



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

July 3, 2007

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

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$933,262 for the year ended June 30, 2006. The receipts included \$67,088 in property tax, \$68,382 from tax increment financing, \$334,516 from charges for service, \$112,277 from operating grants, contributions and restricted interest, \$207,476 from capital grants, contributions and restricted interest, \$61,194 from local option sales tax, \$25,334 from unrestricted interest on investments and \$56,995 from other general receipts.

Disbursements for the year totaled \$872,242, and included \$238,337 for public safety, \$213,566 for community and economic development and \$95,769 for public works. Also, disbursements for business type activities totaled \$188,149.

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/reports.htm>.

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CITY OF SCHLESWIG

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

JUNE 30, 2006

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		19-23
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information – Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Indebtedness	1	30-31
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		33-34
Schedule of Findings		36-45
Staff		46

City of Schleswig

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Carlton Petersen	Mayor	Jan 2008
Gaylord Boeck	Council Member	Jan 2006
Bob Andresen	Council Member	Jan 2006
Murlin Johannsen	Council Member	Jan 2006
Abe Gronau	Council Member	Jan 2008
Neil Wilken	Council Member	Jan 2008
Alan Sedore	Treasurer	Indefinite
Ron Clausen	City Clerk	Indefinite
Allen Nepper	Attorney	Indefinite
(After January 2006)		
Carlton Petersen	Mayor	Jan 2008
Abe Gronau	Council Member	Jan 2008
Neil Wilken	Council Member	Jan 2008
Gaylord Boeck	Council Member	Jan 2010
Bob Andresen	Council Member	Jan 2010
Murlin Johannsen	Council Member	Jan 2010
Alan Sedore	Treasurer	Indefinite
Ron Clausen	Clerk	Resigned (Dec 2006)
Allen Nepper	Attorney	Indefinite

City of Schleswig



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Schleswig, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Schleswig's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. In addition, as discussed in Note 9, a special investigation of the City being performed for the period July 1, 2004 through January 31, 2007 has identified potential undeposited receipts from the water, sewer and landfill funds, major enterprise funds. Accordingly, we were unable to satisfy ourselves as to the completeness of the receipts in the business type activities and each major enterprise fund.

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, 2005 and the effects of the completeness of the receipts for the business type activities and each major enterprise fund due to potential undeposited collections as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major enterprise fund of the City of Schleswig as of June 30, 2006, 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.

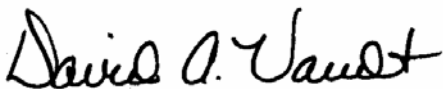
In addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund to the total fund balance at July 1, 2005, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major governmental fund of the City of Schleswig as of June 30, 2006, 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.

As described in Note 8, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated January 12, 2007 on our consideration of the City of Schleswig’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Schleswig’s basic financial statements. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Schleswig provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure and since the City is not required to be audited annually, much of the information is not easily comparable to prior years.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 5%, or approximately \$23,000.
- The cash basis net assets of the City's business type activities increased 17%, or approximately \$38,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue, Road Use Tax Fund 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 three Enterprise Funds to provide separate information for the water, sewer and landfill funds, considered to be major funds of the City.

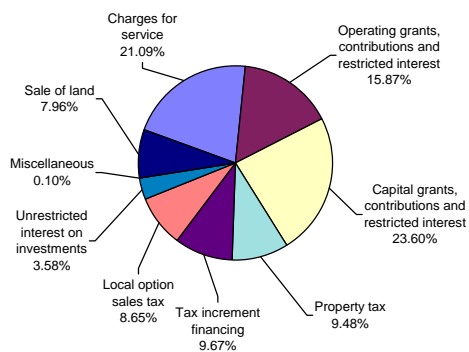
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

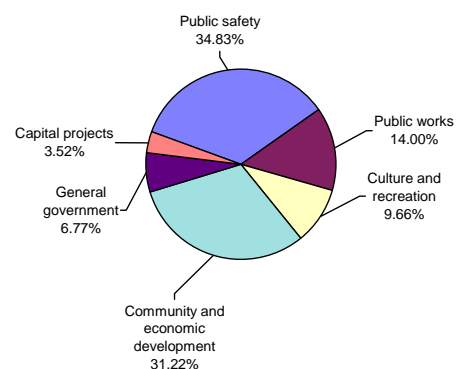
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$478,164 to \$501,489. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 149,186
Operating grants, contributions and restricted interest	112,277
Capital grants, contributions and restricted interest	166,962
General receipts:	
Property tax	67,088
Tax increment financing	68,382
Local option sales tax	61,194
Unrestricted interest on investments	25,334
Sale of land	56,300
Miscellaneous	695
Total receipts	<u>707,418</u>
Disbursements:	
Public safety	238,337
Public works	95,769
Culture and recreation	66,090
Community and economic development	213,566
General government	46,280
Capital projects	24,051
Total disbursements	<u>684,093</u>
Increase in cash basis net assets	23,325
Cash basis net assets beginning of year	<u>478,164</u>
Cash basis net assets end of year	<u><u>\$ 501,489</u></u>

Receipts by Source



Disbursements by Function



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 94,864
Sewer	42,667
Landfill	47,799
Capital grants, contributions and restricted interest	40,514
Total receipts	<u>225,844</u>
Disbursements:	
Water	109,525
Sewer	28,304
Landfill	50,320
Total disbursements	<u>188,149</u>
Increase in cash basis net assets	37,695
Cash basis net assets beginning of year	<u>218,940</u>
Cash basis net assets end of year	<u>\$ 256,635</u>

The total business type activities cash balance increased from a year ago, increasing from \$218,940 to \$256,635.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Schleswig completed the year, its governmental funds reported a combined fund balance of \$501,489, an increase of more than \$23,000 above last year's total of \$478,164. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$16,872, from the prior year to \$475,729. This increase was attributable to the sale of lots for a new housing development.
- The Special Revenue, Road Use Tax Fund cash balance increased \$11,765 to \$24,023 during the fiscal year. This increase was attributable to road use tax funds received in excess of disbursements.
- The Debt Service Fund cash balance decreased \$5,312 to \$1,737 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$25,853 to \$177,199 during the fiscal year.
- The Sewer Fund cash balance increased \$14,363 to \$84,085 during the fiscal year.
- The Landfill Fund cash balance decreased \$2,521 to a deficit of \$4,649 during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The City's receipts were \$331,606 more than budgeted. This was primarily due to the Schleswig Fire Department receiving a federal grant to pay their portion of the new fire truck for \$166,962 which was not included in the budget. The City also did not budget for the receipt of \$120,000 in pass-through funds.

Total disbursements were \$335,522 more than budgeted. Disbursements for the Schleswig Fire Department of \$181,742, including the fire truck, were not included in the budget for public safety and the disbursement of \$120,000 in pass-through funds was not included in the budget for community and economic development.

The City exceeded the amount budgeted in public safety, public works, culture and recreation, community and economic development, general government and capital projects.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$356,147 in bonds and other long-term debt outstanding, compared to \$457,881 last year, as shown below.

Outstanding Debt at Year-End	
	June 30, 2006
Urban renewal tax increment financing revenue bonds	\$ 198,000
Water line loan	98,147
Water tower loan	60,000
Total	\$ 356,147

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$356,147 is significantly below its constitutional debt limit of \$2.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Schleswig's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities.

- The fiscal year 2007 budget includes receipts totaling \$531,651 and disbursements of \$512,835.
- The fiscal year 2007 levy is \$6.82585 per \$1,000 of taxable valuation.
- If these estimates are realized, the City's budgeted cash balance is expected to increase by \$18,816 by the close of 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jane Smith, City Clerk, 111 2nd Street, P.O. Box 276, Schleswig, Iowa 51461.

City of Schleswig

Basic Financial Statements

City of Schleswig

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 238,337	694	35,764	166,962
Public works	95,769	-	69,743	-
Culture and recreation	66,090	8,152	6,770	-
Community and economic development	213,566	138,665	-	-
General government	46,280	1,675	-	-
Capital projects	24,051	-	-	-
Total governmental activities	684,093	149,186	112,277	166,962
Business type activities:				
Water	109,525	94,864	-	40,514
Sewer	28,304	42,667	-	-
Landfill	50,320	47,799	-	-
Total business type activities	188,149	185,330	-	40,514
Total	\$ 872,242	334,516	112,277	207,476

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Sale of land
 Miscellaneous
 Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Debt service
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(34,917)	-	(34,917)
(26,026)	-	(26,026)
(51,168)	-	(51,168)
(74,901)	-	(74,901)
(44,605)	-	(44,605)
(24,051)	-	(24,051)
(255,668)	-	(255,668)
-	25,853	25,853
-	14,363	14,363
-	(2,521)	(2,521)
-	37,695	37,695
(255,668)	37,695	(217,973)
67,088	-	67,088
68,382	-	68,382
61,194	-	61,194
25,334	-	25,334
56,300	-	56,300
695	-	695
278,993	-	278,993
23,325	37,695	61,020
478,164	218,940	697,104
\$ 501,489	256,635	758,124
1,737	1,680	3,417
24,023	-	24,023
475,729	254,955	730,684
\$ 501,489	256,635	758,124

City of Schleswig

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

As of and for the year ended June 30, 2006

	<u>Special Revenue</u>			Total
	General	Road Use Tax	Debt Service	
Receipts:				
Property tax	\$ 67,088	-	-	67,088
Tax increment financing	-	-	68,382	68,382
Other city tax	61,194	-	-	61,194
Licenses and permits	2,369	-	-	2,369
Use of money and property	27,469	-	-	27,469
Intergovernmental	186,017	69,743	-	255,760
Charges for service	6,711	-	-	6,711
Miscellaneous	162,145	-	-	162,145
Total receipts	<u>512,993</u>	<u>69,743</u>	<u>68,382</u>	<u>651,118</u>
Disbursements:				
Operating:				
Public safety	238,337	-	-	238,337
Public works	37,791	57,978	-	95,769
Culture and recreation	66,090	-	-	66,090
Community and economic development	139,872	-	73,694	213,566
General government	46,280	-	-	46,280
Capital projects	24,051	-	-	24,051
Total disbursements	<u>552,421</u>	<u>57,978</u>	<u>73,694</u>	<u>684,093</u>
Excess (deficiency) of receipts over (under) disbursements	(39,428)	11,765	(5,312)	(32,975)
Other financing sources:				
Sale of land	56,300	-	-	56,300
Net change in cash balances	16,872	11,765	(5,312)	23,325
Cash balances beginning of year	458,857	12,258	7,049	478,164
Cash balances end of year	<u>\$ 475,729</u>	<u>24,023</u>	<u>1,737</u>	<u>501,489</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	1,737	1,737
Unreserved:				
General fund	475,729	-	-	475,729
Special revenue fund	-	24,023	-	24,023
Total cash basis fund balances	<u>\$ 475,729</u>	<u>24,023</u>	<u>1,737</u>	<u>501,489</u>

See notes to financial statements.

City of Schleswig

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

As of and for the year ended June 30, 2006

	Enterprise			Total
	Water	Sewer	Landfill	
Operating receipts:				
Charges for service	\$ 94,864	42,667	47,799	185,330
Operating disbursements:				
Business type activities	67,787	28,304	50,320	146,411
Excess (deficiency) of operating receipts over (under) operating disbursements	27,077	14,363	(2,521)	38,919
Non-operating receipts (disbursements):				
Special assessment	40,514	-	-	40,514
Debt service	(41,738)	-	-	(41,738)
Total non-operating receipts (disbursements)	(1,224)	-	-	(1,224)
Net change in cash balances	25,853	14,363	(2,521)	37,695
Cash balances beginning of year	151,346	69,722	(2,128)	218,940
Cash balances end of year	\$ 177,199	84,085	(4,649)	256,635
Cash Basis Fund Balances				
Reserved for debt service	\$ 1,680	-	-	1,680
Unreserved	175,519	84,085	(4,649)	254,955
Total cash basis fund balances	\$ 177,199	84,085	(4,649)	256,635

See notes to financial statements.

City of Schleswig

City of Schleswig

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Schleswig is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and landfill utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Crawford County Assessor's Conference Board, Crawford County Emergency Management Commission, Crawford County Joint E-911 Service Board and Crawford County Area Solid Waste Agency Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Bonds and Loans Payable

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

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Bonds		Water Line Loan		Water Tower Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 66,000	5,628	16,519	4,420	20,000	-	102,519
2008	66,000	3,591	17,333	3,606	20,000	-	103,333	7,197
2009	66,000	1,536	18,207	2,732	20,000	-	104,207	4,268
2010	-	-	19,114	1,824	-	-	19,114	1,824
2011	-	-	20,067	871	-	-	20,067	871
2012	-	-	6,907	70	-	-	6,907	70
Total	<u>\$ 198,000</u>	<u>10,755</u>	<u>98,147</u>	<u>13,523</u>	<u>60,000</u>	<u>-</u>	<u>356,147</u>	<u>24,278</u>

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

On October 20, 1996, the City entered into a loan agreement with the West Central Iowa Rural Water Association for \$223,000, with interest at 4.875% per annum, to construct a water line.

On June 10, 1999, the City entered into an interest free loan agreement with the West Central Iowa Rural Water Association for \$200,000 to construct a water tower.

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2006 was \$5,125, equal to the required contribution for each 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 liability for earned vacation time payable to employees at June 30, 2006, primarily relating to the General Fund and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 1,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Risk Management

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

(7) Deficit Balance

The Enterprise, Landfill Fund had a deficit balance of \$4,649 at June 30, 2006. The deficit balance was a result of insufficient fees being collected from customers for sanitary services over the past few years.

(8) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2006. These statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

(9) Special Investigation

The City of Schleswig requested the Office of Auditor of State to perform a special investigation of the City as a result of concerns identified with utility collections. The special investigation is being performed for the period July 1, 2004 through January 31, 2007.

Copies of the special investigation report will be filed with the Crawford County Attorney's Office, the Division of Criminal Investigation and the Attorney General's Office when completed.

City of Schleswig

Required Supplementary Information

City of Schleswig
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 67,088	-
Tax increment financing	68,382	-
Other city tax	61,194	-
Licenses and permits	2,369	-
Use of money and property	27,469	-
Intergovernmental	255,760	-
Charges for service	6,711	185,330
Special assessments	-	40,514
Miscellaneous	162,145	-
Total receipts	<u>651,118</u>	<u>225,844</u>
Disbursements:		
Public safety	238,337	-
Public works	95,769	-
Culture and recreation	66,090	-
Community and economic development	213,566	-
General government	46,280	-
Capital projects	24,051	-
Business type activities	-	188,149
Total disbursements	<u>684,093</u>	<u>188,149</u>
Excess (deficiency) of receipts over (under) disbursements	(32,975)	37,695
Other financing sources, net	<u>56,300</u>	-
Excess of receipts and other financing sources over disbursements and other financing uses	23,325	37,695
Balances beginning of year	<u>478,164</u>	<u>218,940</u>
Balances end of year	<u>\$ 501,489</u>	<u>256,635</u>

See accompanying independent auditor's report.

Total	Original and Final Budgeted Amounts	Final to Total Variance
67,088	63,477	3,611
68,382	73,674	(5,292)
61,194	51,243	9,951
2,369	2,500	(131)
27,469	46,225	(18,756)
255,760	89,501	166,259
192,041	177,536	14,505
40,514	39,700	814
162,145	1,500	160,645
876,962	545,356	331,606
238,337	49,245	(189,092)
95,769	90,258	(5,511)
66,090	62,028	(4,062)
213,566	95,874	(117,692)
46,280	38,010	(8,270)
24,051	-	(24,051)
188,149	201,305	13,156
872,242	536,720	(335,522)
4,720	8,636	3,916
56,300	-	56,300
61,020	8,636	(52,384)
697,104	713,402	16,298
758,124	722,038	(36,086)

City of Schleswig

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government and capital projects functions.

Other Supplementary Information

City of Schleswig
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Urban renewal tax increment financing (TIF) revenue bonds	Dec 5, 2003	3.10%	\$ 330,000
Loan agreements:			
Water line	Oct 20, 1996	4.875%	\$ 223,000
Water tower	Jun 10, 1999	-	200,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 264,000	66,000	198,000	7,674
113,881	15,734	98,147	5,204
80,000	20,000	60,000	-
\$ 193,881	35,734	158,147	5,204

City of Schleswig



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Schleswig, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 12, 2007. 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, 2005 and the effects of the potential undeposited receipts for the business type activities and each major enterprise fund. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Schleswig's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Schleswig'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 reportable 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 caused by error or fraud 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), (B) and (C) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters that is required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

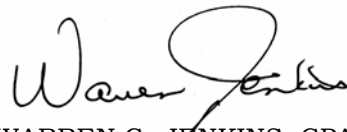
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Schleswig and other parties to whom the City may report. 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 Schleswig during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 12, 2007

City of Schleswig

City of Schleswig
Schedule of Findings
Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – custody of petty cash, initiating cash receipts and disbursement functions and handling and recording cash.
 - (3) Investments - detailed record keeping, custody of investments and reconciling earnings.
 - (4) Long term debt – recording and reconciling.
 - (5) Receipts – collecting, depositing, journalizing and posting.
 - (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (7) Disbursements – purchasing, check signing, recording and reconciling.
 - (8) Payroll – preparing and distributing.

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

Response – A new software program has been installed which records and prints a journal of every transaction entered into the computer. The Council members and Mayor are reviewing the various billings, reports, receipts, disbursements and investments from the City Clerk and City Treasurer. The City requires two signatures on all checks. Cash received is recorded in a cash journal. A petty cash log is maintained along with receipts for each entry.

Conclusion – Response acknowledged. Evidence of the reviews by the Council members and Mayor should be documented.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Testing of utility receipts identified the following:
- Utility billings, collections and delinquent accounts were not reconciled. Also, monthly receipt registers are not prepared.
 - Utility collections could not be traced to deposit slips since deposit slips are totaled by fund only and do not indicate if the collection was cash or a check.

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

- The City ordinance establishing the landfill charges for customers who also have sewer and water services could not be located.
- The City water ordinance requires a \$10 late charge be assessed on delinquent customer utility accounts. The City is not following its water ordinance for assessment of the late charge.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month. The Council should review the reconciliation and monitor delinquencies each month. A monthly receipt register should be prepared and water, sewer and landfill collections should be identified separately for proper recording. The City should also implement a review of billings each month to ensure proper amounts are being billed timely. Deposit slips should include enough detail to trace individual collections to deposit. In addition, the City should follow its ordinances or change or establish ordinances to its current practice.

Response – A new utility software program was installed on the City's computer and is now being used. The billings, collections and delinquencies are being reconciled each month. A monthly utility receipt register is prepared with each fund identified and given to the Council at each Council meeting. A Council member is reviewing monthly billing registers and comparing those with previous billings to ensure proper amounts are being billed. Utility deposit reports show each customers name, how much they paid and how they paid (check, cash or money order). The deposit slip reflects the total amount of checks, currency and coin. A \$10.00 late fee is assessed on all utility accounts that have not paid by the 15th of each month. The City will review its ordinances and if needed establish new ordinances.

Conclusion – Response acknowledged. Evidence of review by the Council member should be documented.

- (C) Monthly Financial Reports and Accounting Records – Although monthly bank reconciliations were prepared, the reconciliations were not compared to the City Clerk's records. The City uses excel spreadsheets as an accounting system. A double entry system is not used and spreadsheets are not balanced monthly. Additionally, since changes in spreadsheets are overwritten, there is no way to track revisions. Monthly financial reports were not prepared and provided to the City Council each month.

Recommendation – Monthly receipts and disbursements should be reconciled to the bank each month and the reconciliation should be provided to the City Council for review and approval. The reconciliations of the bank to book balances should also be provided to the City Council to support the validity of the monthly financial reports. The City should implement a double entry accounting system in which revisions can be tracked and accounts can be balanced monthly.

Response – A new municipal accounting software program has been installed on the City's computer which includes accounts payable, general ledger, utility billing, bank reconciliation and payroll. The software tracks every data entry by journal report, so any revision made is tracked. Monthly receipts and disbursements are reconciled to the bank and also to the general ledger each month and are provided to the City Council each month.

Conclusion – Response accepted.

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

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

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

- (1) Aid in training additional or replacement personnel.
- (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.

Response – The City will work on developing an accounting policy and procedure manual.

Conclusion – Response accepted.

- (E) Disbursements – During our review of disbursements, the following items were noted:

- Supporting documentation for the reimbursement of supplies to the former City Clerk was not attached to the claim or could not be located.
- Supporting documentation was not cancelled to help prevent reuse.
- Two disbursements tested did not have Council approval.

Recommendation – Supporting documentation should be retained for all disbursements. All claims to be paid should be approved by the City Council. Supporting documentation should be cancelled to help prevent reuse.

Response – Supporting documentation for disbursements are now being stamped “PAID” with the check number, check date and appropriate fund used and then retained in an appropriate file. All claims are approved by the City Council and included in the minutes each month.

Conclusion – Response accepted.

- (F) Payroll – During our review of payroll, the following items were noted:

- The City Council does not approve pay rates or salaries.
- W-4’s could not be located for three of the four employees reviewed.
- No personnel files are maintained for City employees.
- Timesheets are not used for all employees and are not approved by appropriate supervisory personnel.
- Payroll checks are not stored in a secure location.
- Total wages per the quarterly 941 reports do not match the Clerk’s Reports.

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

Recommendation – The City Council should approve all salaries and pay rates. Personnel files along with W-4's should be maintained for all City employees. Timesheets should be completed by all employees and signed by the employee and a supervisor. Payroll checks should be stored in a secured location until distributed to the employees. In addition, 941 quarterly reports should be reconciled to other payroll registers to ensure the accuracy of all information.

Response – Pay rates/salaries are approved by the City Council when reviewing and approving the new fiscal budget. The pay rates/salaries were published in January 2007 and will be published in January of each year in the local newspaper. Personnel files have been established for each employee and each employee has filled out a W-4. Timesheets are completed and signed by each employee and are verified and signed by the City Clerk and the Mayor. Payroll checks are stored in the safe until distributed to the employees. 941 quarterly reports are reconciled to the payroll registers to ensure accuracy.

Conclusion – Response accepted.

- (G) Travel Policy – The City has not adopted a travel reimbursement policy, including approved lodging, meal and mileage rates. Additionally, the City is not monitoring when withholding is required for taxable travel.

Recommendation – The City should adopt a travel reimbursement policy, including a requirement all reimbursable expenses be itemized. The policy should also specify lodging, meal and mileage reimbursement rates. In addition, the City should ensure taxes are withheld when appropriate.

Response – The City will be adopting a travel reimbursement policy. Reimbursement forms are now being used by employees, with each expense itemized including mileage and rate. The City will ensure taxes are withheld when appropriate.

Conclusion – Response accepted.

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

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

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose." All financial transactions of these accounts should be included in the Clerk's monthly financial reports. Internal control would be strengthened and operating efficiency would be increased by integrating the receipts and disbursements of these accounts with the City's accounting records in the Clerk's office.

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

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

Response - The Schleswig Public Library and Schleswig Fire Department are now submitting monthly bills to the City Clerk's office to be paid. Receipts are being recorded through the City Clerk's office also. The Library and Fire Department are still maintaining their own bank account for monies given to them as donations to be used as the donor has requested.

Conclusion - Response acknowledged. Financial information related to the separate accounts of the Schleswig Public Library and Schleswig Fire Department should be provided to the City Clerk to be included in the Clerk's monthly financial reports.

- (I) Information Systems - The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- maintaining security upon termination of an employee.
- usage of the internet and email.
- passwords or log ins.
- a screen saver password.
- requiring terminals to be logged off before being left unattended.
- usage of a time out or log off function to protect a terminal if left unattended.
- performing routine backups of system software.
- maintaining data backups in a secured off-site location.

Also, the City does not have an uninterrupted power supply and adequate fire protection. There were no fire extinguishers, fire alarms or smoke detectors. In addition, the City has not developed a disaster recovery plan.

Recommendation - The City should develop policies and procedures addressing the above items in order to improve the City's control over computer based systems. The City should also develop and implement a written disaster recovery plan and should investigate options and determine a reasonable method to achieve adequate fire protection.

Response - The City has developed an electronic media and internet use policy. Screen saver password usage has been implemented to improve the City's computer security. Routine back-ups of system software are being performed and a data back-up will be kept off site. The City is using a time out function if the computer sits idle for more than 5 minutes. A log in is required to gain access again.

Conclusion - Response accepted.

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

INSTANCE OF NON-COMPLIANCE:

A special investigation is being performed covering the period July 1, 2004 through January 31, 2007 relating to potential undeposited City utilities collections.

City of Schleswig
Schedule of Findings
Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City Council will monitor the disbursements and make amendments if necessary before the disbursements are allowed.

Conclusion – Response accepted.

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

Paid to	Purpose	Amount
Albertsen’s Flowers	Various flower arrangements	\$ 240
Lori’s Flowers	Various flower arrangements	32
Teut’s BP	Pizza for pool employees	22

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

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

Response – The Council will determine and document the purpose of these disbursements and will authorize and document payment if they feel the payment serves a public purpose.

Conclusion – Response accepted.

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

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Clausen, former City Clerk, owner of Schleswig Motor Supply	Parts and supplies	\$ 2,262

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

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish total disbursements from each City fund as required.

The minutes of five Council meetings held during the year ended June 30, 2006 were not published as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

The minutes for the Council meeting held June 13, 2005 included information regarding request and approval by the City to delay the four year financial audit. Per discussion with the Mayor and a review of the minutes provided to the Council, no such request or approval was made by the City.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and publish minutes and annual individual salaries as required. The City should comply with Chapter 372 of the Code of Iowa and publish a summary of receipts and total disbursements from each City fund, as well as a list of claims allowed showing the vendor or person paid, the reason for the claim and the amount. In addition, the minutes should accurately reflect the discussions of the Council meetings.

Response – City Council minutes are now being published monthly as well as any Special Meetings called. The annual individual salaries were published in January of 2007 and will continue to be published in January of each year. A list of claims showing the vendor or person paid, the reason for the claim and the amount of the claim are being published each month. A summary of receipts and expenditures from each City fund will be published as well. The minutes will be recorded to accurately reflect the discussions of the Council meetings.

Conclusion – Response accepted.

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

- (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 – The City has now established an investment policy.

Conclusion – Response accepted.

- (8) Local Option Sales Tax – The City collects a one percent local option sales tax and records the collections in the General Fund. The resolution states 25% will be used for property tax relief and 75% for infrastructure improvements. The City does not track the collections and whether the disbursements made are in accordance with the resolution.

Recommendation – The City should establish a separate Special Revenue Fund to account for local option sales tax collected and disbursed and ensure compliance with the resolution.

Response - The City has now established a separate Special Revenue Fund to account for local option sales tax collected and disbursed to ensure compliance.

Conclusion – Response accepted.

- (9) Annual Financial Report – The City prepared the annual financial report for the year ended June 30, 2006. However, the report did not accurately reflect the activity of the City.

Recommendation – The annual financial report should accurately reflect the activity of the City.

Response – The City will ensure the annual financial report accurately reflects the financial activity of the City.

Conclusion – Response accepted.

- (10) Financial Condition – The Enterprise, Landfill Fund had a deficit balance of \$4,649 at June 30, 2006.

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

Response – The City will look into alternatives to eliminate a deficit in the Enterprise, Landfill Fund to return the fund to a sound financial position.

Conclusion – Response accepted.

City of Schleswig

Schedule of Findings

Year ended June 30, 2006

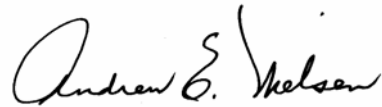
- (11) Depository Resolution – The City was unable to locate an approved depository resolution.
- Recommendation – The City Council should establish and approve a depository resolution.
- Response – The City has now established and approved a depository resolution.
- Conclusion – Response accepted.
- (12) Sales Tax – Sales tax was not collected or remitted on swimming pool admissions.
- Recommendation – The City should collect and remit sales tax on swimming pool admissions collections to the Iowa Department of Revenue as required by Chapter 423.2(43) to (45) of the Code of Iowa.
- Response – The City is collecting sales tax on the swimming pool admissions and will be remitting the collections to the Iowa Department of Revenue.
- Conclusion – Response accepted.
- (13) Tax Increment Financing Fund – The City receives tax increment financing receipts and records them in the Debt Service Fund. The City then pays the related principal and interest payments from the Debt Service Fund.
- Recommendation – Per Chapter 403.19(4) of the Code of Iowa, a separate Tax Increment Financing Fund should be established and debt payments may be made directly from this fund or appropriate amounts may be transferred to a Debt Service Fund and paid from there.
- Response – A separate Special Revenue, Tax Increment Financing Fund has now been established and debt payments will be made directly from this fund.
- Conclusion – Response accepted.
- (14) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this matter to include an image of both the front and back of each cancelled check. The City retains cancelled checks through an electronic image, but does not obtain an image of the back of each cancelled check as required.
- Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.
- Response – The City now obtains and retains the images of both the front and back of each cancelled check.
- Conclusion – Response accepted.

City of Schleswig

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Shannan M. Hoffman, 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 a distinct 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State