

CITY OF BUFFALO CENTER, IOWA

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

JUNE 30, 2010

- Prepared By -

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CITY OF BUFFALO CENTER, IOWA

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CITY OF BUFFALO CENTER, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2010)		
Reinert Levik	Mayor	January 2010
Marty Schaefer	Mayor Pro tem	January 2012
Troy Armstrong (Appointed)	Council Member	November 10, 2009
Charles Silber	Council Member	January 2010
Pete Paulson	Council Member	January 2010
Alroy Krull	Council Member	January 2012
Don West (Effective 11/11/09)	Council Member	January 2012
Debra Jensvold	Clerk	January 2010
Amy Schaefer	Treasurer	January 2010
Don Hemphill	Attorney	January 2010
(After January 2010)		
Troy Armstrong	Mayor	January 2012
Pete Paulson	Mayor Pro tem	January 2014
Don West	Council Member	January 2012
Marty Schaefer	Council Member	January 2012
Alroy Krull	Council Member	January 2012
Charles Silber	Council Member	January 2014
Debra Jensvold	Clerk	January 2012
Amy Schaefer	Treasurer	January 2012
Don Hemphill	Attorney	January 2011



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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo Center, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Buffalo Center's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my 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, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2009.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo Center as of June 30, 2010, 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, I have also issued my report dated December 1, 2010 on my consideration of the City of Buffalo Center's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 22 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo Center'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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Larry Pump".

December 1, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Buffalo Center 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, 2010. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

The City's total cash basis net assets increased 6%, or approximately \$59,000, from June 30, 2010 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$53,500 and the assets of the business type activities increased by approximately \$5,500.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

### **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Funds. 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 the water, sewer and garbage funds, 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 \$670,275 to \$723,737. 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**  
(Expressed in Thousands)

	Year ended June 30, 2010
	<hr/>
Receipts:	
Program receipts:	
Charges for service	\$ 61
Operating grants, contributions and restricted interest	167
General receipts:	
Property tax	249
Local option sales tax	69
Unrestricted interest on investments	4
Note proceeds	166
Other general receipts	168
Total receipts	<u>\$ 884</u>
Disbursements:	
Public safety	\$ 99
Public works	177
Culture and recreation	165
General government	68
Debt service	123
Capital projects	199
Total disbursements	<u>\$ 831</u>
Change in cash basis net assets	\$ 53
Cash basis net assets beginning of year	<u>670</u>
Cash basis net assets end of year	<u><u>\$ 723</u></u>

**Changes in Cash Basis Net Assets of Business Type Activities**  
(Expressed in Thousands)

	Year ended June 30, 2010
	<hr/>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 91
Sewer	59
Garbage	85
General receipts:	
Unrestricted interest on investments	1
Miscellaneous	1
Total receipts	<u>\$ 237</u>
Disbursements:	
Water	\$ 64
Sewer	86
Garbage	82
Total disbursements	<u>\$ 232</u>
Change in cash basis net assets	\$ 5
Cash basis net assets beginning of year	<u>260</u>
Cash basis net assets end of year	<u><u>\$ 265</u></u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Buffalo Center completed the year, its governmental funds reported a combined fund balance of \$723,737, an increase of more than \$53,000 from last year's total of \$670,275. 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 \$147,177 from the prior year to \$342,285. This increase was due to donations to the City for the Community Center.

The Special Revenue, Road Use Tax Fund cash balance decreased by \$23,315 to \$112,241 during the fiscal year. This increase was attributable to increased operating disbursements.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$28,170 to \$144,317. This is due to a transfer to the general fund in excess of current year receipts. The balance will be used on future projects.

The Debt Service Fund cash balance decreased \$7,980 to \$74,604, due to debt service payments in excess of current year receipts.

The Capital Projects, Street Project Fund cash balance decreased by \$32,698 from the prior year to \$12,724. This is due to street project disbursements greater than note proceeds.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Utility Fund cash balance increased by \$28,806 to \$107,007, due primarily to a decrease in operating expenses from the prior year.

The Sewer Utility Fund cash balance decreased by \$26,628 to \$106,646 due primarily to decreased operating receipts.

The Garbage Fund cash balance increased by \$3,172 to \$51,581 due to increased operating receipts.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 12, 2010 and resulted in an increase in operating disbursements of \$365,736. This increase in disbursements will be paid with existing funds.

Even with the budget amendment, actual disbursements for the public safety function were \$15,977 more than the amended budget.

**DEBT ADMINISTRATION**

At June 30, 2010, the City had approximately \$508,000 in notes outstanding, compared to approximately \$443,000 last year, as shown below.

**Outstanding Debt at Year-End**  
(Expressed in Thousands)

	June 30,	
	2010	2009
General obligation and anticipation notes	<u>\$ 508</u>	<u>\$ 443</u>

Debt increased as a result of issuing anticipation notes for a street project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$508,000 is significantly below its constitutional debt limit of \$1,330,685.

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

The City of Buffalo Center's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. Another concern evolves around increased energy costs for the ensuing year and beyond. The increased costs have added as much as thirty percent to segments of the budget. Holding the budget in line becomes challenging while attempting to maintain and improve City services.

#### **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 Deb Jensvold, City Clerk, P.O. Box 430, Buffalo Center, Iowa 54024.

CITY OF BUFFALO CENTER, IOWA  
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 99,620	\$ -	\$ 51,112	\$ -
Public works	177,495	41,810	89,330	-
Culture and recreation	164,645	18,989	26,779	-
General government	67,711	-	-	-
Debt service	122,946	-	-	-
Capital projects	<u>198,969</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 831,386</u>	<u>\$ 60,799</u>	<u>\$ 167,221</u>	<u>\$ -</u>
Business type activities:				
Water	\$ 64,407	\$ 90,564	\$ -	\$ -
Sewer	85,672	58,717	-	-
Garbage	<u>81,620</u>	<u>84,792</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 231,699</u>	<u>\$ 234,073</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$1,063,085</u>	<u>\$ 294,872</u>	<u>\$ 167,221</u>	<u>\$ -</u>

(Continued)

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (48,508)	\$ -	\$ (48,508)
(46,355)	-	(46,355)
(118,877)	-	(118,877)
(67,711)	-	(67,711)
(122,946)	-	(122,946)
<u>(198,969)</u>	<u>-</u>	<u>(198,969)</u>
\$ <u>(603,366)</u>	\$ <u>-</u>	\$ <u>(603,366)</u>
\$ -	\$ 26,157	\$ 26,157
-	(26,955)	(26,955)
<u>-</u>	<u>3,172</u>	<u>3,172</u>
\$ <u>-</u>	\$ <u>2,374</u>	\$ <u>2,374</u>
\$ <u>(603,366)</u>	\$ <u>2,374</u>	\$ <u>(600,992)</u>

CITY OF BUFFALO CENTER, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
    Debt service  
Local option sales tax  
Unrestricted interest on investments  
Note proceeds  
Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
    Expendable:  
        Streets  
        Debt service  
        Other purposes  
Unrestricted

**Total cash basis net assets**

*See Notes to Financial Statements.*

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 175,169	\$ -	\$ 175,169
73,369	-	73,369
69,279	-	69,279
3,568	476	4,044
166,271	-	166,271
<u>169,172</u>	<u>2,500</u>	<u>171,672</u>
\$ 656,828	\$ 2,976	\$ 659,804
\$ 53,462	\$ 5,350	\$ 58,812
<u>670,275</u>	<u>259,884</u>	<u>930,159</u>
<u>\$ 723,737</u>	<u>\$ 265,234</u>	<u>\$ 988,971</u>
\$ 112,241	\$ -	\$ 112,241
74,604	-	74,604
159,798	-	159,798
<u>377,094</u>	<u>265,234</u>	<u>642,328</u>
<u>\$ 723,737</u>	<u>\$ 265,234</u>	<u>\$ 988,971</u>

CITY OF BUFFALO CENTER, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Local Option Sales Tax</u>
<b>RECEIPTS:</b>			
Property tax	\$ 158,358	\$ -	\$ -
Other city tax	-	-	69,279
Use of money and property	3,293	1	551
Licenses and permits	1,595	-	-
Intergovernmental	42,256	89,330	-
Charges for service	29,862	-	-
Special assessments	-	-	-
Miscellaneous	192,232	-	-
Total receipts	<u>\$ 427,596</u>	<u>\$ 89,331</u>	<u>\$ 69,830</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Public safety	\$ 93,353	\$ -	\$ -
Public works	57,193	112,646	-
Culture and recreation	160,700	-	-
General government	67,173	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 378,419</u>	<u>\$ 112,646</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 49,177</u>	<u>\$ (23,315)</u>	<u>\$ 69,830</u>
Other financing sources (uses):			
Note proceeds	\$ -	\$ -	\$ -
Operating transfers in	98,000	-	-
Operating transfers out	-	-	(98,000)
Total other financing sources (uses)	<u>\$ 98,000</u>	<u>\$ -</u>	<u>\$ (98,000)</u>
Net change in cash balances	\$ 147,177	\$ (23,315)	\$ (28,170)
Cash balances beginning of year	195,108	135,556	172,487
<b>Cash balances end of year</b>	<b><u>\$ 342,285</u></b>	<b><u>\$ 112,241</u></b>	<b><u>\$ 144,317</u></b>
<b>Cash Basis Fund Balances:</b>			
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	342,285	-	-
Special revenue funds	-	112,241	144,317
Capital projects funds	-	-	-
Total cash basis fund balances	<u>\$ 342,285</u>	<u>\$ 112,241</u>	<u>\$ 144,317</u>

See Notes to Financial Statements.

<u>Debt Service General Obligation Notes</u>	<u>Capital Projects Street Project</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 73,369	\$ -	\$ 16,811	\$ 248,538
-	-	-	69,279
-	-	43	3,888
-	-	-	1,595
-	-	-	131,586
-	-	-	29,862
30,937	-	-	30,937
10,660	-	-	202,892
<u>\$ 114,966</u>	<u>\$ -</u>	<u>\$ 16,854</u>	<u>\$ 718,577</u>
\$ -	\$ -	\$ 6,267	\$ 99,620
-	-	7,656	177,495
-	-	3,945	164,645
-	-	538	67,711
122,946	-	-	122,946
-	198,969	-	198,969
<u>\$ 122,946</u>	<u>\$ 198,969</u>	<u>\$ 18,406</u>	<u>\$ 831,386</u>
<u>\$ (7,980)</u>	<u>\$ (198,969)</u>	<u>\$ (1,552)</u>	<u>\$ (112,809)</u>
\$ -	\$ 166,271	\$ -	\$ 166,271
-	-	-	98,000
-	-	-	(98,000)
<u>\$ -</u>	<u>\$ 166,271</u>	<u>\$ -</u>	<u>\$ 166,271</u>
\$ (7,980)	\$ (32,698)	\$ (1,552)	\$ 53,462
82,584	45,422	39,118	670,275
<u><b>\$ 74,604</b></u>	<u><b>\$ 12,724</b></u>	<u><b>\$ 37,566</b></u>	<u><b>\$ 723,737</b></u>
\$ 74,604	\$ -	\$ -	\$ 74,604
-	-	-	342,285
-	-	15,481	272,039
-	12,724	22,085	34,809
<u><b>\$ 74,604</b></u>	<u><b>\$ 12,724</b></u>	<u><b>\$ 37,566</b></u>	<u><b>\$ 723,737</b></u>

CITY OF BUFFALO CENTER, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise</u>			<u>Total</u>
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage</u>	
Operating receipts:				
Charges for service	\$ 90,564	\$ 58,717	\$ 84,792	\$ 234,073
Miscellaneous	2,500	-	-	2,500
Total operating receipts	<u>\$ 93,064</u>	<u>\$ 58,717</u>	<u>\$ 84,792</u>	<u>\$ 236,573</u>
Operating disbursements:				
Business type activities	<u>64,407</u>	<u>85,672</u>	<u>81,620</u>	<u>231,699</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 28,657	\$ (26,955)	\$ 3,172	\$ 4,874
Non-operating receipts (disbursements):				
Interest on investments	<u>149</u>	<u>327</u>	<u>-</u>	<u>476</u>
Net change in cash balances	\$ 28,806	\$ (26,628)	\$ 3,172	\$ 5,350
Cash balances beginning of year	<u>78,201</u>	<u>133,274</u>	<u>48,409</u>	<u>259,884</u>
<b>Cash balances end of year</b>	<b><u>\$ 107,007</u></b>	<b><u>\$ 106,646</u></b>	<b><u>\$ 51,581</u></b>	<b><u>\$ 265,234</u></b>
<b>Cash Basis Fund Balances</b>				
Unreserved	<b><u>\$ 107,007</u></b>	<b><u>\$ 106,646</u></b>	<b><u>\$ 51,581</u></b>	<b><u>\$ 265,234</u></b>

*See Notes to Financial Statements.*

CITY OF BUFFALO CENTER, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The City of Buffalo Center is a political subdivision of the State of Iowa located in Winnebago County. It was first incorporated in 1892 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, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Buffalo Center 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 Winnebago County Assessor's Conference Board and North Iowa Area Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements - 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 services.

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

*Expendable 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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF BUFFALO CENTER, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(1) Summary of Significant Accounting Policies - continued

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 that are not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and disbursements.

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

The Capital Projects Street Project Fund is used to account for street improvement receipts and disbursements.

The City reports the following major proprietary funds:

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

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

The Enterprise, Garbage Fund accounts for the operation of the City's garbage collection.

CITY OF BUFFALO CENTER, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(1) Summary of Significant Accounting Policies - continued

C. Measurement Focus and Basis of Accounting

The City of Buffalo Center 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the public safety function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**CITY OF BUFFALO CENTER, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(3) Notes Payable**

Annual debt service requirements to maturity for general obligations notes are as follows:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2011	\$ 58,280	\$ 19,610
2012	60,280	16,859
2013	49,000	13,996
2014	50,000	11,551
2015	53,000	8,987
2016-2018	<u>71,000</u>	<u>11,379</u>
Total	<u>\$341,560</u>	<u>\$ 82,382</u>

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% 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, 2010 was \$14,008, which was equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave 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 payable and personal time payable to employees at June 30, 2010, primarily relating to the General Fund, is \$6,883. This liability has been computed based on rates of pay in effect at June 30, 2010.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u> General	<u>Transfer from</u> Special Revenue:	<u>Amount</u>
	Local Option Sales Tax	<u>\$ 98,000</u>

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

CITY OF BUFFALO CENTER, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(7) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$721 during the year ended June 30, 2010.

(8) **Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$27,323.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

CITY OF BUFFALO CENTER, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(8) Risk Management - continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the past fiscal year.

**Required Supplementary Information**

CITY OF BUFFALO CENTER, IOWA  
 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, 2010

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
<b>RECEIPTS:</b>			
Property tax	\$ 248,538	\$ -	\$ -
Other city tax	69,279	-	-
Use of money and property	3,888	476	-
Licenses & permits	1,595	-	-
Intergovernmental	131,586	-	-
Charges for service	29,862	234,073	-
Special assessments	30,937	-	-
Miscellaneous	202,892	2,500	-
Total receipts	<u>\$ 718,577</u>	<u>\$ 237,049</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 99,620	\$ -	\$ -
Public works	177,495	-	-
Culture and recreation	164,645	-	-
General government	67,711	-	-
Debt service	122,946	-	-
Capital projects	198,969	-	-
Business type activities	-	231,699	-
Total disbursements	<u>\$ 831,386</u>	<u>\$ 231,699</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (112,809)	\$ 5,350	\$ -
Other financing sources, net	<u>166,271</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 53,462	\$ 5,350	\$ -
Balances beginning of year	<u>670,275</u>	<u>259,884</u>	<u>-</u>
<b>Balances end of year</b>	<u><b>\$ 723,737</b></u>	<u><b>\$ 265,234</b></u>	<u><b>\$ -</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 248,538	\$ 239,646	\$ 279,646	\$ (31,108)
69,279	74,515	74,515	(5,236)
4,364	5,000	5,000	(636)
1,595	2,000	2,000	(405)
131,586	116,660	116,660	14,926
263,935	247,000	247,000	16,935
30,937	-	-	30,937
205,392	25,000	48,400	156,992
<u>\$ 955,626</u>	<u>\$ 709,821</u>	<u>\$ 773,221</u>	<u>\$ 182,405</u>
\$ 99,620	\$ 77,643	\$ 83,643	\$ (15,977)
177,495	124,000	209,500	32,005
164,645	107,350	339,086	174,441
67,711	78,100	80,600	12,889
122,946	86,720	126,720	3,774
198,969	350,000	350,000	151,031
231,699	236,000	236,000	4,301
<u>\$1,063,085</u>	<u>\$1,059,813</u>	<u>\$1,425,549</u>	<u>\$ 362,464</u>
\$ (107,459)	\$ (349,992)	\$ (652,328)	\$ 544,869
<u>166,271</u>	<u>350,000</u>	<u>350,000</u>	<u>(183,729)</u>
\$ 58,812	\$ 8	\$ (302,328)	\$ 361,140
<u>930,159</u>	<u>770,370</u>	<u>770,370</u>	<u>159,789</u>
<u><b>\$ 988,971</b></u>	<u><b>\$ 770,378</b></u>	<u><b>\$ 468,042</b></u>	<u><b>\$ 520,929</b></u>

**CITY OF BUFFALO CENTER, IOWA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**  
**JUNE 30, 2010**

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 Governmental 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 Funds 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 \$365,736. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the public safety function.

Other Supplementary Information

CITY OF BUFFALO CENTER, IOWA  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Special Revenue</u>	<u>Capital Projects</u>		<u>Total</u>
	<u>Employee Benefits</u>	<u>Housing Rehab</u>	<u>Building</u>	
<b>RECEIPTS:</b>				
Property tax	\$ 16,811	\$ -	\$ -	\$ 16,811
Use of money and property	-	-	43	43
Total receipts	<u>\$ 16,811</u>	<u>\$ -</u>	<u>\$ 43</u>	<u>\$ 16,854</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ 6,267	\$ -	\$ -	\$ 6,267
Public works	7,656	-	-	7,656
Culture and recreation	3,945	-	-	3,945
General government	538	-	-	538
Total disbursements	<u>\$ 18,406</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,406</u>
Net change in cash balances	\$ (1,595)	\$ -	\$ 43	\$ (1,552)
Cash balances beginning of year	<u>17,076</u>	<u>8,387</u>	<u>13,655</u>	<u>39,118</u>
<b>Cash balances end of year</b>	<b><u>\$ 15,481</u></b>	<b><u>\$ 8,387</u></b>	<b><u>\$ 13,698</u></b>	<b><u>\$ 37,566</u></b>
<b>Cash Basis Fund Balances:</b>				
Unreserved:				
Special revenue fund	\$ 15,481	\$ -	\$ -	\$ 15,481
Capital project funds	-	8,387	13,698	22,085
Total cash basis fund balances	<u>\$ 15,481</u>	<u>\$ 8,387</u>	<u>\$ 13,698</u>	<u>\$ 37,566</u>

*See Accompanying Independent Auditor's Report.*

CITY OF BUFFALO CENTER, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Notes:</b>			
1999 Fire Truck	12-19-01	4.00%	\$ 132,800
2005 Street Improvement	08-30-06	4.95	210,000
2007 Street Improvement	04-24-08	5.00	270,000
Total			
<b>Anticipation Notes:</b>			
Street Improvement	05-20-10	4.50	\$ 166,271
<b>Total Indebtedness</b>			

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 39,840	\$ -	\$ 13,280	\$ 26,560	\$ 1,594	\$ -
156,000	-	39,000	117,000	7,722	-
247,000	-	49,000	198,000	12,350	-
<u>\$ 442,840</u>	<u>\$ -</u>	<u>\$ 101,280</u>	<u>\$ 341,560</u>	<u>\$ 21,666</u>	<u>\$ -</u>
\$ -	\$ 166,271	\$ -	\$ 166,271	\$ -	\$ -
<u>\$ 442,840</u>	<u>\$ 166,271</u>	<u>\$ 101,280</u>	<u>\$ 507,831</u>	<u>\$ 21,666</u>	<u>\$ -</u>

CITY OF BUFFALO CENTER, IOWA  
 NOTE MATURITIES  
 JUNE 30, 2010

GENERAL OBLIGATION NOTES

Year Ending June 30,	1999 Fire Truck Issued December 19, 2001		2005 Street Improvement Issued August 30, 2006		2007 Street Improvement Issued April 24, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	4.00%	\$ 13,280	4.95%	\$ 20,000	5.00%	\$ 25,000
2012	4.00	13,280	4.95	21,000	5.00	26,000
2013		-	4.95	22,000	5.00	27,000
2014		-	4.95	23,000	5.00	27,000
2015		-	4.95	25,000	5.00	28,000
2016		-	4.95	6,000	5.00	29,000
2017		-		-	5.00	30,000
2018		-		-	5.00	6,000
<b>Total</b>		<b>\$ 26,560</b>		<b>\$ 117,000</b>		<b>\$198,000</b>

Year Ending June 30,	Total
2011	\$ 58,280
2012	60,280
2013	49,000
2014	50,000
2015	53,000
2016	35,000
2017	30,000
2018	6,000
<b>Total</b>	<b>\$ 341,560</b>

See Accompanying Independent Auditor's Report.



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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:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo Center, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated December 1, 2010. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2009. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Buffalo Center's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Buffalo Center's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Buffalo Center's internal control over financial reporting.

My 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, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I 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 Buffalo Center's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings as items (A), (B), (C) and (G) 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. I consider the deficiencies described in the accompanying Schedule of Findings as items (D), (E), and (F) to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Buffalo Center's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I 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, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

A handwritten signature in cursive script that reads "Larry Pump".

December 1, 2010

CITY OF BUFFALO CENTER, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A)           Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one person has control over most of the accounting and banking functions.

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

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should 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)           Centralized Bookkeeping - The bookkeeping and custody of records for the Volunteer Fire Department funds and Heritage Town Center funds are maintained by individuals outside the City Clerk's office. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose".

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will look into this.

Conclusion - Response accepted.

(C)           Authorized Check Signer - It was noted that individuals who are listed on the Volunteer Fire Department signature card and Heritage Town Center signature card are not City employees or council members.

Recommendation - All bank authorized signature cards should be reviewed and updates. Only current City employees or council members should be authorized signers.

Response - We will review all signature cards and update them per guidelines recommended.

Conclusion - Response accepted.

CITY OF BUFFALO CENTER, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

**Findings Related to the Financial Statements:** - continued

- (D) Information Systems Controls - The City does not have a written disaster recovery plan. Also, adequate fire protection of computers and files does not exist.

Recommendation - The City should implement the controls necessary to protect the processing of computer information.

Response - We will do this.

Conclusion - Response accepted.

- (E) Utility Billings - City ordinances require that all establishments within the City limits shall be connected to the Public Water system, and that those establishments shall pay for water service and sewer rental fees based upon metered usage. We noted that not all customers were being metered or billed for their usage as required by the City Code.

Recommendation - All water furnished to customers should be measured through meters and subsequently billed for water usage and sewer rental fees.

Response - We will investigate this and implement the necessary procedures to comply with the City Code.

Conclusion - Response accepted.

- (F) Delinquent Accounts - I noted City officials and employees on the delinquent utility account listing.

Recommendation - To eliminate a potential conflict of interest all City employees and officials should pay their utility bills in a timely manner.

Response - We will investigate this.

Conclusion - Response accepted.

- (G) Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as an auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

CITY OF BUFFALO CENTER, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

**Findings Related to the Financial Statements:** - continued

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

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

- (1) Official Depositories - A resolution naming official depositories and maximum deposits has been approved by the City, however, the resolution was exceeded during the year.

Recommendation - The council should approve a resolution in amounts sufficient to cover anticipated balances for all depositories.

Response - We will review our depository and maximum amount.

Conclusion - Response accepted.

- (2) Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted

- (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.

CITY OF BUFFALO CENTER, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (5) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Lyle Hippen, Spouse of Employee, Owner of Devries Lumber	Supplies	\$ 721

In accordance with Chapter 362.5 (11) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (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 insure that the coverage is adequate for current operations.
- (7) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.