



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

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**NEWS RELEASE**

FOR RELEASE

February 18, 2011

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$1,178,360 for the year ended June 30, 2010. The receipts included \$122,591 in property tax, \$68,824 from tax increment financing, \$275,286 from charges for service, \$102,506 from operating grants, contributions and restricted interest, \$2,157 from capital grants, contributions and restricted interest, \$66,650 from local option sales tax, \$23,721 from unrestricted interest on investments, \$450,000 from bond proceeds and \$66,625 from other general receipts.

Disbursements for the year totaled \$1,106,306, and included \$429,258 for community and economic development, \$121,126 for public works and \$99,640 for debt service. Also, disbursements for business type activities totaled \$253,486.

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/1021-0225-B00F.pdf>.

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

**JUNE 30, 2010**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		19-23
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information – Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	30
Schedule of Indebtedness	2	32-33
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 <u>Government Auditing Standards</u>		35-36
Schedule of Findings		38-42
Staff		43

**City of Schleswig**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Syd Winquist	Mayor	Jan 2012
Gaylord Boeck	Council Member	Jan 2010
Bob Andresen	Council Member	Jan 2010
Murlin Johannsen	Council Member	Jan 2010
Troy Kluender	Council Member	Jan 2012
Scott Aden	Council Member	(Resigned)
Jeffrey Nelson	Council Member	Nov 2009
Alan Sedore	Treasurer	Indefinite
Jane Smith	City Clerk	Indefinite
Allen Nepper	Attorney	Indefinite
<b>(After January 2010)</b>		
Syd Winquist	Mayor	Jan 2012
Murlin Johannsen	Council Member	Jan 2012
Troy Kluender	Council Member	Jan 2012
Bob Andresen	Council Member	Jan 2014
Guenter Detlefsen	Council Member	Jan 2014
Neil Wilken	Council Member	Jan 2014
Alan Sedore	Treasurer	Indefinite
Jane Smith	City Clerk	Indefinite
Allen Nepper	Attorney	Indefinite

**City of Schleswig**



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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 Schleswig, 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 Schleswig'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, 2009.

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, 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 Schleswig 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, we have also issued our report dated January 21, 2011 on our consideration of the City of Schleswig'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 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Schleswig's basic financial statements. Other supplementary information included in Schedules 1 and 2 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, 2009, 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

January 21, 2011

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

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The City of Schleswig 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. 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.

### **2010 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased 14%, or approximately \$70,000.
- The cash basis net assets of the City's business type activities increased 1%, or approximately \$2,500.

### **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, health and social services, 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, the sanitary sewer system and solid waste collection and disposal services. 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 and 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Tax Increment Financing. 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.

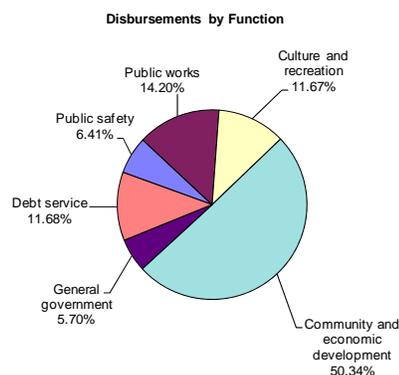
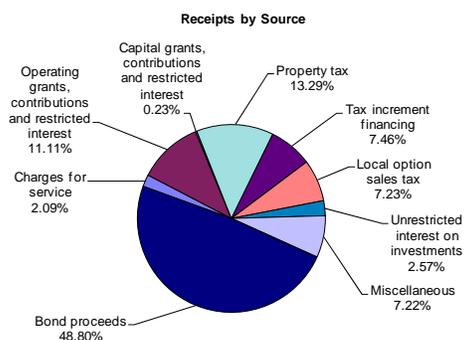
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Landfill Funds, considered to be major funds of the City.

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 \$507,457 to \$577,021. 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, 2010
Receipts:	
Program receipts:	
Charges for service	\$ 19,310
Operating grants, contributions and restricted interest	102,506
Capital grants, contributions and restricted interest	2,157
General receipts:	
Property tax	122,591
Tax increment financing	68,824
Local option sales tax	66,650
Unrestricted interest on investments	23,721
Bond proceeds	450,000
Miscellaneous	66,625
Total receipts	<u>922,384</u>
Disbursements:	
Public safety	54,641
Public works	121,126
Culture and recreation	99,531
Community and economic development	429,258
General government	48,624
Debt service	99,640
Total disbursements	<u>852,820</u>
Increase in cash basis net assets	69,564
Cash basis net assets beginning of year	<u>507,457</u>
Cash basis net assets end of year	<u>\$ 577,021</u>



The total business type activities cash balance increased from a year ago, increasing from \$287,459 to \$289,949.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 148,412
Sewer	42,757
Landfill	64,807
Total receipts	<u>255,976</u>
Disbursements:	
Water	137,118
Sewer	58,512
Landfill	57,856
Total disbursements	<u>253,486</u>
Increase in cash basis net assets	2,490
Cash basis net assets beginning of year	<u>287,459</u>
Cash basis net assets end of year	<u>\$ 289,949</u>

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

As the City of Schleswig completed the year, its governmental funds reported a combined fund balance of \$577,021, an increase of more than \$69,000 above last year's total of \$507,457. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$13,858 from the prior year to \$354,755. The decrease is primarily attributed to a park improvement of approximately \$15,000.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$10,276 to a deficit of \$63,204. This decrease was attributable to the City's public works function disbursements exceeding receipts.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$66,650 to \$183,978. This increase was attributable to increased receipts.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$20,229 to \$120,035. The increase was attributable to unspent bond proceeds.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$11,294 to \$284,103. The increase was attributable to receipts exceeding disbursements.
- The Enterprise, Sewer Fund cash balance decreased \$15,755 to a deficit of \$2,296. The decrease was attributable to disbursements exceeding receipts.
- The Enterprise, Landfill Fund cash balance increased \$6,951 to \$8,142. The increase was attributable to receipts exceeding disbursements.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The City's receipts were \$45,271 more than budgeted. The City did not budget for \$21,000 of receipts for the fire department and Library.

Total disbursements were \$45,312 less than budgeted, primarily due to \$25,461 of unspent bond proceeds in the Special Revenue, Tax Increment Financing Fund.

The City exceeded the amounts budgeted in the public safety and debt service functions for the year ended June 30, 2010.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$385,974 in bonds and other long-term debt outstanding, compared to \$51,755 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
Urban renewal tax increment financing revenue bonds	\$ 360,000	-
Water line loan	25,974	45,088
Water tower loan	-	6,667
Total	\$ 385,974	51,755

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 \$385,974 is below its constitutional debt limit of approximately \$1,453,000.

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

The City of Schleswig'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.

- The fiscal year 2011 budget includes receipts totaling \$699,341 and disbursements of \$855,250.
- The fiscal year 2011 property tax levy is \$8.40494 per \$1,000 of taxable valuation.
- If these estimates are realized, the City's budgeted cash balance is expected to decrease \$155,909 by the close of fiscal year 2011.

## 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 Jane Smith, City Clerk, 111 2nd Street, P.O. Box 276, Schleswig, Iowa 51461.

**City of Schleswig**

## **Basic Financial Statements**

City of Schleswig

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 54,641	586	17,455	1,061
Public works	121,126	-	77,270	-
Culture and recreation	99,531	3,058	3,287	-
Community and economic development	429,258	-	4,494	1,096
General government	48,624	15,666	-	-
Debt service	99,640	-	-	-
Total governmental activities	852,820	19,310	102,506	2,157
Business type activities:				
Water	137,118	148,412	-	-
Sewer	58,512	42,757	-	-
Landfill	57,856	64,807	-	-
Total business type activities	253,486	255,976	-	-
Total	\$ 1,106,306	275,286	102,506	2,157

**General Receipts:**

Property and other city tax levied for general purposes  
 Tax increment financing  
 Local option sales tax  
 Unrestricted interest on investments  
 Bond 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:  
 Debt service  
 Capital projects  
 Local option sales tax  
 Other purposes  
 Unrestricted

**Total cash basis net assets**

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(35,539)	-	(35,539)
(43,856)	-	(43,856)
(93,186)	-	(93,186)
(423,668)	-	(423,668)
(32,958)	-	(32,958)
(99,640)	-	(99,640)
(728,847)	-	(728,847)
-	11,294	11,294
-	(15,755)	(15,755)
-	6,951	6,951
-	2,490	2,490
(728,847)	2,490	(726,357)
122,591	-	122,591
68,824	-	68,824
66,650	-	66,650
23,721	-	23,721
450,000	-	450,000
66,625	-	66,625
798,411	-	798,411
69,564	2,490	72,054
507,457	287,459	794,916
\$ 577,021	289,949	866,970
\$ 94,574	24,913	119,487
25,461	-	25,461
183,978	-	183,978
11,220	-	11,220
261,788	265,036	526,824
\$ 577,021	289,949	866,970

**Exhibit B**

## City of Schleswig

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

As of and for the year ended June 30, 2010

	Special Revenue					Total
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Nonmajor	
<b>Receipts:</b>						
Property tax	\$ 122,591	-	-	-	-	122,591
Tax increment financing	-	-	-	68,824	-	68,824
Other city tax	-	-	66,650	-	-	66,650
Licenses and permits	4,601	-	-	-	-	4,601
Use of money and property	26,003	-	-	-	-	26,003
Intergovernmental	21,335	73,632	-	-	3,638	98,605
Charges for service	7,724	-	-	-	-	7,724
Miscellaneous	46,093	-	-	25,704	5,589	77,386
Total receipts	228,347	73,632	66,650	94,528	9,227	472,384
<b>Disbursements:</b>						
Operating:						
Public safety	54,641	-	-	-	-	54,641
Public works	34,810	83,908	-	-	2,408	121,126
Culture and recreation	99,531	-	-	-	-	99,531
Community and economic development	4,599	-	-	424,659	-	429,258
General government	48,624	-	-	-	-	48,624
Debt service	-	-	-	99,640	-	99,640
Total disbursements	242,205	83,908	-	524,299	2,408	852,820
Excess (deficiency) of receipts over (under) disbursements	(13,858)	(10,276)	66,650	(429,771)	6,819	(380,436)
Other financing sources:						
Bond proceeds	-	-	-	450,000	-	450,000
Net change in cash balances	(13,858)	(10,276)	66,650	20,229	6,819	69,564
Cash balances beginning of year	368,613	(52,928)	117,328	99,806	(25,362)	507,457
Cash balances end of year	\$ 354,755	(63,204)	183,978	120,035	(18,543)	577,021
<b>Cash Basis Fund Balances</b>						
Reserved for:						
Debt service	\$ -	-	-	94,574	-	94,574
Unspent bond proceeds	-	-	-	25,461	-	25,461
Unreserved:						
General fund	354,755	-	-	-	-	354,755
Special revenue funds	-	(63,204)	183,978	-	(18,543)	102,231
Total cash basis fund balances	\$ 354,755	(63,204)	183,978	120,035	(18,543)	577,021

See notes to financial statements.

City of Schleswig

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

As of and for the year ended June 30, 2010

	Enterprise			Total
	Water	Sewer	Landfill	
Operating receipts:				
Charges for service	\$ 148,412	42,757	64,807	255,976
Operating disbursements:				
Business type activities	109,513	58,512	57,856	225,881
Excess (deficiency) of operating receipts over (under) operating disbursements	38,899	(15,755)	6,951	30,095
Non-operating disbursements:				
Debt service	(27,605)	-	-	(27,605)
Net change in cash balances	11,294	(15,755)	6,951	2,490
Cash balances beginning of year	272,809	13,459	1,191	287,459
Cash balances end of year	\$ 284,103	(2,296)	8,142	289,949
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 24,913	-	-	24,913
Unreserved	259,190	(2,296)	8,142	265,036
Total cash basis fund balances	\$ 284,103	(2,296)	8,142	289,949

See notes to financial statements.

**City of Schleswig**

City of Schleswig

Notes to Financial Statements

June 30, 2010

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

The City of Schleswig is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1899 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, sewer and landfill utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Schleswig 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 Crawford County Assessor's Conference Board, Crawford County Emergency Management Commission, Crawford County Joint E-911 Service Board and Crawford County Area Solid Waste Agency 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 two categories:

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local option Sales Tax Fund is used to account for projects financed by local option sales tax.

The Tax Increment Financing Fund is utilized to account for tax increment financing collections and the repayment of the 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.

The Enterprise, Landfill Fund accounts for the payment to an outside company to provide solid waste collection and disposal services.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

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

**(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.

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

**(3) Bonds and Loans Payable**

Annual debt service requirements to maturity for urban renewal tax increment financing revenue bonds and loans are as follows:

Year Ending June 30,	Urban Renewal Tax Increment Financing							
	Revenue Bonds			Water Line Loan Agreement			Total	
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Principal	Interest
2011	1.75-2.00%	\$ 90,000	9,056	4.875%	\$20,067	871	110,067	9,927
2012	2.25-2.50	90,000	7,256	4.875	6,907	70	96,907	7,326
2013	2.75-3.00	90,000	5,006		-	-	90,000	5,006
2014	3.25-3.50	90,000	2,306		-	-	90,000	2,306
Total		\$ 360,000	23,624		\$26,974	941	386,974	24,565

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$450,000 of urban renewal tax increment financing (TIF) revenue bonds in July 2009 for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Tax Increment Financing Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$383,624, payable through June 2014. For the current year, principal and interest paid and total TIF receipts were \$99,640 and \$68,824, respectively.

Water Line Loan Agreement

On October 20, 1996, the City entered into a loan agreement with the West Central Iowa Rural Water Association for \$223,000, with interest at 4.875% per annum, to construct a water line. The agreement is payable solely from water customer net receipts and is payable through 2012. Annual principal and interest payments on the agreement are expected to require less than 54 percent of net receipts. The total principal and interest remaining to be paid on the agreement is \$27,915. For the current year, principal and interest paid and total customer net receipts were \$20,938 and \$38,899, respectively.

On October 1, 1999, the City entered into an interest free loan agreement with the West Central Iowa Rural Water Association for \$200,000 to construct a water tower. During the year ended June 30, 2010, the City paid the remaining balance of \$6,667.

**(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 \$6,902, equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory time 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 time payable to employees at June 30, 2010, primarily relating to the General Fund and the Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 1,500
Comp time	<u>200</u>
Total	\$ <u>1,700</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(6) 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.

**(7) Deficit Balances**

The Special Revenue, Road Use Tax and Economic Development Funds and the Enterprise, Sewer Fund had deficit balances of \$63,204, \$29,763 and \$2,296, respectively, at June 30, 2010. The deficit balance in the Special Revenue, Road Use Tax Fund was a result of project expenses exceeding road use tax collected for the projects. The Special Revenue, Economic Development Fund deficit balance is the result of outstanding economic development loans which will be repaid to the City over time. The deficit balance in the Enterprise, Sewer Fund is a result of expenses exceeding charges for service collected from customers for sanitary services over the past few years.

**City of Schleswig**

**Required Supplementary Information**

City of Schleswig  
 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

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 122,591	-
Tax increment financing	68,824	-
Other city tax	66,650	-
Licenses and permits	4,601	-
Use of money and property	26,003	-
Intergovernmental	98,605	-
Charges for service	7,724	255,976
Miscellaneous	77,386	-
Total receipts	472,384	255,976
Disbursements:		
Public safety	54,641	-
Public works	121,126	-
Culture and recreation	99,531	-
Community and economic development	429,258	-
General government	48,624	-
Debt service	99,640	-
Business type activities	-	253,486
Total disbursements	852,820	253,486
Excess (deficiency) of receipts over (under) disbursements	(380,436)	2,490
Other financing sources, net	450,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	69,564	2,490
Balances beginning of year	507,457	287,459
Balances end of year	\$ 577,021	289,949

See accompanying independent auditor's report.

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Total	Original and Final Budgeted Amounts	Final to Total Variance
122,591	119,393	3,198
68,824	90,000	(21,176)
66,650	65,643	1,007
4,601	2,375	2,226
26,003	28,950	(2,947)
98,605	90,953	7,652
263,700	280,775	(17,075)
77,386	5,000	72,386
<u>728,360</u>	<u>683,089</u>	<u>45,271</u>
54,641	49,775	(4,866)
121,126	128,775	7,649
99,531	108,268	8,737
429,258	522,550	93,292
48,624	49,400	776
99,640	-	(99,640)
253,486	292,850	39,364
<u>1,106,306</u>	<u>1,151,618</u>	<u>45,312</u>
(377,946)	(468,529)	(90,583)
<u>450,000</u>	<u>452,155</u>	<u>(2,155)</u>
72,054	(16,374)	(88,428)
<u>794,916</u>	<u>861,016</u>	<u>(66,100)</u>
<u>866,970</u>	<u>844,642</u>	<u>22,328</u>

City of Schleswig

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 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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the City did not amend the budget.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

**Other Supplementary Information**

**Schedule 1**

## City of Schleswig

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

As of and for the year ended June 30, 2010

	Special Revenue				Total
	I-Jobs	Economic Development	Community Building	Community Disaster Grant	
Receipts:					
Intergovernmental	\$ 3,638	-	-	-	3,638
Miscellaneous	-	4,490	1,099	-	5,589
Total receipts	3,638	4,490	1,099	-	9,227
Disbursements:					
Operating:					
Public works	1,908	-	-	500	2,408
Excess (deficiency) of receipts over (under) disbursements	1,730	4,490	1,099	(500)	6,819
Cash balances beginning of year	-	(34,253)	5,403	3,488	(25,362)
Cash balances end of year	\$ 1,730	(29,763)	6,502	2,988	(18,543)
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 1,730	(29,763)	6,502	2,988	(18,543)

See accompanying independent auditor's report.

**City of Schleswig**

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City of Schleswig  
Schedule of Indebtedness  
Year ended June 30, 2010

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Urban renewal tax increment financing (TIF) revenue bonds	Jul 1, 2009	1.25-3.50%	\$ 450,000
Loan agreements:			
Water line	Oct 20, 1996	4.875%	\$ 223,000
Water tower	Oct 1, 1999	-	200,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
-	450,000	90,000	360,000	9,640
46,088	-	19,114	26,974	1,824
6,667	-	6,667	-	-
\$ 52,755	-	25,781	26,974	1,824

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**City of Schleswig**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Schleswig, 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 our report thereon dated January 21, 2011. 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, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 a deficiency in internal control over financial reporting we consider to be a material weakness 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 Schleswig's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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 (B) and (C) to be significant deficiencies.

#### Compliance and Other Matters

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Schleswig and other parties to whom the City 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 Schleswig 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

January 21, 2011

**City of Schleswig**

City of Schleswig

Schedule of Findings

Year ended June 30, 2010

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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 for the City:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
  - (2) Cash – custody of petty cash, initiating cash receipt and disbursement transactions and handling and recording cash.
  - (3) Bank reconciliations – preparing, reconciling and reviewing.
  - (4) Long term debt – recording and reconciling.
  - (5) Receipts – collecting, depositing, journalizing and posting.
  - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
  - (7) Disbursements – purchasing, recording and reconciling.
  - (8) Payroll – preparing and distributing.

Recommendation – We 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 have a limited staff and try to segregate as much as possible.

Conclusion – Response accepted.

- (B) Records of Accounts/Separately Maintained Records – The Schleswig Fire Department and Schleswig Public Library each maintain checking and savings account records in a location separate from the Clerk's office. These accounts were not reflected in the City's accounting system or annual budget.

Additionally, the Fire Department and the Public Library have one person who has primary control over receipts, deposits, disbursements and bank reconciliations.

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." All financial transactions of these accounts should be included in the Clerk's monthly financial reports. Internal control would be strengthened and operating efficiency would be increased by integrating the receipts and disbursements of these accounts with the City's accounting records in the Clerk's office.

City of Schleswig

Schedule of Findings

Year ended June 30, 2010

If the Schleswig Fire Department and the Schleswig Public Library's receipts and disbursements are not integrated with the City's accounting records in the Clerk's office, duties should be segregated to the extent possible.

Response – We will keep a separate spreadsheet for both the Fire Department and the Library which tracks the monthly receipts and disbursements. The yearly totals of each will be reflected in the Annual Budget and the Annual Financial Reports. The Fire Department and the Library will try to segregate duties as best as possible with limited staff.

Conclusion – Response accepted.

- (C) Local Option Sales Tax – All of the local option sales tax (LOST) receipts are recorded in the Special Revenue, Local Option Sales Tax Fund. The ballot for the LOST requires the receipts to be used as follows: 75% for street, water, sanitation and sewer maintenance and repair and 25% for property tax relief.

Recommendation – A record should be maintained to document the collection, disbursement and balance of all LOST funds. Disbursement of these funds should be properly identified to document compliance with referendum provisions.

Response – The City will transfer LOST funds every June (75% for street, water sanitation and sewer maintenance and repair) and 25% to the General Fund for property tax relief.

Conclusion – Response accepted.

City of Schleswig  
Schedule of Findings  
Year ended June 30, 2010

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or 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 – A budget amendment will be filed when disbursements exceed the budget.

Conclusion – Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Schleswig Fire	Stove and refrigerator	\$ 1,082

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

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

Response – The City Council will review the public purpose of disbursements before authorizing payments and the City Clerk will document the public purpose served on the invoice.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Schleswig

Schedule of Findings

Year ended June 30, 2010

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

Name, Title, and Business Connection	Transaction Description	Amount
Arlan Meseck, Public works employee, Owner of Schleswig Plumbing	Parts and supplies	\$ 1,178
Jane Smith, City Clerk, owner of It's Made in Iowa	Gift baskets for Northern Iowa League of cities	90

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

- (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 insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolution were noted.
- (9) Financial Condition – The Special Revenue, Road Use Tax and Economic Development Funds had deficit balances of \$63,204 and \$29,763. The Enterprise, Sewer Fund had a deficit balance of \$2,296 at June 30, 2010.

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

Response – The City will investigate alternatives to eliminate the deficit of fund balances.

Conclusion – Response accepted.

- (10) Tax Increment Financing – The City's tax increment financing (TIF) certification includes the 6<sup>th</sup> addition TIF debt of \$483,000. However, the City has not adjusted its TIF indebtedness for the amount of cash on hand in the Special Revenue, Tax Increment Financing Fund.

Recommendation – The City should complete Form 3 on the TIF Indebtedness Certification to the County Auditor to reduce the TIF indebtedness outstanding by the amount of cash on hand at June 30, 2010 in the Special Revenue, Tax Increment Financing Fund.

City of Schleswig

Schedule of Findings

Year ended June 30, 2010

Response – The City will complete Form 3 of the TIF Indebtedness Certification to the County Auditor by determining the amount of cash which is on hand June 30<sup>th</sup> of each year.

Conclusion – Response accepted.

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City of Schleswig

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Michael R. Field, Staff Auditor  
Lara K. Van Wyk, 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