



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ June 18, 2013

Contact: Andy Nielsen
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The Office of Auditor of State today released an audit report on the City of Swea City, Iowa.

The City's receipts totaled \$884,045 for the year ended June 30, 2012. The receipts included \$184,380 in property tax, \$304,084 from charges for service, \$263,317 from operating grants, contributions and restricted interest, \$54,399 from local option sales tax, \$402 from unrestricted interest on investments, \$70,000 from note proceeds and \$7,463 from other general receipts.

Disbursements for the year totaled \$930,862, and included \$223,991 for community and economic development, \$198,579 for public works and \$78,136 for public safety. Also, disbursements for business type activities totaled \$252,965.

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/1222-0525-B00F.pdf>.

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

JUNE 30, 2012

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City of Swea City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Mitchell A. Hauskins	Mayor	Jan 2014
Nina Harbaugh	Council Member	Jan 2012
Mike Harrison	Council Member	Jan 2012
Robert Leland	Council Member	Jan 2012
Tamara Crookshank	Council Member	Jan 2014
Mike Lockwood	Council Member	Jan 2014
Gay Ernster	City Clerk	Indefinite
Scott Buchanan	Attorney	Indefinite
(After January 2012)		
Mitchell A. Hauskins	Mayor	Jan 2014
Tamara Crookshank	Council Member	Jan 2014
Mike Lockwood	Council Member	Jan 2014
James Blekfeld	Council Member	Jan 2016
Emily Eisenmann	Council Member	Jan 2016
Debra Ellman	Council Member	Jan 2016
Gay Ernster	City Clerk	Indefinite
Scott Buchanan	Attorney	Indefinite

City of Swea City



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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 Swea City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Swea City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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


As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years.. Accordingly we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

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, 2011, 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 Swea City as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2013 on our consideration of the City of Swea City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Swea City's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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, 2011, as discussed in the third paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Swea City's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 26 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Swea City 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, 2012. 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.

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$37,000 during the fiscal year, primarily due to disbursements exceeding receipts in most governmental funds.
- The cash basis net assets of the City's business type activities decreased approximately \$9,800 during the fiscal year, primarily due to disbursements exceeding receipts in the Enterprise, Storm Sewer and Sewer 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 financial statement by providing information about the most significant funds.

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Revolving Loan, and 3) the Debt Service 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.

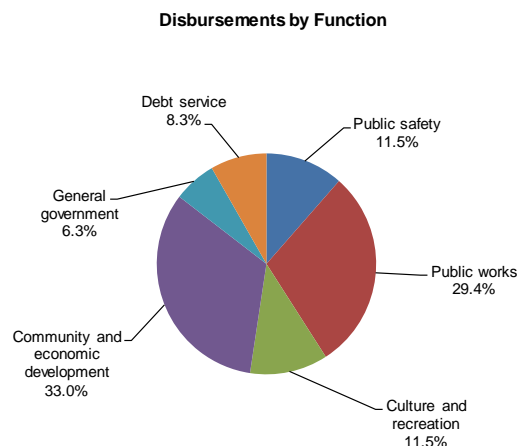
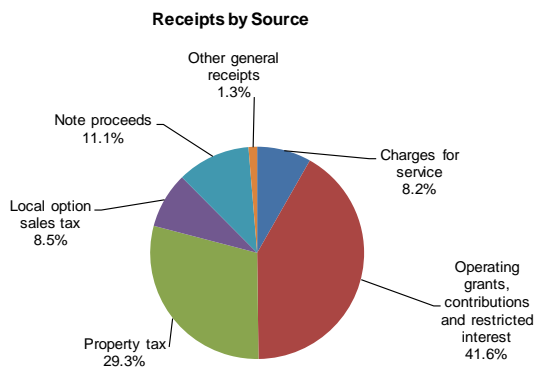
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Storm Sewer, Sewer and Garbage Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$384,000 to approximately \$347,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2012
Receipts:		
Program receipts:		
Charges for service		\$ 52
Operating grants, contributions and restricted interest		263
General receipts:		
Property tax		185
Local option sales tax		54
Note proceeds		70
Other general receipts		8
Total receipts		<u>632</u>
Disbursements:		
Public safety		78
Public works		199
Culture and recreation		78
Community and economic development		224
General government		43
Debt service		56
Total disbursements		<u>678</u>
Change in cash basis net assets before transfers		(46)
Transfers, net		9
Change in cash basis net assets		(37)
Cash basis net assets beginning of year		384
Cash basis net assets end of year		<u>\$ 347</u>



The cash basis net assets of the City's governmental funds decreased primarily due to disbursements being higher than receipts received for City activities.

The cost of all governmental activities this year was \$677,897. However as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for those activities was only \$362,585 because some of the cost was paid by those directly benefited from the programs (\$51,995) or by governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$263,317).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 100
Storm sewer	4
Sewer	55
Garbage	93
Total receipts	<u>252</u>
Disbursements:	
Water	94
Storm sewer	13
Sewer	63
Garbage	83
Total disbursements	<u>253</u>
Change in cash basis net assets before transfers	(1)
Transfers, net	<u>(9)</u>
Change in cash basis net assets	(10)
Cash basis net assets beginning of year	<u>25</u>
Cash basis net assets end of year	<u><u>\$ 15</u></u>

The City's cash balance for business type activities decreased from \$25,243 to \$15,452. The overall decrease is a result of the start of a sewer project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Swea City completed the year, its governmental funds reported a combined fund balance of \$347,128, a decrease of approximately \$37,000 below last year's total of \$384,154. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$10,843 from the prior year to \$193,780. This decrease is due to housing grant disbursements not yet reimbursed by the Iowa Economic Development Authority.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$11,022 to \$36,124 due to disbursements exceeding receipts for the year.
- The Special Revenue, Local Option Sales Tax cash balance decreased \$18,748 to \$56,937 due to disbursements exceeding receipts for the year.
- The Special Revenue, Revolving Loan Fund cash balance increased \$5,998 to \$66,989 due to increased collections on outstanding loans and fewer loans awarded.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$6,733, but still maintains a deficit unrestricted balance of \$57,859. Water rates have been increased in a two year cycle to attempt to eliminate this deficit balance.
- The Enterprise, Storm Sewer Fund cash balance decreased \$9,180 to \$12,715, due primarily to increased maintenance disbursements.
- The Enterprise, Sewer Fund cash balance decreased \$7,859 to \$44,366, due primarily to disbursements related to a sewer project started during the fiscal year.
- The Enterprise, Garbage Fund cash balance increased \$515 to \$2,963, due primarily to increased receipts.

BUDGETARY HIGHLIGHTS

The City’s receipts were \$1,132,234 less than budgeted. This was primarily due to a delay in the City entering into a loan agreement with the Iowa Finance Authority for State Revolving Loan funds for sewer maintenance and repair and not receiving loan proceeds in fiscal year 2012 as anticipated. These receipts were budgeted by the City as charges for service rather than other financing sources. The housing grant was not finalized at the time the budget was certified, so the City budgeted more intergovernmental receipts than were received.

Total disbursements were \$1,185,464 less than budgeted. This was primarily due to the delay in entering into the sewer maintenance and repair contracts budgeted for in the business type activities function.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$231,546 of general obligation notes, revenue notes and other long-term debt outstanding compared to \$218,447 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2012	2011
General obligation notes	\$ 162	139
Revenue notes	42	52
Project note	27	27
Total	\$ 231	218

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 \$161,750, which is significantly below its constitutional debt limit of approximately \$800,000. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

Water rates increased approximately 10% during fiscal year 2012 in an attempt to eliminate the deficit balance in the Enterprise, Water Fund. Storm sewer, sewer and garbage rates have not increased since 2009.

With the exception of the Fire Service account included in the General Fund and the Debt Service Fund, the City’s cash balances are positive and healthy. The City is addressing the deficit in the Fire Service account within the General Fund and has authorized additional transfers to address the deficit balance in the Debt Service Fund.

The City of Swea City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. The fiscal year 2013 budget contains total receipts of \$1,711,016 and disbursements of \$1,851,536. This budget is slightly lower than the fiscal year 2012 budget, which included total receipts of \$1,946,279 and total disbursements of \$2,116,326.

The City's local option sales tax is targeted for community and economic betterment (25%) and streets and infrastructure (75%).

Many parameters were taken into account when adopting the budget for fiscal year 2013. The future needs and outlook of the City include maintaining a high standard of living, maintaining good streets, ensuring adequate water plant maintenance/replacements, keeping the sewer system compliant and maintaining high quality fire fighting and emergency medical service.

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 Gay Ernster, City Clerk, 308 4th Ave W, Ste.100, Swea City, Iowa 50590.

Basic Financial Statements

City of Swea City
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2012

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 78,136	36,431	39,256
Public works	198,579	-	50,840
Culture and recreation	77,603	14,415	19,265
Community and economic development	223,991	-	153,956
General government	43,473	1,149	-
Debt service	56,115	-	-
Total governmental activities	677,897	51,995	263,317
Business type activities:			
Water	93,608	100,341	-
Storm sewer	12,996	3,816	-
Sewer	62,748	54,860	-
Garbage	83,613	93,072	-
Total business type activities	252,965	252,089	-
Total	\$ 930,862	304,084	263,317

General Receipts and Transfers:

Property and other city tax levied for:
General purposes
Debt service
Local option sales tax
Unrestricted interest on investments
Note proceeds
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
Streets
Streets and infrastructure
Community betterment
Revolving loans
Customer deposits
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
(2,449)	-	(2,449)
(147,739)	-	(147,739)
(43,923)	-	(43,923)
(70,035)	-	(70,035)
(42,324)	-	(42,324)
(56,115)	-	(56,115)
(362,585)	-	(362,585)
-	6,733	6,733
-	(9,180)	(9,180)
-	(7,888)	(7,888)
-	9,459	9,459
-	(876)	(876)
(362,585)	(876)	(363,461)
147,252	-	147,252
37,128	-	37,128
54,399	-	54,399
373	29	402
70,000	-	70,000
7,463	-	7,463
8,944	(8,944)	-
325,559	(8,915)	316,644
(37,026)	(9,791)	(46,817)
384,154	25,243	409,397
\$ 347,128	15,452	362,580
\$ 36,124	-	36,124
39,160	-	39,160
17,777	-	17,777
66,989	-	66,989
-	13,267	13,267
187,078	2,185	189,263
\$ 347,128	15,452	362,580

City of Swea City

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

As of and for the year ended June 30, 2012

	General	Special	
		Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 119,194	-	-
Other city tax	-	-	54,399
Licenses and permits	1,219	-	-
Use of money and property	6,490	-	-
Intergovernmental	182,088	50,840	-
Charges for service	42,576	-	-
Miscellaneous	31,590	-	-
Total receipts	<u>383,157</u>	<u>50,840</u>	<u>54,399</u>
Disbursements:			
Operating:			
Public safety	78,136	-	-
Public works	88,883	61,862	47,834
Culture and recreation	77,603	-	-
Community and economic development	206,617	-	15,027
General government	40,819	-	2,654
Debt service	-	-	-
Total disbursements	<u>492,058</u>	<u>61,862</u>	<u>65,515</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(108,901)</u>	<u>(11,022)</u>	<u>(11,116)</u>
Other financing sources (uses):			
Note proceeds	70,000	-	-
Operating transfers in	28,058	-	-
Operating transfers out	-	-	(7,632)
Total other financing sources (uses)	<u>98,058</u>	<u>-</u>	<u>(7,632)</u>
Change in cash balances	(10,843)	(11,022)	(18,748)
Cash balances beginning of year	204,623	47,146	75,685
Cash balances end of year	<u>\$ 193,780</u>	<u>36,124</u>	<u>56,937</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	36,124	-
Streets and infrastructure	-	-	39,160
Community betterment	-	-	17,777
Revolving loans	-	-	-
Assigned for:			
Ambulance	71,876	-	-
Library	57,077	-	-
Unassigned	64,827	-	-
Total cash basis fund balances	<u>\$ 193,780</u>	<u>36,124</u>	<u>56,937</u>

See notes to financial statements.

Revenue		
Revolving Loan	Nonmajor	Total
-	65,186	184,380
-	-	54,399
-	-	1,219
8,345	-	14,835
-	-	232,928
-	-	42,576
-	-	31,590
8,345	65,186	561,927
-	-	78,136
-	-	198,579
-	-	77,603
2,347	-	223,991
-	-	43,473
-	56,115	56,115
2,347	56,115	677,897
5,998	9,071	(115,970)
-	-	70,000
-	16,576	44,634
-	(28,058)	(35,690)
-	(11,482)	78,944
5,998	(2,411)	(37,026)
60,991	(4,291)	384,154
66,989	(6,702)	347,128
-	-	36,124
-	-	39,160
-	-	17,777
66,989	-	66,989
-	-	71,876
-	-	57,077
-	(6,702)	58,125
66,989	(6,702)	347,128

Exhibit C

City of Swea City

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

As of and for the year ended June 30, 2012

	Enterprise				Total
	Water	Storm Sewer	Sewer	Garbage	
Operating receipts:					
Charges for service	\$ 98,801	3,816	54,860	91,608	249,085
Miscellaneous	1,540	-	-	1,464	3,004
Total operating receipts	100,341	3,816	54,860	93,072	252,089
Operating disbursements:					
Business type activities	80,755	12,996	52,068	83,613	229,432
Excess (deficiency) of operating receipts over (under) operating disbursements	19,586	(9,180)	2,792	9,459	22,657
Non-operating receipts (disbursements):					
Interest on investments	-	-	29	-	29
Debt service	(12,853)	-	-	-	(12,853)
Capital projects	-	-	(10,680)	-	(10,680)
Net non-operating disbursements	(12,853)	-	(10,651)	-	(23,504)
Excess (deficiency) of receipts over (under) disbursements	6,733	(9,180)	(7,859)	9,459	(847)
Operating transfers out	-	-	-	(8,944)	(8,944)
Change in cash balances	6,733	(9,180)	(7,859)	515	(9,791)
Cash balances beginning of year	(51,325)	21,895	52,225	2,448	25,243
Cash balances end of year	\$ (44,592)	12,715	44,366	2,963	15,452
Cash Basis Fund Balances					
Restricted for customer deposits	\$ 13,267	-	-	-	13,267
Unrestricted	(57,859)	12,715	44,366	2,963	2,185
Total cash basis fund balances	\$ (44,592)	12,715	44,366	2,963	15,452

See notes to financial statements.

City of Swea City

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Swea City is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1895 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, storm sewer, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Swea City 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: Kossuth County Assessor's Conference Board, City Assessor's Conference Board, Kossuth County Emergency Management Commission, Kossuth County Landfill Commission and Kossuth County Joint E911 Service Board.

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 are 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The Revolving Loan Fund is used to account for the activity of the City's Community Block Grant Program which provides loans to local businesses.

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, Storm Sewer Fund accounts for the operation and maintenance of the City's storm sewer system.

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

The Enterprise, Garbage Fund accounts for the operation and maintenance of the City's solid waste collection and recycling system.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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 the Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 52,433	8,527	10,650	2,203	63,083	10,730
2014	13,442	5,790	8,471	1,679	21,913	7,469
2015	13,712	5,073	6,162	1,281	19,874	6,354
2016	13,995	4,317	6,531	912	20,526	5,229
2017	14,290	3,519	6,921	521	21,211	4,040
2018-2022	53,878	6,423	3,615	106	57,493	6,529
Total	\$ 161,750	33,649	42,350	6,702	204,100	40,351

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$45,000 of water revenue notes issued in January 2004 and \$55,000 of water revenue notes issued in September 2007. Proceeds from the notes provided financing for constructing improvements and repairs to the City's water well and system. The notes are payable solely from water customer net receipts and are payable through 2014 and 2018, respectively. Annual principal and interest payments on the notes are expected to require less than 66% of net receipts. The total principal and interest remaining to be paid on the notes is \$49,052. For the current year, principal and interest paid and total customer net receipts were \$12,853 and \$19,586, respectively.

Project Note/Interim Loan and Disbursement Agreement

In October 2008, the City entered into a project note/interim loan and disbursement agreement (project note) with the Iowa Finance Authority for an amount not to exceed \$150,000. The purpose of the project note was for paying costs in connection with planning and designing improvements and extensions to the sanitary sewer system. The project note bears no interest and is payable upon issuance of sewer revenue bonds. As of June 30, 2012, the City has received \$27,466 and has not made any repayments.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012 was \$9,559, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 5,600
Sick leave	600
Total	<u>\$ 6,200</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	<u>\$ 28,058</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	7,632
	Enterprise:	
	Garbage	<u>8,944</u>
		<u>16,576</u>
Total		<u>\$ 44,634</u>

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

(7) Risk Management

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

(8) Deficit Balances

The Debt Service and Enterprise, Water Funds have deficit balances of \$6,702 and \$44,592, respectively, at June 30, 2012. The deficit balances are a result of disbursements in excess of receipts. The deficit in the Debt Service Fund will be eliminated upon receipt of debt service property tax receipts during fiscal year 2013. Water rates were increased during the year ended June 30, 2012 to reduce the deficit.

(9) Commitments

In May 2012, the City entered into three construction contracts totaling \$348,416 for sanitary sewer rehabilitation to be financed by a revenue note with the Iowa Finance Authority, State Revolving Loan Fund.

(10) Subsequent Events

In August 2012, the City Council approved the purchase of an ambulance for approximately \$161,000.

The City settled litigation concerning a loan guarantee entered into by the City for Main Street Manor for \$70,000 in November 2012.

In December 2012, the City entered into a sewer revenue note for \$525,000 with the Iowa Finance Authority, State Revolving Loan Fund to finance a sewer improvement project related to the three contracts approved in May 2012.

In January 2013, the City issued general obligation capital loan notes for \$85,000. Note proceeds of \$65,000 will be used for the ambulance and \$20,000 will be used to release obligations related to the litigation settled in November 2012.

Other Information

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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 184,380	-
Other city tax	54,399	-
Licenses and permits	1,219	-
Use of money and property	14,835	29
Intergovernmental	232,928	-
Charges for service	42,576	249,085
Miscellaneous	31,590	3,004
Total receipts	<u>561,927</u>	<u>252,118</u>
Disbursements:		
Public safety	78,136	-
Public works	198,579	-
Health and social services	-	-
Culture and recreation	77,603	-
Community and economic development	223,991	-
General government	43,473	-
Debt service	56,115	-
Business type activities	-	252,965
Total disbursements	<u>677,897</u>	<u>252,965</u>
Excess (deficiency) of receipts over (under) disbursements	(115,970)	(847)
Other financing sources, net	<u>78,944</u>	<u>(8,944)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(37,026)	(9,791)
Balances beginning of year	<u>384,154</u>	<u>25,243</u>
Balances end of year	<u>\$ 347,128</u>	<u>15,452</u>

See accompanying independent auditor's report.

Total	<u>Budgeted Amounts</u> Original and Final	Final to Total Variance
184,380	183,285	1,095
54,399	72,244	(17,845)
1,219	930	289
14,864	9,475	5,389
232,928	463,915	(230,987)
291,661	1,199,350	(907,689)
34,594	17,080	17,514
<u>814,045</u>	<u>1,946,279</u>	<u>(1,132,234)</u>
78,136	202,304	124,168
198,579	198,984	405
-	10,000	10,000
77,603	84,617	7,014
223,991	346,098	122,107
43,473	45,940	2,467
56,115	67,618	11,503
252,965	1,160,765	907,800
<u>930,862</u>	<u>2,116,326</u>	<u>1,185,464</u>
(116,817)	(170,047)	53,230
<u>70,000</u>	<u>140,000</u>	<u>70,000</u>
(46,817)	(30,047)	(16,770)
<u>409,397</u>	<u>257,003</u>	<u>152,394</u>
<u>362,580</u>	<u>226,956</u>	<u>135,624</u>

City of Swea City

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented 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 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. The City did not amend its budget during the year.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

City of Swea City

Supplementary Information

City of Swea City

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

As of and for the year ended June 30, 2012

	Special Revenue		Total
	Employee Benefits	Debt Service	
Receipts:			
Property tax	\$ 28,058	37,128	65,186
Disbursements:			
Debt service	-	56,115	56,115
Excess (deficiency) of receipts over (under) disbursements	28,058	(18,987)	9,071
Other financing sources (uses):			
Operating transfers in	-	16,576	16,576
Operating transfers out	(28,058)	-	(28,058)
Total other financing sources (uses)	(28,058)	16,576	(11,482)
Change in cash balances	-	(2,411)	(2,411)
Cash balances beginning of year	-	(4,291)	(4,291)
Cash balances end of year	\$ -	(6,702)	(6,702)
Cash Basis Fund Balances			
Unassigned	\$ -	(6,702)	(6,702)

See accompanying independent auditor's report.

City of Swea City
 Schedule of Indebtedness
 Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Apr 19, 2002	4.50-5.00%	\$ 95,000
Equipment	Feb 20, 2008	5.90	80,000
City Hall	Jun 1, 2008	5.90	75,000
Street sweeper	Jun 16, 2008	5.50	55,000
Snow removal equipment	Dec 29, 2011	4.50	70,000
Total			
Revenue notes:			
Water	Jan 21, 2004	3.75%	\$ 45,000
Water	Sep 20, 2007	5.90	55,000
Total			
Project note/interim loan and disbursement agreement	Oct 1, 2008	0.00%	\$ 27,446
See accompanying independent auditor's report.			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
19,000	-	9,500	9,500	831
32,000	-	16,000	16,000	1,888
60,000	-	7,500	52,500	3,778
27,500	-	13,750	13,750	1,512
-	70,000	-	70,000	1,356
<u>\$ 138,500</u>	<u>70,000</u>	<u>46,750</u>	<u>161,750</u>	<u>9,365</u>
12,798	-	4,976	7,822	434
39,703	-	5,175	34,528	2,268
<u>\$ 52,501</u>	<u>-</u>	<u>10,151</u>	<u>42,350</u>	<u>2,702</u>
27,446	-	-	27,446	-

Schedule 3

City of Swea City

Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Notes					
	Corporate Purpose		Equipment		City Hall	
	Issued Apr 19, 2002		Issued Feb 20, 2008		Issued Jun 1, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	5.00%	\$ 9,500	5.90%	\$ 16,000	5.90%	\$ 7,500
2014		-		-	5.90	7,500
2015		-		-	5.90	7,500
2016		-		-	5.90	7,500
2017		-		-	5.90	7,500
2018		-		-	5.90	7,500
2019		-		-	5.90	7,500
2020		-		-		-
2021		-		-		-
2022		-		-		-
Total		<u>\$ 9,500</u>		<u>\$ 16,000</u>		<u>\$ 52,500</u>

Year Ending June 30,	Water Revenue Notes				
	Issued Jan 21, 2004		Issued Sep 20, 2007		Total
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.75%	\$ 5,165	5.90%	\$ 5,485	10,650
2014	3.75	2,657	5.90	5,814	8,471
2015		-	5.90	6,162	6,162
2016		-	5.90	6,531	6,531
2017		-	5.90	6,921	6,921
2018		-	5.90	3,615	3,615
Total		<u>\$ 7,822</u>		<u>\$ 34,528</u>	<u>42,350</u>

See accompanying independent auditor's report.

Street Sweeper		Snow Removal Equipment		
Issued Jun 16, 2008		Issued Dec 29, 2011		
Interest Rates	Amount	Interest Rates	Amount	Total
5.50%	\$ 13,750	4.50%	\$ 5,683	52,433
-	-	4.50	5,942	13,442
-	-	4.50	6,212	13,712
-	-	4.50	6,495	13,995
-	-	4.50	6,790	14,290
-	-	4.50	7,099	14,599
-	-	4.50	7,423	14,923
-	-	4.50	7,760	7,760
-	-	4.50	8,113	8,113
-	-	4.50	8,483	8,483
	<u>\$ 13,750</u>		<u>\$ 70,000</u>	<u>161,750</u>

City of Swea City



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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 Swea City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 30, 2013. 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, 2011. 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

The management of the City of Swea City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Swea City'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 Swea City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Swea City'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 Swea City'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) through (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 the accompanying Schedule of Findings as items (D) through (G) to be significant deficiencies.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Swea City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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, 2012 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 Swea City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Swea City'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 Swea City and other parties to whom the City of Swea City may report and is not intended to be and should not be used by anyone other than these specified parties.

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



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 30, 2013

City of Swea City

Schedule of Findings

Year ended June 30, 2012

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. One individual has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
- (2) Cash and petty cash – bank reconciling, initiating and recording cash receipt and disbursement transactions. Bank reconciliations were not reviewed by an independent person.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing, posting and reconciling. No initial listing is prepared.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – record keeping, preparation and distribution.
- (9) Financial reporting – preparing, reconciling and distributing.

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

Response – We will review our procedures and divide duties, to the extent possible, utilizing City officials.

Conclusion – Response accepted.

City of Swea City

Schedule of Findings

Year ended June 30, 2012

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

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

Response – We will implement the recommended procedures.

Conclusion – Response accepted.

- (C) Accounting Procedures Manual – The City does not have a current 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 of Swea City agrees an accounting and procedures manual should be developed to provide the benefits listed above. Accordingly, the City will adopt the recommendations and will establish the recommended policies and procedures manual before the end of this fiscal year.

Conclusion – Response accepted.

- (D) Computer Systems – For the year ended June 30, 2012, payroll and utilities were the only computerized systems. The City does not have a written disaster recovery policy or written policies over general computer usage and security.

Recommendation – The City should develop a written disaster recovery policy and a computer usage and security policy in order to improve the City's control over its computer systems.

Response – We will develop and implement a written policy.

Conclusion – Response accepted.

- (E) Credit Cards - The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. In addition, the City is using a debit card for certain transactions.

City of Swea City

Schedule of Findings

Year ended June 30, 2012

Recommendation – The City should remove the debit card capabilities to ensure the disbursements are not automatically deducted from the City’s bank account. The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. The credit cards should only be used for City business and should only be signed by authorized individuals. All charges should be reviewed and scrutinized before being paid.

Response – We will adopt a formal written policy addressing all issues as stated.

Conclusion – Response accepted.

- (F) Payroll - Time cards were not always approved and initialed by the employee's supervisor or other responsible official. Also, not all pay rates were approved by the City Council and documented in the minutes record.

Recommendation - Time cards should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll. Additionally, all pay rates should be approved by the City Council and included in the minutes record.

Response – Time cards are now being approved by the Mayor and all pay rates are approved by the City Council and will be included in the minutes record.

Conclusion – Response accepted.

- (G) Dumpsters – The City owns dumpsters of varying sizes which are located at various locations throughout the City. The City does not bill users of the dumpsters on a regular basis.

Recommendation – Dumpster usage should be billed on a regular basis along with other types of utilities.

Response – We are currently working with the software developer to establish a monthly billing cycle for all dumpsters.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Swea City
Schedule of Findings
Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- (2) 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.
- (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
Debra Ellman, Council Member, Husband owns Stan Ellman Construction	Construction, per bid	\$122,808
Travis Stevens, Employee, Brother owns Stevens Construction	Construction, per bid	31,097
Philip Albers, Ambulance Director, Insurance Agent for City	Insurance	33,349

The transactions with Stan Ellman Construction and Stevens Construction do not appear to represent a conflict of interest since the contracts were entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Philip Albers may represent a conflict of interest since the total transactions exceeded \$2,500 during the year.

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

Response – We will consult legal counsel.

Conclusion – Response accepted.

- (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) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Swea City

Schedule of Findings

Year ended June 30, 2012

- (7) Deposits and Investments - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response - A written investment policy will be implemented.

Conclusion - Response accepted.

- (8) Water Revenue Notes - No instances of non-compliance with the provisions of the revenue note resolution were noted.

- (9) Financial Condition - At June 30, 2012 the Debt Service and the Enterprise, Water Funds had deficit balances of \$6,702 and \$44,592, respectively.

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

Response - The City has hired a consultant to perform a water and sewer rate study to make sure rates are in-line with disbursements, as well as current and future debt amounts. Other alternatives will also be investigated.

Conclusion - Response accepted.

City of Swea City

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Kelly L. Hilton, Senior Auditor
Elissa R. Olson, 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