



**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

**NEWS RELEASE**

FOR RELEASE January 30, 2004

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$1,216,015 for the year ended June 30, 2003. The receipts included \$317,454 in property tax, \$8,531 in tax increment financing collections, \$181,173 from other governments, and \$30,103 in interest on investments. The City also received \$237,720 in general obligation corporate purpose note proceeds that are reported as other financing sources.

Disbursements for the year totaled \$1,260,015, and included \$423,969 for business type activities, \$225,379 for public safety, and \$218,495 for culture and recreation.

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

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

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

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**City of Holstein**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mary Gross	Mayor	Jan 2004
John Fell	Council Member	Jan 2004
Fred Lukins	Council Member	Jan 2004
Dennis Breyfogle	Council Member	Jan 2004
Cliff Friedrichsen	Council Member	Jan 2006
Donivan Sander	Council Member	(Deceased)
Tom Kofmehl (Appointed)	Council Member	Nov 2003
David Ehler	Clerk	Dec 2002
Dan Gifford (Appointed)	Administrator/Clerk	Indefinite
Marlo Schoer	Deputy Clerk/Treasurer	Indefinite
Thad Cosgrove	Attorney	Indefinite

**City of Holstein**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

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

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

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

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2003 on our consideration of the City of Holstein's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the third preceding paragraph, is fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 4, 2003



## **Financial Statements**

City of Holstein

Combined Statement of Cash Transactions

All Fund Types

Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 260,613	43,635	13,206
Tax increment financing collections	-	8,531	-
Other city tax	14,709	1,220	363
Licenses and permits	2,937	-	-
Use of money and property	10,180	2,801	-
Intergovernmental	61,496	119,677	-
Charges for service	223,134	-	-
Special assessments	4,675	-	-
Miscellaneous	29,427	1,961	-
Total receipts	<u>607,171</u>	<u>177,825</u>	<u>13,569</u>
Disbursements:			
Public safety	225,379	-	-
Public works	118,426	78,917	-
Health and social services	18,075	-	-
Culture and recreation	217,345	-	-
General government	76,949	42,518	-
Debt service	-	-	51,398
Business type activities	-	-	-
Non-program	-	-	-
Total disbursements	<u>656,174</u>	<u>121,435</u>	<u>51,398</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(49,003)</u>	<u>56,390</u>	<u>(37,829)</u>
Other financing sources (uses):			
General obligation corporate purpose note proceeds (net of \$2,280 discount)	40,000	-	-
Operating transfers in	7,683	-	32,514
Operating transfers out	(9,125)	(29,095)	-
Total other financing sources (uses)	<u>38,558</u>	<u>(29,095)</u>	<u>32,514</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(10,445)</u>	<u>27,295</u>	<u>(5,315)</u>
Balance beginning of year	<u>81,443</u>	<u>183,822</u>	<u>5,330</u>
Balance end of year	<u>\$ 70,998</u>	<u>211,117</u>	<u>15</u>

See notes to financial statements.

Proprietary Fund Types		Fiduciary	Total
Enterprise	Internal Service	Fund Type Trusts	(Memorandum Only)
-	-	-	317,454
-	-	-	8,531
-	-	-	16,292
-	-	-	2,937
2,044	279	16,416	31,720
-	-	-	181,173
261,483	-	-	484,617
-	-	-	4,675
11,985	109,906	15,337	168,616
275,512	110,185	31,753	1,216,015
-	-	-	225,379
-	-	-	197,343
-	-	-	18,075
-	-	1,150	218,495
-	-	-	119,467
-	-	-	51,398
423,969	-	-	423,969
-	5,889	-	5,889
423,969	5,889	1,150	1,260,015
(148,457)	104,296	30,603	(44,000)
197,720	-	-	237,720
105,103	-	-	145,300
(105,103)	-	(1,977)	(145,300)
197,720	-	(1,977)	237,720
49,263	104,296	28,626	193,720
163,742	132,080	448,783	1,015,200
213,005	236,376	477,409	1,208,920

City of Holstein

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property tax	\$ 317,454	-
Tax increment financing collections	8,531	-
Other city tax	16,292	-
Licenses and permits	2,937	-
Use of money and property	31,720	279
Intergovernmental	181,173	-
Charges for service	484,617	-
Special assessments	4,675	-
Miscellaneous	168,616	109,906
Total receipts	<u>1,216,015</u>	<u>110,185</u>
Disbursements:		
Public safety	225,379	-
Public works	197,343	-
Health and social services	18,075	-
Culture and recreation	218,495	-
General government	119,467	-
Debt service	51,398	-
Business type activities	423,969	-
Non-program	5,889	5,889
Total disbursements	<u>1,260,015</u>	<u>5,889</u>
Excess (deficiency) of receipts (over) under disbursements	(44,000)	104,296
Other financing sources, net	<u>237,720</u>	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	193,720	104,296
Balance beginning of year	<u>1,015,200</u>	<u>132,080</u>
Balance end of year	<u>\$ 1,208,920</u>	<u>236,376</u>

See notes to financial statements.

Net	Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
317,454	315,554	1,900	101%
8,531	7,000	1,531	122%
16,292	9,503	6,789	171%
2,937	4,150	(1,213)	71%
31,441	34,000	(2,559)	92%
181,173	186,017	(4,844)	97%
484,617	691,350	(206,733)	70%
4,675	3,260	1,415	143%
58,710	24,100	34,610	244%
1,105,830	1,274,934	(169,104)	87%
225,379	199,161	(26,218)	113%
197,343	258,397	61,054	76%
18,075	18,000	(75)	100%
218,495	250,037	31,542	87%
119,467	126,949	7,482	94%
51,398	127,851	76,453	40%
423,969	428,145	4,176	99%
-	-	-	
1,254,126	1,408,540	154,414	89%
(148,296)	(133,606)		
237,720	63,299		
89,424	(70,307)		
883,120	534,945		
972,544	464,638		

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City of Holstein  
Statement of Indebtedness  
Year ended June 30, 2003

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Jun 1, 2000	4.80-5.55%	\$ 475,000
Corporate purpose	Jun 1, 2003	1.20-3.50	240,000
Total			
Revenue bonds:			
Sewer	May 5, 1997	4.19%	\$ 1,036,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
415,000	-	30,000	385,000	21,398
-	240,000	-	240,000	-
<u>\$ 415,000</u>	<u>240,000</u>	<u>30,000</u>	<u>625,000</u>	<u>21,398</u>
<u>890,000</u>	<u>-</u>	<u>40,000</u>	<u>850,000</u>	<u>36,453</u>

**City of Holstein**



City of Holstein

Notes to Financial Statements

June 30, 2003

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

The City of Holstein is a political subdivision of the State of Iowa located in Ida County. It was first incorporated in 1882 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, general government and business type activities.

A. Reporting Entity

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

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: Ida County Assessor's Conference Board, Ida County Public Safety and Communications Commission and the Joint County/Municipal Disaster Services and Emergency Planning Administration.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

## Governmental Funds

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

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

## Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

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

## Fiduciary Funds

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include Expendable Trust Funds.

### C. Basis of Accounting

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

### D. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 50,000	26,147	40,000	34,777	90,000	60,924
2005	50,000	24,453	45,000	32,996	95,000	57,449
2006	55,000	22,702	45,000	31,111	100,000	53,813
2007	65,000	20,650	50,000	29,120	115,000	49,770
2008	65,000	18,080	50,000	27,026	115,000	45,106
2009	65,000	15,396	50,000	24,930	115,000	40,326
2010	65,000	12,628	55,000	22,731	120,000	35,359
2011	50,000	9,752	55,000	20,426	105,000	30,178
2012	50,000	7,615	60,000	18,017	110,000	25,632
2013	55,000	5,427	60,000	15,503	115,000	20,930
2014	25,000	3,028	65,000	12,884	90,000	15,912
2015	30,000	1,665	65,000	10,161	95,000	11,826
2016	-	-	70,000	7,332	70,000	7,332
2017	-	-	70,000	4,399	70,000	4,399
2018	-	-	70,000	1,467	70,000	1,467
Total	\$ 625,000	167,543	850,000	292,880	1,475,000	460,423

During the year ended June 30, 2003, the City issued \$240,000 in general obligation notes and retired \$70,000 of notes and bonds.

The resolution providing for the issuance of the sewer revenue bonds issued under a loan agreement between the City of Holstein, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. include the following provisions:

- (a) The bonds will only be redeemed from future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of making bond principal and interest payments when insufficient money is available in the sinking account. The City has not established this account or made any of the required transfers.

#### **(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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$11,441, equal to the required contribution for the year.

#### **(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for earned vacation termination payments payable to employees at June 30, 2003, primarily relating to the General Fund, was \$7,000. This liability has been computed based on rates of pay in effect at June 30, 2003.

#### **(6) Risk Management**

The City of Holstein 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) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the public safety and health and social services functions exceeded the amounts budgeted.

**(8) Related Party Transactions**

The City had business transactions totaling \$11,413 between the City and City officials during the year ended June 30, 2003.

**(9) Construction Contracts**

During the year ended June 30, 2003, the City entered into water plant improvement contracts totaling \$199,660. Funding for this project has been provided through the issuance of general obligation notes dated June 1, 2003. The City paid \$128,231 on these contracts during the year ended June 30, 2003. At June 30, 2003, \$71,429 remains unpaid and will be paid as work on the project progresses.

**(10) Deficit Balance**

The Enterprise Fund, Water Account had a deficit balance of \$141,295 at June 30, 2003. The deficit balance was a result of water project costs. The deficit will be eliminated by a transfer from the project fund.

**City of Holstein**

**Supplemental Information**

**Schedule 1**

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

	General	Fire Department	Total
Receipts:			
Property tax	\$ 260,613	-	260,613
Other city tax:			
Utility tax replacement excise tax	7,259	-	7,259
Cable franchise fee	7,450	-	7,450
	14,709	-	14,709
Licenses and permits:			
Beer and liquor	1,545	-	1,545
Cigarette	450	-	450
Building	130	-	130
Pet	812	-	812
	2,937	-	2,937
Use of money and property:			
Interest on investments	8,288	275	8,563
Equipment rent	1,617	-	1,617
	9,905	275	10,180
Intergovernmental:			
State allocation	19,396	-	19,396
Library open-access program	1,862	-	1,862
County library contribution	5,340	-	5,340
Bank franchise tax	18,872	-	18,872
Federal emergency management agency grant	1,366	-	1,366
Township fire protection	14,660	-	14,660
	61,496	-	61,496
Charges for service:			
Ambulance charges	55,194	-	55,194
Garbage and refuse fees and tags	79,730	-	79,730
Taxi fares	1,467	-	1,467
Community center fees	67,732	-	67,732
Swimming pool admissions and concessions	17,367	-	17,367
Library charges	1,644	-	1,644
	223,134	-	223,134
Special assessment	4,675	-	4,675
Miscellaneous:			
Traffic and parking fines	215	-	215
Court fines	206	-	206
Sales taxes collected	3,341	-	3,341
Donations and contributions	-	20,314	20,314
Refunds	1,015	-	1,015
Reimbursements	2,687	-	2,687
Miscellaneous	1,649	-	1,649
	9,113	20,314	29,427
Total receipts	586,582	20,589	607,171



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

	Fire		Total
	General	Department	
Disbursements:			
Public safety:			
Police:			
Services and commodities	122,803	-	122,803
Fire:			
Services and commodities	16,902	15,821	32,723
Capital outlay	9,629	15,262	24,891
	<u>26,531</u>	<u>31,083</u>	<u>57,614</u>
Ambulance:			
Services and commodities	9,534	-	9,534
Capital outlay	32,570	-	32,570
	<u>42,104</u>	<u>-</u>	<u>42,104</u>
Emergency management:			
Services and commodities	2,858	-	2,858
	<u>194,296</u>	<u>31,083</u>	<u>225,379</u>
Public works:			
Roads, bridges, sidewalks:			
Capital outlay	19,250	-	19,250
Traffic control and safety:			
Services and commodities	9,874	-	9,874
Garbage:			
Services and commodities	89,302	-	89,302
	<u>118,426</u>	<u>-</u>	<u>118,426</u>
Health and social services:			
Transit:			
Personal services	15,500	-	15,500
Services and commodities	2,075	-	2,075
Capital outlay	500	-	500
	<u>18,075</u>	<u>-</u>	<u>18,075</u>
Culture and recreation:			
Library:			
Personal services	19,271	-	19,271
Services and commodities	20,775	-	20,775
Capital outlay	1,010	-	1,010
	<u>41,056</u>	<u>-</u>	<u>41,056</u>
Parks and recreation:			
Services and commodities	4,804	-	4,804
Capital outlay	5,072	-	5,072
	<u>9,876</u>	<u>-</u>	<u>9,876</u>

**Schedule 1**

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

	Fire		Total
	General	Department	
Disbursements (continued):			
Culture and recreation:			
Cemetery:			
Services and commodities	3,000	-	3,000
Community center:			
Personal services	62,481	-	62,481
Services and commodities	36,796	-	36,796
Capital outlay	1,885	-	1,885
	<u>101,162</u>	-	<u>101,162</u>
Swimming pool:			
Personal services	15,318	-	15,318
Services and commodities	12,872	-	12,872
Capital outlay	34,061	-	34,061
	<u>62,251</u>	-	<u>62,251</u>
	<u>217,345</u>	-	<u>217,345</u>
General government:			
Financial:			
Personal services	30,649	-	30,649
Services and commodities	21,739	-	21,739
Capital outlay	4,909	-	4,909
	<u>57,297</u>	-	<u>57,297</u>
Legal services:			
Services and commodities	11,808	-	11,808
Tort liability:			
Services and commodities	7,844	-	7,844
	<u>76,949</u>	-	<u>76,949</u>
Total disbursements	<u>625,091</u>	<u>31,083</u>	<u>656,174</u>
Deficiency of receipts under disbursements	<u>(38,509)</u>	<u>(10,494)</u>	<u>(49,003)</u>
Other financing sources (uses):			
General obligation corporate purpose note proceeds	40,000	-	40,000
Operating transfers in (out):			
General:			
General	-	5,706	5,706
Fire Department	(5,706)	-	(5,706)
Debt Service:			
Street	(3,419)	-	(3,419)
Trust:			
Stubbs Memorial Library	1,977	-	1,977
Total other financing sources (uses)	<u>32,852</u>	<u>5,706</u>	<u>38,558</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	<u>(5,657)</u>	<u>(4,788)</u>	<u>(10,445)</u>
Balance beginning of year	<u>61,814</u>	<u>19,629</u>	<u>81,443</u>
Balance end of year	<u>\$ 56,157</u>	<u>14,841</u>	<u>70,998</u>

See accompanying independent auditor's report.

**City of Holstein**

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

	Road Use Tax	Employee Benefits
Receipts:		
Property tax	\$ -	36,182
Tax increment financing collections	-	-
Other city tax:		
Utility tax replacement excise tax	-	1,011
Use of money and property:		
Interest on investments	-	-
Intergovernmental:		
Road use tax allocation	119,677	-
Miscellaneous:		
Reimbursements	-	1,961
Total receipts	<u>119,677</u>	<u>39,154</u>
Disbursements:		
Public works:		
Roads, bridges, sidewalks:		
Personal services	33,809	-
Services and commodities	41,569	-
Capital outlay	3,539	-
	<u>78,917</u>	<u>-</u>
General government:		
Personal services	-	42,518
Total disbursements	<u>78,917</u>	<u>42,518</u>
Excess (deficiency) of receipts over (under) disbursements	40,760	(3,364)
Other financing uses:		
Operating transfers out:		
Debt Service:		
Urban Renewal	-	-
	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements and other financing uses	40,760	(3,364)
Balance beginning of year	<u>11,979</u>	<u>16,825</u>
Balance end of year	<u>\$ 52,739</u>	<u>13,461</u>

See accompanying independent auditor's report.

Emergency	Urban Renewal Project	Urban Renewal Escrow	Total
7,453	-	-	43,635
-	8,531	-	8,531
209	-	-	1,220
-	-	2,801	2,801
-	-	-	119,677
-	-	-	1,961
<u>7,662</u>	<u>8,531</u>	<u>2,801</u>	<u>177,825</u>
-	-	-	33,809
-	-	-	41,569
-	-	-	3,539
-	-	-	78,917
-	-	-	42,518
-	-	-	121,435
7,662	8,531	2,801	56,390
-	(7,000)	(22,095)	(29,095)
7,662	1,531	(19,294)	27,295
-	-	155,018	183,822
<u>7,662</u>	<u>1,531</u>	<u>135,724</u>	<u>211,117</u>

**Schedule 3**

City of Holstein  
Combining Schedule of Cash Transactions  
Debt Service Fund  
Year ended June 30, 2003

	Street	Urban Renewal	Total
Receipts:			
Property tax	\$ 13,206	-	13,206
Other city tax:			
Utility tax replacement excise tax	363	-	363
Total receipts	<u>13,569</u>	<u>-</u>	<u>13,569</u>
Disbursements:			
Debt service:			
Principal redeemed	15,000	15,000	30,000
Interest paid	7,303	14,095	21,398
Total disbursements	<u>22,303</u>	<u>29,095</u>	<u>51,398</u>
Deficiency of receipts under disbursements	<u>(8,734)</u>	<u>(29,095)</u>	<u>(37,829)</u>
Other financing sources:			
Operating transfers in:			
General:			
General	3,419		3,419
Special Revenue:			
Urban Renewal Project	-	7,000	7,000
Urban Renewal Escrow	-	22,095	22,095
Total other financing sources	<u>3,419</u>	<u>29,095</u>	<u>32,514</u>
Deficiency of receipts and other financing sources under disbursements	<u>(5,315)</u>	<u>-</u>	<u>(5,315)</u>
Balance beginning of year	<u>5,330</u>	<u>-</u>	<u>5,330</u>
Balance end of year	<u>\$ 15</u>	<u>-</u>	<u>15</u>

See accompanying independent auditor's report.

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

	Water	Water Capital Projects	Sewer Rental	Sewer Capital Projects	Sewer Sinking	Total
Receipts:						
Use of money and property:						
Interest on investments	\$ -	1,053	-	991	-	2,044
Charges for service:						
Sale of water	86,231	-	-	-	-	86,231
Customer late charges	1,960	-	-	-	-	1,960
Water capital reserve charge	-	23,494	-	-	-	23,494
Water availability charge	-	1,675	-	-	-	1,675
Sewer rental fees	-	-	52,893	-	-	52,893
Sewer debt service charge	-	-	-	95,230	-	95,230
	88,191	25,169	52,893	95,230	-	261,483
Miscellaneous:						
Sales tax collected	4,125	-	748	-	-	4,873
Miscellaneous	4,747	17	2,348	-	-	7,112
	8,872	17	3,096	-	-	11,985
Total receipts	97,063	26,239	55,989	96,221	-	275,512
Disbursements:						
Business type activities:						
Personal services	29,525	-	35,585	-	-	65,110
Services and commodities	70,415	-	25,892	-	-	96,307
Capital outlay	141,271	-	44,828	-	-	186,099
Debt service:						
Principal redeemed	-	-	-	-	40,000	40,000
Interest paid	-	-	-	-	36,453	36,453
Total disbursements	241,211	-	106,305	-	76,453	423,969
Excess (deficiency) of receipts over (under) disbursements	(144,148)	26,239	(50,316)	96,221	(76,453)	(148,457)
Other financing sources (uses):						
General obligation corporate purpose note proceeds (net of \$2,280 discount)	-	197,720	-	-	-	197,720
Operating transfers in (out):						
Enterprise:						
Sewer Rental	-	-	-	(28,650)	-	(28,650)
Sewer Capital Projects	-	-	28,650	-	76,453	105,103
Sewer Sinking	-	-	-	(76,453)	-	(76,453)
Total other financing sources (uses)	-	197,720	28,650	(105,103)	76,453	197,720
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(144,148)	223,959	(21,666)	(8,882)	-	49,263
Balance beginning of year	2,853	52,003	45,604	63,282	-	163,742
Balance end of year	\$(141,295)	275,962	23,938	54,400	-	213,005

See accompanying independent auditor's report.

**Schedule 5**

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## City of Holstein

## Combining Schedule of Cash Transactions

## Internal Service Funds

Year ended June 30, 2003

	<u>Equipment Revolving</u>	<u>Insurance Claims</u>	<u>Total</u>
Receipts:			
Use of money and property:			
Interest on investments	\$ -	279	279
Miscellaneous:			
Reimbursements from operating funds	105,906	4,000	109,906
Total receipts	<u>105,906</u>	<u>4,279</u>	<u>110,185</u>
Disbursements:			
Non-program:			
Services and commodities	-	3,063	3,063
Capital outlay	2,826	-	2,826
Total disbursements	<u>2,826</u>	<u>3,063</u>	<u>5,889</u>
Excess of receipts over disbursements	103,080	1,216	104,296
Balance beginning of year	<u>118,562</u>	<u>13,518</u>	<u>132,080</u>
Balance end of year	<u>\$ 221,642</u>	<u>14,734</u>	<u>236,376</u>

See accompanying independent auditor's report.



**City of Holstein**

City of Holstein  
 Combining Schedule of Cash Transactions  
 Trust Funds  
 Year ended June 30, 2003

	Expendable	
	Geber Trust	Lohff Estate
Receipts:		
Use of money and property:		
Interest on investments	\$ 375	3,541
Miscellaneous:		
Memorial and gifts	-	-
Gates Foundation computer grant	-	-
Total receipts	375	3,541
Disbursements:		
Culture and recreation:		
Services and commodities	-	-
Excess of receipts over disbursements	375	3,541
Other financing uses:		
Operating transfers out:		
General:		
General	-	-
Excess of receipts over disbursements	375	3,541
Balance beginning of year	17,148	129,826
Balance end of year	\$ 17,523	133,367

See accompanying independent auditor's report.

Trusts		
Centennial Trust	Stubbs Memorial Library	Total
1,201	11,299	16,416
500	3,377	3,877
-	11,460	11,460
500	14,837	15,337
1,701	26,136	31,753
900	250	1,150
801	25,886	30,603
-	(1,977)	(1,977)
801	23,909	28,626
35,796	266,013	448,783
36,597	289,922	477,409

**Schedule 7**

## City of Holstein

## Bond and Note Maturities

June 30, 2003

Year Ending June 30,	General Obligation Corporate Purpose Notes					Total
	Issued Jun 1, 2000		Issued Jun 1, 2003			
	Interest Rates	Amount	Interest Rates	Amount		
2004	4.85%	\$ 30,000	1.20%	\$ 20,000	\$ 50,000	
2005	4.90	30,000	1.40	20,000	50,000	
2006	4.95	35,000	1.60	20,000	55,000	
2007	5.05	40,000	2.20	25,000	65,000	
2008	5.15	40,000	2.50	25,000	65,000	
2009	5.20	40,000	2.75	25,000	65,000	
2010	5.25	40,000	3.10	25,000	65,000	
2011	5.30	25,000	3.25	25,000	50,000	
2012	5.35	25,000	3.40	25,000	50,000	
2013	5.40	25,000	3.50	30,000	55,000	
2014	5.45	25,000		-	25,000	
2015	5.55	30,000		-	30,000	
Total		<u>\$ 385,000</u>		<u>\$ 240,000</u>	<u>\$ 625,000</u>	

Year Ending June 30,	Sewer Revenue Bonds	
	Issued May 5, 1997	
	Interest Rates	Amount
2004	4.19%	\$ 40,000
2005	4.19	45,000
2006	4.19	45,000
2007	4.19	50,000
2008	4.19	50,000
2009	4.19	50,000
2010	4.19	55,000
2011	4.19	55,000
2012	4.19	60,000
2013	4.19	60,000
2014	4.19	65,000
2015	4.19	65,000
2016	4.19	70,000
2017	4.19	70,000
2018	4.19	70,000
Total		<u>\$ 850,000</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance  
and Internal Control over Compliance**

**City of Holstein**



**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 Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Holstein, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 4, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved except for items (2) and (5).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Holstein's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Holstein's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses. Prior audit reportable conditions have been resolved except for item (A).

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 Holstein and other parties to whom the City of Holstein may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Holstein 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

November 4, 2003



City of Holstein  
Schedule of Findings  
Year ended June 30, 2003

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important aspect of internal accounting 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:

- (1) Receipts – collecting, depositing and recording.
- (2) Disbursements – purchasing, check signing, recording and reconciling.
- (3) Payroll – preparing and distributing.
- (4) Utilities – collecting, depositing and recording.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – We will investigate possible areas to further segregate duties.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to document reconciliations of utility billings, collections and delinquencies for each billing period. The Council should review the reconciliations and monitor delinquencies.

Response – We will document the reconciliation of billings to collections and unpaid accounts each billing period.

Conclusion – Response accepted.

City of Holstein

Schedule of Findings

Year ended June 30, 2003

- (C) Records of Accounts – The Fire Department maintains its own accounting records and the transactions and resulting balances are not recorded in the Clerk’s records. Chapter 384.20 of the Code of Iowa states in part that “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” Also, financial information for the Stubbs Memorial Library and the Centennial Commission was not recorded in the Clerk’s records.

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

Response – We will encourage the Fire Department to provide the Clerk with the necessary financial information for the Clerk’s report. We will also obtain periodic financial statements from the Library and Centennial Committee to enable us to record the necessary information in the Clerk’s records.

Conclusion – Response accepted.

City of Holstein  
Schedule of Findings  
Year ended June 30, 2003

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

- (1) Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.
- (2) Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public safety and health and social services functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient 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 the future, if applicable.

Conclusion – Response accepted.

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

Name, Title and Business Connection	Transaction Description	Amount
Dennis Breyfogle, Council Member, owner of A-1 Plumbing and Heating	Repair, parts and supplies	\$3,543
Donivan Sander, Council Member, owner of Sander Pharmacy	Supplies	20
Fred Lukins, Council Member, owner of Lukins Construction	Labor and repair	7,612
Marlo Schoer, Deputy Clerk/Treasurer, husband owns S&S Sales	Supplies and parts	238

City of Holstein

Schedule of Findings

Year ended June 30, 2003

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Council Member Sander and Deputy Clerk/Treasurer Schoer do not appear to represent conflicts of interest since the cumulative amounts were less than \$2,500 during the fiscal year. The transactions with Council Members Breyfogle and Lukins may represent conflicts of interest since the cumulative amounts were greater than \$2,500.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – We will try to get quotes for larger items purchased in the future.

Conclusion – Response acknowledged. The City should seek bids rather than quotes when required by the Code of Iowa. The City should also consult legal counsel to determine the disposition of this matter.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – 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.
- (9) Revenue Bonds – The City has not established the sewer reserve account as required.

Recommendation – The City should establish the required account and make the required transfers to the sewer reserve account.

Response – We will establish the reserve as required.

Conclusion – Response accepted.

- (10) Financial Condition – The Enterprise Fund, Water Account had a deficit balance at June 30, 2003 of \$141,295.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – We will transfer funds from the project fund upon completion of the project to eliminate the deficit.

Conclusion – Response accepted.

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City of Holstein

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Scott P. Boisen, Assistant Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State