



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

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**NEWS RELEASE**

FOR RELEASE

March 21, 2011

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$1,764,936 for the year ended June 30, 2010. The receipts included \$305,461 from charges for service, \$133,279 from operating grants, contributions and restricted interest, \$146,065 in property tax, \$50,492 from local option sales tax, \$7,632 from unrestricted interest on investments, \$1,117,893 from bond proceeds and \$4,114 from other general receipts.

Disbursements for the year totaled \$1,689,343, and included \$108,348 for culture and recreation, \$107,030 for public safety and \$82,889 for public works. Also, disbursements for business type activities totaled \$1,341,307.

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/1021-0768-B00F.pdf>.

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

**JUNE 30, 2010**

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**City of Schaller**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Ray Voss	Mayor	Jan 2012
Scott Currie	Mayor Pro tem	Jan 2010
Nathan Blum	Council Member	Jan 2010
Rex Rimmer	Council Member	Jan 2010
Gene Huelman	Council Member	Jan 2012
Brian Woodke	Council Member	Jan 2012
Marcia Woodke	Clerk	Indefinite
Kevin Murray	Attorney	Indefinite
<b>(After January 2010)</b>		
Ray Voss	Mayor	Jan 2012
Scott Currie	Mayor Pro tem	Jan 2014
Gene Huelman	Council Member	Jan 2012
Brian Woodke	Council Member	Jan 2012
Marcy Hallengren	Council Member	Jan 2014
Diana Myrtue	Council Member	Jan 2014
Marcia Woodke	Clerk	Indefinite
Kevin Murray	Attorney	Indefinite

**City of Schaller**



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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 Schaller 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 Schaller 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 February 23, 2011 on our consideration of the City of Schaller's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Schaller'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

February 23, 2011

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

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The City of Schaller 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 \$35,086, due primarily to receipts exceeding disbursements in the General Fund and the Special Revenue, Revolving Loan, Road Use Tax and Employee Benefits Funds.
- The cash basis net assets of the City's business type activities increased \$40,507, due primarily to receipts exceeding disbursements in the Enterprise, Water, Sewer Rental and Solid Waste Collection Funds.

### **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, the sanitary sewer system and the solid waste collection 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, Employee Benefits and Economic Development Revolving Loan, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for water, sewer rental, solid waste collection and apartment housing operations. The Water, Sewer Rental and Solid Waste Collection Funds are considered to be major funds of the City.

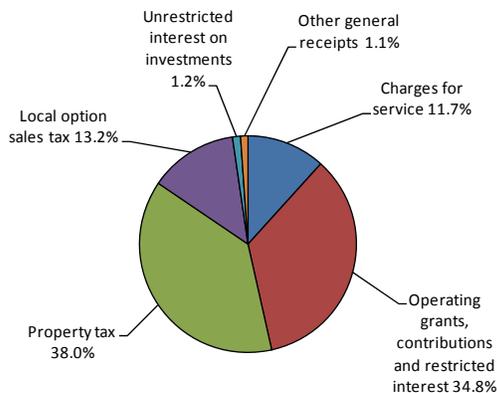
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

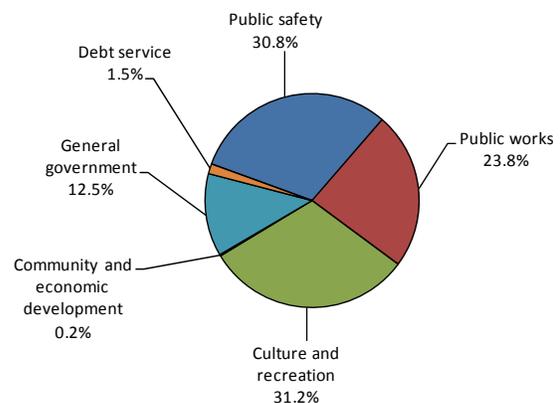
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$365,302 to \$400,388. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2010
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 44,690
Operating grants, contributions and restricted interest	133,279
General receipts:	
Property tax	146,065
Local option sales tax	50,492
Unrestricted interest on investments	4,482
Other general receipts	4,114
Total receipts and transfers	<u>383,122</u>
Disbursements:	
Public safety	107,030
Public works	82,889
Culture and recreation	108,348
Community and economic development	779
General government	43,615
Debt service	5,375
Total disbursements	<u>348,036</u>
Increase in cash basis net assets	35,086
Cash basis net assets beginning of year	<u>365,302</u>
Cash basis net assets end of year	<u>\$ 400,388</u>

**Receipts by Source**



**Disbursements by Function**



<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2010</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 60,766
Sewer	109,536
Solid waste collection	90,469
General receipts:	
Unrestricted interest on investments	3,150
Bond proceeds	1,117,893
Total receipts	<u>1,381,814</u>
Disbursements:	
Water	56,849
Sewer	1,210,475
Solid waste collection	73,983
Total disbursements	<u>1,341,307</u>
Increase in cash basis net assets	40,507
Cash basis net assets beginning of year	<u>268,026</u>
Cash basis net assets end of year	<u>\$ 308,533</u>

Total business type activities cash basis net assets increased from a year ago, increasing from \$268,026 to \$308,533. The increase is due primarily to receipts exceeding disbursements in the Water, Sewer Rental and Solid Waste Collection Funds.

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

As the City of Schaller completed the year, its governmental funds reported a combined fund balance of \$400,388, an increase of \$35,086 over last year's total of \$365,302. 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 \$19,357 over the prior year to \$200,856.
- The Special Revenue, Road Use Tax Fund cash balance increased \$325 to \$89,554.
- The Special Revenue, Employee Benefits Fund cash balance increased \$6,318 to \$25,576. The change in fund balance was due, in part, to an increase in the tax levy.
- The Special Revenue, Economic Development Revolving Loan Fund cash balance increased \$13,573 to \$58,880. Loan repayments were received, but there were no disbursements in the current year.

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

- The Water Fund cash balance increased \$4,789 to \$80,248.
- The Sewer Rental Fund cash balance increased \$17,684 to \$91,832, due primarily to an increase in sewer rates.
- The Solid Waste Collection Fund cash balance increased \$18,034 to \$125,089. The increase was due primarily to an increase in solid waste collection rates.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 10, 2010 and resulted in an increase in operating receipts for charges for service, miscellaneous and other financing sources and operating disbursements increased in four functions: culture and recreation, general government, debt service and business type activities.

The City's receipts were \$52,060 more than budgeted. This was primarily due to the City receiving more for intergovernmental, miscellaneous, property tax and other city tax than anticipated.

Total disbursements were \$600,540 less than the final budget. Actual disbursements for the public safety, community and economic development, general government and business type activities functions were \$75,979, \$58,614, \$47,521 and \$355,536, respectively, less than the amended budget. This was primarily due to the City over estimating disbursements.

The City also exceeded the amount budgeted in the culture and recreation function by \$1,151 for the year ended June 30, 2010 due to the playground equipment externally maintained fund being included in this function.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,170,393 in bonds and other long-term debt outstanding, compared to \$94,500 at June 30, 2009 as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation bonds	\$ 62,393	-
Sewer revenue bonds	1,108,000	94,500
Total	\$1,170,393	94,500

Debt increased as a result of issuing bonds for an ongoing wastewater capital 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 is \$62,393, which is significantly below its constitutional debt limit of \$955,086.

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

The City of Schaller'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 City's fiscal year 2011 assessed taxable valuation increased approximately 5.9%, or \$657,608, from the fiscal year 2010 level.

The fiscal year 2011 budget contains total receipts of \$618,341 and disbursements of \$1,193,226.

The fiscal year 2011 levy is \$15.15584 per \$1,000 of taxable valuation, which is a slight increase from fiscal year 2010.

These parameters were taken into account when adopting the budget for 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 Marcia Woodke, City Clerk, Box 120, Schaller, Iowa 51053.

## **Basic Financial Statements**

City of Schaller

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
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 107,030	21,763	13,827
Public works	82,889	-	77,498
Culture and recreation	108,348	20,219	28,381
Community and economic development	779	-	13,573
General government	43,615	1,820	-
Debt service	5,375	888	-
Total governmental activities	348,036	44,690	133,279
Business type activities:			
Water	56,849	60,766	-
Sewer	1,210,475	109,536	-
Solid waste collection	73,983	90,469	-
Total business type activities	1,341,307	260,771	-
Total	\$ 1,689,343	305,461	133,279

**General Receipts:**

Property tax levied for general purposes  
 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:

    Streets  
 Employee benefits  
 Economic development revolving loans  
 Debt service  
 Capital projects

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
(71,440)	-	(71,440)
(5,391)	-	(5,391)
(59,748)	-	(59,748)
12,794	-	12,794
(41,795)	-	(41,795)
(4,487)	-	(4,487)
(170,067)	-	(170,067)
-	3,917	3,917
-	(1,100,939)	(1,100,939)
-	16,486	16,486
-	(1,080,536)	(1,080,536)
(170,067)	(1,080,536)	(1,250,603)
146,065	-	146,065
50,492	-	50,492
4,482	3,150	7,632
-	1,117,893	1,117,893
4,114	-	4,114
205,153	1,121,043	1,326,196
35,086	40,507	75,593
365,302	268,026	633,328
\$ 400,388	308,533	708,921
\$ 89,554	-	89,554
25,576	-	25,576
58,880	-	58,880
24,259	-	24,259
1,263	-	1,263
200,856	308,533	509,389
\$ 400,388	308,533	708,921

City of Schaller

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

As of and for the year ended June 30, 2010

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Economic Development Revolving Loan
<b>Receipts:</b>				
Property tax	\$ 103,781	-	42,284	-
Other city tax	50,492	-	-	-
Licenses and permits	815	-	-	-
Use of money and property	5,799	-	-	13,573
Intergovernmental	38,920	72,261	-	-
Charges for service	6,721	-	-	-
Special assessments	-	-	-	-
Miscellaneous	47,588	-	-	-
Total receipts	254,116	72,261	42,284	13,573
<b>Disbursements:</b>				
Operating:				
Public safety	91,245	-	15,785	-
Public works	-	71,936	10,953	-
Culture and recreation	101,874	-	6,474	-
Community and economic development	779	-	-	-
General government	40,861	-	2,754	-
Debt service	-	-	-	-
Total disbursements	234,759	71,936	35,966	-
Excess (deficiency) of receipts over (under) disbursements	19,357	325	6,318	13,573
Cash balances beginning of year	181,499	89,229	19,258	45,307
Cash balances end of year	\$ 200,856	89,554	25,576	58,880
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	200,856	-	-	-
Special revenue funds	-	89,554	25,576	58,880
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 200,856	89,554	25,576	58,880

See notes to financial statements.

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Nonmajor	Total
-	146,065
-	50,492
-	815
-	19,372
-	111,181
-	6,721
888	888
-	47,588
<b>888</b>	<b>383,122</b>

-	107,030
-	82,889
-	108,348
-	779
-	43,615
5,375	5,375
<b>5,375</b>	<b>348,036</b>

(4,487)	35,086
<b>30,009</b>	<b>365,302</b>
<b>25,522</b>	<b>400,388</b>

24,259	24,259
-	200,856
-	174,010
1,263	1,263
<b>25,522</b>	<b>400,388</b>

**Exhibit C**

## City of Schaller

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 Rental	Solid Waste Collection	Nonmajor Apartment Housing	
Operating receipts:					
Charges for service	\$ 60,766	109,536	90,307	-	260,609
Miscellaneous	-	-	162	-	162
Total operating receipts	60,766	109,536	90,469	-	260,771
Operating disbursements:					
Business type activities	56,849	31,594	73,983	-	162,426
Excess of operating receipts over operating disbursements	3,917	77,942	16,486	-	98,345
Non-operating receipts (disbursements):					
Interest on investments	872	730	1,548	-	3,150
Bond proceeds	-	1,117,893	-	-	1,117,893
Debt service	-	(65,745)	-	-	(65,745)
Capital projects	-	(1,113,136)	-	-	(1,113,136)
Net non-operating receipts (disbursements)	872	(60,258)	1,548	-	(57,838)
Excess of receipts over disbursements	4,789	17,684	18,034	-	40,507
Cash balances beginning of year	75,459	74,148	107,055	11,364	268,026
Cash balances end of year	\$ 80,248	91,832	125,089	11,364	308,533
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ -	6,350	-	-	6,350
Unreserved	80,248	85,482	125,089	11,364	302,183
Total cash basis fund balances	\$ 80,248	91,832	125,089	11,364	308,533

See notes to financial statements.

City of Schaller

Notes to Financial Statements

June 30, 2010

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

The City of Schaller is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste collection utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

The City also participates in the Sac County Solid Waste Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

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 receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for employee pensions and other benefits.

The Economic Development Revolving Loan Fund is used to account for economic development business loans financed by funds accumulated.

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 Rental Fund accounts for the operation and maintenance of the City's wastewater system.

The Enterprise, Solid Waste Collection Fund accounts for the operation and maintenance of the City's solid waste pickup and landfill fee system.

C. Measurement Focus and Basis of Accounting

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

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

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 culture and recreation 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.

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

**(3) Long-Term Debt**

Sewer Revenue Bonds

On June 3, 2009, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority for the issuance of \$1,150,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of establishing a municipal sanitary sewer system. The funds were drawn by the City

from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2010, the City had drawn down \$1,150,000, including an \$11,500 initiation fee, and made a principal payment of \$42,000 and an interest payment of \$23,745, leaving a principal balance of \$1,108,000 at June 30, 2010. A final repayment schedule has not yet been adopted.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$1,150,000 of sewer revenue bonds issued in June 2009. Proceeds from the bonds provided financing to establish a municipal sanitary sewer system. The bonds are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$65,745 and \$77,942, respectively.

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

- (a) Money shall be transferred to a Sewer Revenue Bond Sinking Fund for the sole purpose of paying interest and principal.
- (b) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- (c) To maintain the utility in good repair, working order and operating condition.
- (d) To maintain adequate insurance coverage and keep proper books.
- (e) To maintain and not sell, lease or dispose of the utility or any capital part of the system until the revenue bonds are paid in full or discharged.

The City has not established a sinking fund.

#### Sewer General Obligation Bonds

On November 4, 2009, the City entered into a general obligation sewer improvement bond agreement with the Iowa Finance Authority for the issuance of \$150,000 of sewer improvement bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of establishing a municipal sanitary sewer system. The funds will be drawn by the City from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn down \$62,393, including a \$1,500 initiation fee, and made a \$5,000 principal payment. At June 30, 2010, the outstanding principal balance was \$57,393. Since the City has not finalized the project, a final repayment schedule has not yet been adopted.

#### **(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 \$9,523, equal to the required contribution for the year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 4 active members in the plan. Retired participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$420 for single coverage and \$1,050 for family coverage. For the year ended June 30, 2010, the City contributed \$27,624 and plan members eligible for benefits contributed \$8,172 to the plan.

**(6) Compensated Absences**

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

Type of Benefit	Amount
Vacation	\$ 3,000
Compensatory time	<u>5,500</u>
Total	<u>\$ 8,500</u>

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

**(7) 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 \$17,850.

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 by The Travelers Insurance Company.

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 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 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from another insurer for coverage associated with workers' compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(8) Economic Development Revolving Loan Fund**

The City has established a Special Revenue, Economic Development Revolving Loan Fund and makes loans for economic development projects. Conditions of the loans are determined by the Loan Review Committee on a case by case basis, with final approval by the City Council. Current loans are for a period of ten years, bear interest rates ranging from 2% to 6.25% per annum and are to be repaid in either monthly or quarterly installments. During the year ended June 30, 2010, principal collections of \$11,050 were received. The outstanding loan principal balance at June 30, 2010 was \$55,300.

**Required Supplementary Information**

City of Schaller  
 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	\$ 146,065	-
Other city tax	50,492	-
Licenses and permits	815	-
Use of money and property	19,372	3,150
Intergovernmental	111,181	-
Charges for service	6,721	260,609
Special assessments	888	-
Miscellaneous	47,588	162
Total receipts	383,122	263,921
Disbursements:		
Public safety	107,030	-
Public works	82,889	-
Culture and recreation	108,348	-
Community and economic development	779	-
General government	43,615	-
Debt service	5,375	-
Business type activities	-	1,341,307
Total disbursements	348,036	1,341,307
Excess (deficiency) of receipts over (under) disbursements	35,086	(1,077,386)
Other financing sources, net	-	1,117,893
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	35,086	40,507
Balances beginning of year	365,302	268,026
Balances end of year	\$ 400,388	308,533

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
146,065	138,948	138,948	7,117
50,492	43,925	43,925	6,567
815	828	828	(13)
22,522	22,821	22,821	(299)
111,181	100,831	100,831	10,350
267,330	214,500	264,734	2,596
888	-	-	888
47,750	9,350	22,896	24,854
647,043	531,203	594,983	52,060
107,030	183,009	183,009	75,979
82,889	132,205	132,205	49,316
108,348	96,197	107,197	(1,151)
779	59,393	59,393	58,614
43,615	88,590	91,136	47,521
5,375	12,654	20,100	14,725
1,341,307	441,852	1,696,843	355,536
1,689,343	1,013,900	2,289,883	600,540
(1,042,300)	(482,697)	(1,694,900)	652,600
1,117,893	-	1,217,000	(99,107)
75,593	(482,697)	(477,900)	553,493
633,328	541,132	541,132	92,196
708,921	58,435	63,232	645,689

City of Schaller

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,275,983. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the culture and recreation function.

**City of Schaller**

**Other Supplementary Information**

## City of Schaller

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

As of and for the year ended June 30, 2010

	Debt Service	Capital Projects	Total
Receipts:			
Special assessments	\$ 888	-	888
Disbursements:			
Debt service	5,375	-	5,375
Deficiency of receipts under disbursements	(4,487)	-	(4,487)
Cash balances beginning of year	28,746	1,263	30,009
Cash balances end of year	<u>\$ 24,259</u>	<u>1,263</u>	<u>25,522</u>
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service fund	\$ 24,259	-	24,259
Unreserved:			
Capital projects fund	-	1,263	1,263
Total cash basis fund balances	<u>\$ 24,259</u>	<u>1,263</u>	<u>25,522</u>

See accompanying independent auditor's report.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds:			
Sewer revenue bonds, Series 2009	Jun 3, 2009	* 3.00%	\$ 1,150,000
General obligation bonds:			
Sewer improvement bonds, Series 2009A	Nov 4, 2009	3.00%	\$ 150,000

\* The City is also required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
94,500	1,055,500	42,000	1,108,000	23,745
-	62,393	5,000	57,393	-

**City of Schaller**



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

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Auditor of State

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Schaller 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 February 23, 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 Schaller'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 Schaller's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Schaller'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 certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Schaller'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 no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Schaller'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 Schaller'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 the City of Schaller and other parties to whom the City of Schaller 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 Schaller 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

February 23, 2011

## **Schedule of Findings**

City of Schaller

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. For the City, one individual has control over each of the following areas:
- (1) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (2) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
  - (3) Payroll – recordkeeping, preparation and distribution.
  - (4) Utilities – billing, collecting, depositing and posting.
  - (5) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
  - (6) Cash – handling, reconciling and recording.
  - (7) Debt – recordkeeping, compliance and debt payment processing.
  - (8) Information system (computer usage) – performing all general accounting functions and controlling all data and output.

For the Firemen’s account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements - preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

For the Parks Department account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements - preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

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 – A member of the Council will review the bank reconciliation and statements on a sample basis randomly during the year and will date and initial the

City of Schaller

Schedule of Findings

Year ended June 30, 2010

reviewed documents. The Council will request the Fire Department and Park Board assign someone this task also.

Conclusion – Response accepted.

- (B) Financial Reporting – During the audit, we identified material financial activity related to the Fire and Parks Departments which was not included in the City’s accounting records. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – For better accountability, financial and budgetary control, all City financial activity and balances should be recorded in the clerk’s records.

Responses – The Council will request the Parks and Fire Department provide monthly income and disbursements lists to the City Clerk to be included in the City’s published monthly financial reports and in the budget.

Conclusions – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies on a monthly basis. The Council should review the reconciliation and monitor delinquencies.

Response – The City Clerk will work to establish a utility reconciliation report which the Council will review to monitor all accounts and delinquencies.

Conclusion – Response accepted.

- (D) Information System – The following weaknesses in the City’s information system were noted:

The City does not have written policies for:

- (1) Requiring the use of a user name or password.
- (2) Requiring the maintenance of password privacy and confidentiality.
- (3) Requiring passwords to be changed at least every 60 to 90 days.
- (4) Requiring password history to be maintained to prevent employees from using the same password.
- (5) Usage of the internet.

Also, the City does not have a written disaster recovery plan.

City of Schaller

Schedule of Findings

Year ended June 30, 2010

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based financial systems. Also, a written disaster recovery plan should be developed and tested periodically.

Response – The City will give consideration to developing written policies to improve control over the computer systems and to developing a written disaster recovery plan.

Conclusion – Response accepted.

- (E) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Ensure city accounts are appropriately utilized.

Response – The City Clerk will work to create a written procedure manual for the Clerk’s position.

Conclusion – Response accepted.

- (F) Separately Maintained Accounts – Monthly reconciliations of book and bank balances, including investments, were not prepared by the Parks Department. While a bank reconciliation was performed by the Fire Department, an independent person did not review the reconciliation.

Prenumbered receipts were not issued for all collections. Additionally, the Fire Department did not retain invoices to support amounts paid.

Recommendation – To improve financial accountability and control, the book and bank balances should be reconciled monthly. Any variances should be investigated and resolved timely. A listing of outstanding checks should be prepared each month and retained. An independent review of the reconciliation should be performed.

Response – The City will request the Parks Department do a monthly bank reconciliation and ask the Parks and Fire Departments to provide the reconciliations to the Council for review and inclusion with the City’s financial reports. Receipts will be issued for all collections and Fire Department invoices will be retained.

Conclusion – Response accepted.

City of Schaller

Schedule of Findings

Year ended June 30, 2010

- (G) Credit Cards – The City has credit cards and charge accounts for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and charge accounts and to establish procedures for the proper accounting of credit card and charge account charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards and charge accounts. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and charge accounts and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The Council will consider adopting formal written policies for credit card usage and charge accounts.

Conclusion – Response accepted.

- (H) Compensatory Time Balances – The City is not following the provisions of the City’s employee contracts regarding the maximum allowable carryover of compensatory time hours. During the year ended June 30, 2010, certain employees had compensatory time balances exceeding the maximum allowable carryover.

Recommendation – The City should limit the carryover of employee’s compensatory time hours as prescribed by City’s employee contracts.

Response – The City will work to ensure all employees compensatory time is kept within the allowable amounts going forward.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Schaller

Schedule of Findings

Year ended June 30, 2010

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amount budgeted in the culture and recreation 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 sufficient amounts 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 sufficient amounts in the future.

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:

Paid To	Purpose	Amount
Lobo's	Appreciation supper expenses	\$ 214
Sparky's	Supplies for pancake benefit	42

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 Council will review these disbursements to determine the public purpose they were utilized for. The Council will consider developing written policies to ensure all required documentation is maintained and reviewed within all departments going forward.

Conclusion – Response accepted.

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

- (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
Jeffrey Hansen, Police Chief, owner of Hometown Foods	Supply purchases	\$ 470

City of Schaller

Schedule of Findings

Year ended June 30, 2010

The transactions with Jeffrey Hanson do not appear to represent a conflict of interest in accordance with Chapter 362.5 of the Code of Iowa since they total 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 ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days and did not include total disbursements from each fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa because the City excluded amounts from separately maintained records.

The City went into closed session on June 14, 2010, “at the request of employee.” However, this is not an allowable reason listed in Chapter 21.5 of the Code of Iowa for closing a meeting.

Recommendation – The City should ensure the minutes, list of claims, summary of receipts and total disbursements by fund are published as required by Chapter 372 of the Code of Iowa.

Also, the City should comply with Chapter 21 of the Code of Iowa.

Response – The City will work with the newspaper to try to ensure the minutes are published within the allowable timeframe going forward, and the City will be working with the Parks and Fire Departments to include their monthly financial information on the published City financial listing. The Council will only go into closed session for an allowable reason as listed in Chapter 21.5 of the Code of Iowa.

Conclusion – Response accepted.

- (7) Deposits and Investments – The investment policy refers to an old section of the Code of Iowa.

Recommendation – The investment policy should be amended to refer to Chapters 12B and 12C of the Code of Iowa.

Response – The Council will develop a new investment policy for the City which refers to Chapters 12B and 12C of the Code of Iowa.

Conclusion – Response accepted.

- (8) Revenue Bonds - The City has not established and made the required transfers to the Enterprise Fund, Sewer Revenue Bond Sinking Fund as required by the sewer revenue bond resolution.

City of Schaller

Schedule of Findings

Year ended June 30, 2010

Recommendation - The City should establish the Enterprise Fund, Sewer Revenue Bond Sinking Fund and make the monthly transfers as required by the Sewer Revenue Bond resolution.

Response – The Council has established a Sewer Revenue Bond Sinking Fund and will make the appropriate funds transfers as required by the bond resolution.

Conclusion – Response accepted.

- (9) Separately Maintained Records – The Fire and Parks Departments maintain bank accounts for fundraiser activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, the transactions and the resulting balances are included in these financial statements.

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

Response – The Council will request the Parks and Fire Departments provide monthly income and disbursement lists to the City Clerk to be included in the published monthly financial reports for the City.

Conclusion – Response accepted.

- (10) Special Revenue Levies – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City credited the emergency tax levy to the General Fund rather than establishing a separate Emergency Fund.

Recommendation – The City should establish a separate special revenue fund for the emergency fund tax levy as required.

Response – The City will establish a separate special revenue fund for any future emergency tax levy funds received and transfer to the General Fund.

Conclusion – Response accepted.

- (11) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s annual financial report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures....” The City’s annual financial report did not include the separately maintained Fire and Parks Departments activities for the year as required by Chapter 384.22 of the Code of Iowa.

City of Schaller

Schedule of Findings

Year ended June 30, 2010

Recommendation – The annual financial report should include all City funds and Department activity.

Response – The City will work with the Parks and Fire Departments going forward to try to ensure all finances are included in the annual financial report.

Conclusion – Response accepted.

- (12) City Code – The City Code has not been recodified within the past five years.

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

Response – The City is currently under contract and working with Iowa Codification to have all ordinances recodified.

Conclusion – Response accepted.

- (13) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City and the Fire and Park Departments retain electronic images of the front of cancelled checks, but not the back of cancelled checks.

Recommendation – The City and Fire and Parks Departments should retain an image of both the front and back of each cancelled check as required.

Response – The City will request the State Bank of Schaller provide the City, and Fire and Parks Departments with copies of both the front and back of each check.

Conclusion – Response accepted.

- (14) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires the City to report and remit outstanding obligations, including checks, trusts and bonds held for more than three years, to the State Treasurer's Office annually. During the year, the City did not review outstanding obligations and remit the applicable obligations as required.

Recommendation – The outstanding checks list should be reviewed annually and amounts over three years old should be remitted to the State Treasurer's Office as required.

Response – The City will develop a policy to submit outstanding checks to the State Treasurer's Office annually.

Conclusion – Response accepted.

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City of Schaller

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Brett M. Zeller, Staff Auditor  
Ainslee M. Barnes, 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