants, contributions and restricted interest and \$13,191 from other general receipts.

Disbursements for the year totaled \$1,729,490, and included \$295,079 for public safety, \$284,141 for public works and \$240,476 for culture and recreation. Also, disbursements for business type activities totaled \$403,581.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0771-B00F.pdf>.

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

**JUNE 30, 2011**

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**City of Blue Grass**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brinson L. Kinzer	Mayor	Jan 2012
Sandra Frericks	Mayor Pro Tem	Jan 2012
Bonnie Strong	Council Member	Jan 2012
Jeanette Wildermuth	Council Member	Jan 2012
Lisa Smith	Council Member	Jan 2014
Cindy Verschoore	Council Member	Jan 2014
Ann Schmidt	Clerk	Indefinite
William T. McCullough	Attorney	Jan 2012

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Blue Grass, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

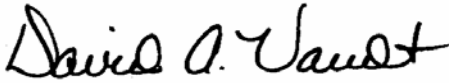
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

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, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Blue Grass as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

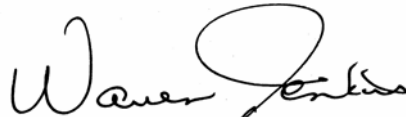
In accordance with Government Auditing Standards, we have also issued our report dated May 10, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 10, 2012



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

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The City of Blue Grass provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2011 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$212,800 during the year, primarily due to an increase in grants for the park improvement project.
- The cash basis net assets of the City's business type activities increased approximately \$145,300 during the year, due primarily to an increase in water and sewer rates.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer and sanitation systems. These activities are financed primarily by user fees.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

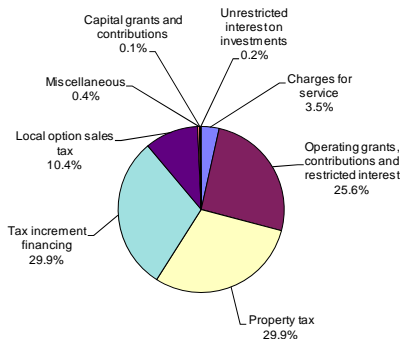
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

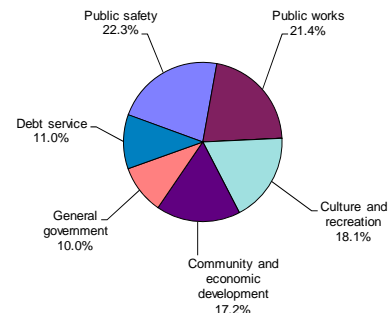
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,024,804 to \$1,237,603, primarily due to an increase in grants. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 53,516
Operating grants, contributions and restricted interest	395,510
Capital grants and contributions	1,611
General receipts:	
Property tax	461,966
Tax increment financing	463,763
Local option sales tax	161,150
Unrestricted interest on investments	2,474
Miscellaneous	6,198
Total receipts	<u>1,546,188</u>
Disbursements:	
Public safety	295,079
Public works	284,141
Health and social services	-
Culture and recreation	240,476
Community and economic development	227,992
General government	132,721
Debt service	145,500
Total disbursements	<u>1,325,909</u>
Change in cash basis net assets before transfers	220,279
Operating transfers, net	<u>(7,480)</u>
Increase in cash basis net assets	212,799
Cash basis net assets beginning of year	<u>1,024,804</u>
Cash basis net assets end of year	<u>\$ 1,237,603</u>

Receipts by Source



Disbursements by Function



Total business type activities cash basis net assets increased approximately \$145,300 from a year ago, from \$391,238 to \$536,550.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 242,450
Sewer	216,961
Sanitation	73,955
General receipts:	
Unrestricted interest on investments	1,054
Other general receipts	6,993
Total receipts	<u>541,413</u>
Disbursements:	
Water	160,874
Sewer	173,337
Sanitation	69,370
Total disbursements	<u>403,581</u>
Change in cash basis net assets before transfers	137,832
Operating transfers, net	<u>7,480</u>
Change in cash basis net assets	145,312
Cash basis net assets beginning of year	<u>391,238</u>
Cash basis net assets end of year	<u>\$ 536,550</u>

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

As the City of Blue Grass completed the year, its governmental funds reported a combined fund balance of \$1,237,603, an increase of \$212,799 from last year's total of \$1,024,804. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$7,425 over the prior year to \$126,048, due primarily to an increase in property tax receipts.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$11,125 to \$120,312. The City uses this money to upgrade the condition of all City roads.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$108,907 to \$438,601. The City intends to use this money to build and maintain various improvement projects.
- The Special Revenue, Urban Renewal Tax Increment Fund increased \$107,361 to \$470,113, due primarily to funds held for low to moderate income projects.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$89,426 to \$163,623, due primarily to an increase in water rates.
- The Enterprise, Sewer Fund cash balance increased \$51,246 to \$351,170, due primarily to an increase in sewer rates.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2011 and resulted in an increase in operating disbursements of \$500,773 relating to the public safety, public works and culture and recreation functions as well as business type activities function. The City had sufficient cash balances to absorb these additional costs.

The City’s receipts were \$145,610 less than budgeted, primarily due to tax increment financing receipts coming in less than anticipated.

Total disbursements were \$922,119 less than the amended budget. This was primarily due to the City budgeting more disbursements in the public safety and community and economic development functions than were necessary as a result of delays in project completion and equipment delivery.

**DEBT ADMINISTRATION**

At June 30, 2011, the City had \$2,676,928 of general obligation notes and other long-term debt outstanding, compared to \$2,704,177 last year. The chart below segregates the City’s debt into its component parts.

Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation notes	\$ 2,490,122	2,490,549
Loan agreements	186,806	213,628
Total	<u>\$ 2,676,928</u>	<u>2,704,177</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding debt of \$3,342,928, which includes \$666,000 of annual appropriation TIF debt, is approximately \$1,494,000 below its constitutional debt limit of approximately \$4.8 million.

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

The City of Blue Grass' elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 taxable valuation has increased \$1,379,588 over fiscal year 2011. One of the factors considered is the economy. Unemployment in the county as of June 2011 stands at 7.0% versus 6.6% at June 2010. This compares with the State's unemployment rate of 6.0% and the national rate of 9.1%.

The fiscal year 2012 budget contains total receipts of \$2,083,433 and disbursements of \$1,994,961. This budget is less than the amended fiscal year 2011 budget which contained total receipts of \$2,233,211 and disbursements of \$2,651,609.

The fiscal year 2012 levy is \$14.30507 per \$1,000 of taxable valuation, an increase from \$14.19347 per \$1,000 of taxable valuation for fiscal year 2011.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$88,400 by the close of fiscal year 2012.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ann Schmidt, 114 North Mississippi Street, Blue Grass, Iowa 52726.

## **Basic Financial Statements**

City of Blue Grass

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 295,079	2,729	87,506	-
Public works	284,141	1,886	282,316	-
Culture and recreation	240,476	-	6,395	-
Community and economic development	227,992	28,852	3,187	-
General government	132,721	20,049	16,106	-
Debt service	145,500	-	-	-
Capital projects	-	-	-	1,611
Total governmental activities	1,325,909	53,516	395,510	1,611
Business type activities:				
Water	160,874	242,450	-	-
Sewer	173,337	216,961	-	-
Sanitation	69,370	73,955	-	-
Total business type activities	403,581	533,366	-	-
Total	\$ 1,729,490	586,882	395,510	1,611
Property and other city tax levied for general purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Local option sales tax				
Urban renewal purposes				
Capital projects				
Employee benefits				
Fire department				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(204,844)	-	(204,844)
61	-	61
(234,081)	-	(234,081)
(195,953)	-	(195,953)
(96,566)	-	(96,566)
(145,500)	-	(145,500)
1,611	-	1,611
(875,272)	-	(875,272)
-	81,576	81,576
-	43,624	43,624
-	4,585	4,585
-	129,785	129,785
(875,272)	129,785	(745,487)
461,966	-	461,966
463,763	-	463,763
161,150	-	161,150
2,474	1,054	3,528
6,198	6,993	13,191
(7,480)	7,480	-
1,088,071	15,527	1,103,598
212,799	145,312	358,111
1,024,804	391,238	1,416,042
\$ 1,237,603	536,550	1,774,153
\$ 120,312	-	120,312
438,601	-	438,601
470,113	-	470,113
60,656	-	60,656
8,360	-	8,360
12,511	-	12,511
1,100	-	1,100
125,950	536,550	662,500
\$ 1,237,603	536,550	1,774,153

City of Blue Grass

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

As of and for the year ended June 30, 2011

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>				
Property tax	\$ 370,822	-	-	-
Tax increment financing	-	-	-	463,763
Other city tax	9,542	-	161,150	-
Licenses and permits	49,474	-	-	-
Use of money and property	2,474	-	-	-
Intergovernmental	220,765	120,129	-	-
Charges for service	1,886	-	-	-
Miscellaneous	33,010	-	-	-
Total receipts	687,973	120,129	161,150	463,763
<b>Disbursements:</b>				
Operating:				
Public safety	220,940	-	-	-
Public works	132,629	128,254	-	-
Culture and recreation	240,476	-	-	-
Community and economic development	-	-	-	227,992
General government	117,176	-	-	-
Debt service	30,000	3,000	-	-
Total disbursements	741,221	131,254	-	227,992
Excess (deficiency) of receipts over (under) disbursements	(53,248)	(11,125)	161,150	235,771
<b>Other financing sources (uses):</b>				
Operating transfers in	209,646	-	148,973	-
Operating transfers out	(148,973)	-	(201,216)	(128,410)
Total other financing sources (uses)	60,673	-	(52,243)	(128,410)
Net change in cash balances	7,425	(11,125)	108,907	107,361
Cash balances beginning of year	118,623	131,437	329,694	362,752
Cash balances end of year	\$ 126,048	120,312	438,601	470,113
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ -	120,312	-	-
Local option sales tax	-	-	438,601	-
Urban renewal purposes	-	-	-	470,113
Capital projects	-	-	-	-
Employee benefits	-	-	-	-
Fire department	-	-	-	-
Other purposes	98	-	-	-
Assigned for:				
Fire township	69,934	-	-	-
City Hall building maintenance	18,404	-	-	-
Other purposes	28,178	-	-	-
Unassigned	9,434	-	-	-
Total cash basis fund balances	\$ 126,048	120,312	438,601	470,113

See notes to financial statements.

Nonmajor	Total
79,541	450,363
-	463,763
2,061	172,753
-	49,474
1,681	4,155
-	340,894
-	1,886
29,890	62,900
<u>113,173</u>	<u>1,546,188</u>
74,139	295,079
23,258	284,141
-	240,476
-	227,992
15,545	132,721
112,500	145,500
<u>225,442</u>	<u>1,325,909</u>
<u>(112,269)</u>	<u>220,279</u>
112,500	471,119
-	(478,599)
<u>112,500</u>	<u>(7,480)</u>
231	212,799
82,298	1,024,804
<u>82,529</u>	<u>1,237,603</u>
-	120,312
-	438,601
-	470,113
60,656	60,656
8,360	8,360
12,511	12,511
1,002	1,100
-	69,934
-	18,404
-	28,178
-	9,434
<u>82,529</u>	<u>1,237,603</u>

**Exhibit C**

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

As of and for the year ended June 30, 2011

	Enterprise			Total
	Water	Sewer	<u>Nonmajor</u> Sanitation	
Operating receipts:				
Charges for service	\$ 239,398	216,961	72,877	529,236
Miscellaneous	3,052	-	1,078	4,130
Total operating receipts	242,450	216,961	73,955	533,366
Operating disbursements:				
Business type activities	160,874	173,337	69,370	403,581
Excess of operating receipts over operating disbursements	81,576	43,624	4,585	129,785
Non-operating receipts:				
Interest on investments	339	660	55	1,054
Miscellaneous	31	6,962	-	6,993
Total non-operating receipts	370	7,622	55	8,047
Excess of receipts over disbursements	81,946	51,246	4,640	137,832
Operating transfers in	7,480	-	-	7,480
Net change in cash balances	89,426	51,246	4,640	145,312
Cash balances beginning of year	74,197	299,924	17,117	391,238
Cash balances end of year	<u>\$ 163,623</u>	<u>351,170</u>	<u>21,757</u>	<u>536,550</u>
<b>Cash Basis Fund Balances</b>				
Unrestricted	<u>\$ 163,623</u>	<u>351,170</u>	<u>21,557</u>	<u>536,350</u>

See notes to financial statements

City of Blue Grass

Notes to Financial Statements

June 30, 2011

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

The City of Blue Grass is a political subdivision of the State of Iowa located in the counties of Scott and Muscatine. It was first incorporated in 1903 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and sanitation utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax received to be used as approved in the ballot.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Notes Payable**

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

Year Ending June 30,	Principal	Interest	Total
2012	\$ 139	112,361	112,500
2013	452	112,048	112,500
2014	473	112,027	112,500
2015	48,527	111,473	160,000
2016	50,438	109,562	160,000
2017 - 2021	290,127	509,873	800,000
2022 - 2026	362,451	437,549	800,000
2027 - 2029	1,737,515	220,560	1,958,075
Total	\$ 2,490,122	1,725,453	4,215,575

General Obligation Public Safety Facility Notes – On July 15, 2009, the City entered into a loan and disbursement agreement with Blue Grass Savings Bank for the issuance of \$2,500,000 of general obligation notes with interest at 4.5% per annum. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of an urban renewal project in the Blue Grass Urban Renewal Area consisting of constructing, furnishing and equipping a municipal public safety facility and acquiring land to serve as the site for such facility.

**(4) Loan Agreements**

On December 20, 2005, the City entered into a loan agreement for \$50,029 to purchase a dump truck. The loan requires semiannual installments of \$3,000, including interest at 3.75% per annum, with the final payment of \$3,690 due January 8, 2016. During the year ended June 30, 2011, the City paid principal of \$4,915 and interest of \$1,085. The unpaid principal balance at June 30, 2011 was \$25,213.

On April 26, 2010, the City entered into a loan agreement for \$183,500 to purchase a fire truck. The loan requires semiannual installments of \$13,500, including interest at 4.20% per annum, with the final payment due January 1, 2018. During the year ended June 30, 2011, the City paid principal of \$21,907 and interest of \$5,093. The unpaid principal balance at June 30, 2011 was \$161,593.



**(5) Development and Rebate Agreements**

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

The City agreed to rebate 66.14% and 73.80%, respectively, of the incremental property tax paid by the developers in exchange for development of certain commercial and residential development and installation of certain infrastructure improvements made by the developers. The remaining 33.86% and 26.20%, respectively, of the incremental property tax are retained by the City to provide assistance to low to moderate income (LMI) families in the City. Developers have first rights to the LMI funds if the project qualifies under the LMI rules and regulations. The portion of the incremental property tax received by the City will be paid to the developers in the form of economic development tax increment payments, pursuant to Chapters 15A and 403 of the Code of Iowa. The rebates will be made for a period of ten years for all residential properties and twenty years for all commercial and/or industrial properties, beginning on the agreement date or beginning on such later date the incremental property tax becomes available. The total payments made shall not exceed the actual cost of the improvements, which was \$3,207,232.

During the year ended June 30, 2011, the City was advised one developer had entered into a Surrender and Conveyance of Rights in Collateral and Other Property and Strict Foreclosure Agreement. The incremental property tax received by the City for the property which had been developed under this agreement will be used to service other previously certified obligations.

The payments are not a general obligation of the City. Each payment in the succeeding year is subject to annual appropriation by the City Council. During the year ended June 30, 2011, the City rebated \$227,992 of incremental property tax under these agreements and the cumulative amount rebated at June 30, 2011 was \$1,196,483.

**(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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$27,131, equal to the required contribution for the year.

**(7) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug, life insurance, short-term disability, dental and vision benefits for employees and retirees and their spouses. There are 6 active and no retired members in the plan as of June 30, 2011. Retired participants must be age 55 or older at retirement.

The medical/prescription drug, life insurance, short-term disability, dental and vision benefits are provided through a fully-insured plan with Central States Southeast and Southwest Areas Health and Welfare Fund. Retirees under age 65 would pay the same premium for the benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$953 for both single and family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed 96.6% of plan premiums at a cost of \$71,562.

**(8) 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 hours payable to employees at June 30, 2011, primarily relating to the General Fund is \$21,000.

**(9) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 201,216
	Urban Renewal Tax Increment	8,430
		<u>209,646</u>
Special Revenue:	General	148,973
Local Option Sales Tax		<u>148,973</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	112,500
		<u>112,500</u>
Enterprise:	Special Revenue:	
Water	Urban Renewal Tax Increment	7,480
		<u>7,480</u>
Total		<u><u>\$ 478,599</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(10) Risk Management**

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

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 450,363	-
Tax increment financing	463,763	-
Other city tax	172,753	-
Licenses and permits	49,474	-
Use of money and property	4,155	1,054
Intergovernmental	340,894	-
Charges for service	1,886	529,236
Miscellaneous	62,900	11,123
Total receipts	<u>1,546,188</u>	<u>541,413</u>
Disbursements:		
Public safety	295,079	-
Public works	284,141	-
Culture and recreation	240,476	-
Community and economic development	227,992	-
General government	132,721	-
Debt service	145,500	-
Business type activities	-	403,581
Total disbursements	<u>1,325,909</u>	<u>403,581</u>
Excess (deficiency) of receipts over (under) disbursements	220,279	137,832
Other financing sources, net	<u>(7,480)</u>	<u>7,480</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	212,799	145,312
Balances beginning of year	<u>1,024,804</u>	<u>391,238</u>
Balances end of year	<u>\$ 1,237,603</u>	<u>536,550</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
450,363	450,944	450,944	(581)
463,763	651,000	651,000	(187,237)
172,753	184,698	174,790	(2,037)
49,474	21,905	28,468	21,006
5,209	9,056	9,489	(4,280)
340,894	145,631	319,346	21,548
531,122	473,120	547,289	(16,167)
74,023	51,300	51,885	22,138
<u>2,087,601</u>	<u>1,987,654</u>	<u>2,233,211</u>	<u>(145,610)</u>
295,079	500,500	555,548	260,469
284,141	248,662	314,000	29,859
240,476	48,939	261,026	20,550
227,992	651,000	651,000	423,008
132,721	139,234	139,234	6,513
145,500	162,500	162,500	17,000
403,581	400,001	568,301	164,720
<u>1,729,490</u>	<u>2,150,836</u>	<u>2,651,609</u>	<u>922,119</u>
358,111	(163,182)	(418,398)	776,509
-	218,000	-	-
358,111	54,818	(418,398)	776,509
<u>1,416,042</u>	<u>1,389,734</u>	<u>2,791,687</u>	<u>(1,375,645)</u>
<u>1,774,153</u>	<u>1,444,552</u>	<u>2,373,289</u>	<u>(599,136)</u>

City of Blue Grass

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$500,773. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the culture and recreation function before the amendment was approved on May 16, 2011.

**Other Supplementary Information**

City of Blue Grass

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

As of and for the year ended June 30, 2011

	Special Revenue		
	Employee Benefits	Blue Grass Volunteer Fire Department	Blue Grass Public Safety Building Committee
Receipts:			
Property tax	\$ 79,541	-	-
Other city tax	2,061	-	-
Use of money and property	-	65	5
Miscellaneous	1,132	28,758	-
Total receipts	82,734	28,823	5
Disbursements:			
Operating:			
Public safety	44,736	29,403	-
Public works	23,258	-	-
General government	15,545	-	-
Debt service	-	-	-
Total disbursements	83,539	29,403	-
Excess (deficiency) of receipts over (under) disbursements	(805)	(580)	5
Other financing sources:			
Operating transfers in	-	-	-
Net change in cash balances	(805)	(580)	5
Cash balances beginning of year	9,165	13,091	997
Cash balances end of year	\$ 8,360	12,511	1,002
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Capital projects	\$ -	-	-
Employee benefits	8,360	-	-
Fire department	-	12,511	-
Other	-	-	1,002
Total cash basis fund balances	\$ 8,360	12,511	1,002

See accompanying independent auditor's report.



Debt Service	Capital Projects Public Safety Building	Total
-	-	79,541
-	-	2,061
-	1,611	1,681
-	-	29,890
-	1,611	113,173
-	-	74,139
-	-	23,258
-	-	15,545
112,500	-	112,500
112,500	-	225,442
(112,500)	1,611	(112,269)
112,500	-	112,500
-	1,611	231
-	59,045	82,298
-	60,656	82,529
-	60,656	60,656
-	-	8,360
-	-	12,511
-	-	1,002
-	60,656	82,529

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City of Blue Grass  
Schedule of Indebtedness  
Year ended June 30, 2011

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Public safety facility improvement	Jul 15, 2009	4.50%	\$ 2,500,000
Loan agreements			
Dump truck	Dec 20, 2005	3.75%	\$ 50,029
Fire truck	Apr 26, 2010	4.20	183,500
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
2,490,549	427	2,490,122	112,073
30,128	4,915	25,213	1,085
183,500	21,907	161,593	5,093
<u>\$ 213,628</u>	<u>26,822</u>	<u>186,806</u>	<u>6,178</u>

**Schedule 3**

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City of Blue Grass

Note Maturities

June 30, 2011

Year Ending June 30,	General Obligation Notes Public Safety Facility Project Issued Jul 15, 2009	
	Interest Rates	Amount
2012	4.5%	\$ 139
2013	4.5	452
2014	4.5	473
2015	4.5	48,527
2016	4.5	50,438
2017	4.5	53,031
2018	4.5	55,444
2019	4.5	57,967
2020	4.5	60,335
2021	4.5	63,350
2022	4.5	66,233
2023	4.5	69,247
2024	4.5	72,161
2025	4.5	75,683
2026	4.5	79,127
2027	4.5	82,727
2028	4.5	86,293
2029	4.5	1,568,495
Total		<u>\$ 2,490,122</u>

See accompanying independent auditor's report.



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

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Auditor of State

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Blue Grass, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 10, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Blue Grass is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Blue Grass' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Blue Grass' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Blue Grass' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Blue Grass' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (F) through (H) to be significant deficiencies.

## Compliance and Other Matters

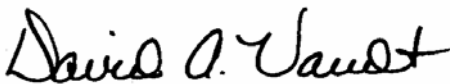
As part of obtaining reasonable assurance about whether the City of Blue Grass' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

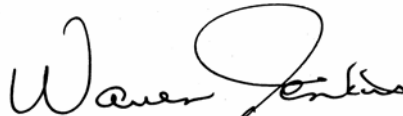
The City of Blue Grass' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Blue Grass' responses and, accordingly, we express no opinion on them.

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 10, 2012

City of Blue Grass

Schedule of Findings

Year ended June 30, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
  - (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
  - (3) Receipts – collecting, depositing, journalizing and posting.
  - (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
  - (5) Disbursements – purchasing, check signing, recording and reconciling.
  - (6) Payroll – recording, reconciling and check signing.

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

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

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials or signature of the independent reviewer and the date of the review.

Response – The City feels that every step is being taken in order to control the segregation of duties with the limited number of staff. Reports generated from the City’s software provider (CMS) allow the City to reconcile effectively. In addition to the reconciliation, the City Clerk prepares a “clerks’ report” on a monthly basis which also coincides with the generated reports. The City feels this process is very thorough. The City will also involve the Mayor and/or Finance Committee with the reconciliation on a monthly basis.

Conclusion – Response accepted.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2011

- (B) Financial Reporting – During the audit, we identified a material amount of disbursements recorded in the financial statements for the year ended June 30, 2011 when the disbursement was paid in the subsequent fiscal year. Although the items were ordered during the year ended June 30, 2011, the equipment was not received or paid for until the year ended June 30, 2012. Adjustments were subsequently made by the City to properly adjust these amounts in the financial statements.

Recommendation – The City should pay for and record disbursements when equipment has been received.

Response – This was a unique situation as the equipment was ordered and invoiced accordingly. However, the equipment was then back ordered. Therefore, the City held the checks until the equipment was received. The monies were budgeted for in the fiscal year ending June 30, 2011. The City will now require receipt of all equipment, supplies, etc. prior to disbursing a check regardless of the budget year end.

Conclusion – Response accepted.

- (C) Chart of Accounts and Annual Financial Report – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee on September 25, 2002. As a result, certain receipts and disbursements were not properly reported in the Annual Financial Report. These were classified and resolved for audit purposes.

Recommendation – To provide better information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – The City Clerk has begun preparations to implement the Uniform Chart of Accounts to take place July 1, 2012. However, the City did, in fact, adopt the Uniform Chart of Accounts and hired its software provider to implement these numbers within the Financial System. Evidently the Uniform Chart of Accounts was not implemented correctly.

Conclusion – Response accepted.

- (D) Utilities – Utility billings, collections, delinquent accounts and adjustments were not reconciled during the year.

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

Response – Since the 2007 State Audit, the City Clerk implemented the generation of several utility billing reports within the office so the Utility System would reconcile. However, no reconciliation report has been generated. The City Clerk will research and implement a “Utility Billing Reconciliation” using the generated reports and report to the City Council on a monthly basis.

Conclusion – Response accepted.



City of Blue Grass

Schedule of Findings

Year ended June 30, 2011

- (E) Separately Maintained Records – The Volunteer Fire Department and the Blue Grass Public Safety Building Committee maintain bank accounts for fundraiser and donation activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, the transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the City Council on a monthly basis.

Response – The City will continue to keep both the Volunteer Fire Department and Blue Grass Public Safety Building Fund separate from their financial reports due to the fact the City Clerk is solely responsible for reporting the accounting of City records and the Volunteer Fire department records are maintained by an appointed Treasurer and the Blue Grass Public Safety Building Fund is maintained by an appointed Treasurer, thereby making this task very difficult to combine. Records from the Volunteer Fire Department and the Blue Grass Public Safety Building will be readily available upon request.

Conclusion – Response acknowledged. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.”

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

The City does not have written policies over the computer system for:

- Requiring backups be performed daily and stored off site.
- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Requiring password length to be at least 8 characters.
- Requiring computers to have a log off function when not in use.
- Requiring a computer lockout function if passwords are incorrectly entered more than three times.

Also, the City does not have a written disaster recovery plan for its computer system.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2011

In addition, employees share the same password and user id to access computer financial software.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer system. A written disaster recovery plan should be developed and tested periodically. Employees should have separate passwords and user id’s.

Response – The City has already begun preparation to comply with the password requirements as stipulated above. However, password characters are within the 8 character requirement and the computers do have the lockout function. The City is currently inquiring about performing the daily system backup offsite through its software provider in order to comply with the “off site” requirement. The City Council will discuss and begin preparations on implementing a written disaster recovery plan as the City recently participated in Scott County’s Hazard Mitigation Plan identifying certain hazards that may be a threat to Blue Grass.

Conclusion – Response accepted.

- (G) Payroll– Although timesheets were maintained and retained for all employees, there was no indication the time sheets had been reviewed by the appropriate supervisory personnel prior to preparation of payroll.

Recommendation – Time sheets should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by initials or signature of the reviewer and the date of the review.

Response – The City will require supervisory personnel to review and sign their personnel timesheets accordingly to comply.

Conclusion – Response accepted.

- (H) Blue Grass Volunteer Fire Department – Bank reconciliations were not prepared during the year ended June 30, 2011.

Recommendation – The Blue Grass Volunteer Fire Department should ensure the monthly bank reconciliations are prepared, retained and reviewed by an independent person, as evidenced by the initials or signature of the reviewer and the date of the review.

Response – The Volunteer Fire Department appoints a Treasurer. Therefore, the City will give recommendations to the appointed Treasurer to follow this procedure.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2011

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the culture and recreation function prior to amendment on May 16, 2011. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – Due to the increasing demand of responsibilities within City staff and the City not being able to financially increase City staff, the City amends the budget annually on or before May 31 as required by law.

Conclusion – Response acknowledged. Chapter 384.18 of the Code of Iowa requires the budget be amended before disbursements are allowed to exceed the budget.

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

Paid to	Purpose	Amount
Isabel Bloom	Condolence gift for employee	\$74
Isabel Bloom	Condolence gift for employee	85
Isabel Bloom	Condolence gift for employee	54
Isabel Bloom	35 gifts to firefighter’s wives	590

According to the opinion, it is possible for certain 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. In December 2011, the City Council approved a new Administration Expense Policy which states the City, as directed by the Mayor, may send memorials. However, public purpose is not discussed in the policy.

Recommendation – The City 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 which clearly document the public purpose, including the requirement for proper documentation.

Response – The City Council will review this recommendation and review its policy to address the auditor’s concerns.

Conclusion – Response accepted.

City of Blue Grass

Schedule of Findings

Year ended June 30, 2011

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

Recommendation – The City Council should ensure all transfers are approved through the certified budget, resolutions or minutes record.

Response – The Council will approve all transfers either through a resolution or motion in the minutes record.

Conclusion – Response accepted.

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

Recommendation – The City should adopt a written investment policy in accordance with Chapter 12.10B of the Code of Iowa.

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

Conclusion – Response accepted.

- (8) Utility Rates – Utility rates were not approved by ordinance as required by Chapter 384.84 of the Code of Iowa. Rates were established by ordinance for water and sewer in 2008 and 5% rate increases were approved for all subsequent years. Sanitation rates were established by ordinance in 2007, with non-specified rate changes each year thereafter based upon costs.

Recommendation – The City should establish all utility rates by ordinance as required by Chapter 384.84 of the Code of Iowa, including required publications and hearings, as necessary. Also, for full disclosure, the ordinance should document the previous rate, the percentage increase and the new rate, not just the percentage increase or non-specified amount.

Response – The Iowa Association of Municipal Utilities conducted a rate study and it was their recommendation the City increase its rates by percentages. The City will annually amend its Ordinance and state the actual rate identified rather than by percentages.

Conclusion – Response accepted.

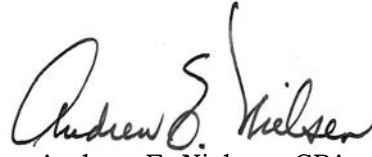
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City of Blue Grass

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager  
Dorothy O. Stover, Staff Auditor  
Nicole L. Wilson, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State