



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE June 19, 2003

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515/281-5515

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

The City's receipts totaled \$474,095 for the year ended June 30, 2002. The receipts included \$135,785 in property tax, \$9,216 in other city tax receipts, \$80,552 from the state, \$139,632 in charges for service and \$13,489 in interest on investments.

Disbursements for the year totaled \$469,016, and included \$80,651 for community protection, \$70,325 for human development, \$287,667 for home and community environment and \$30,373 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, duties among employees should be segregated to prevent individual employees from handling duties which are incompatible. The City's responses are included in this report.

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

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CITY OF SCHALLER
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

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City of Schaller

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Spencer Claussen	Mayor	Jan 2004
Gerald O'Meara	Council Member	Jan 2002
Raymond Voss	Council Member	Jan 2002
Scott Currie	Council Member	Jan 2002
Clarence Hansen	Council Member	Jan 2004
Jennifer Hansen	Council Member	Jan 2004
Tom King	Clerk	Indefinite
Kevin Murray	Attorney	Indefinite
(After January 2002)		
Spencer Claussen	Mayor	Jan 2004
Clarence Hansen	Council Member	Jan 2004
Jennifer Hansen	Council Member	Jan 2004
Scott Currie	Council Member	Jan 2006
Raymond Voss	Council Member	Jan 2006
Richard Sackett	Council Member	Jan 2006
Tom King	Clerk	(Resigned)
Ron Sanderman	Clerk	Indefinite
Kevin Murray	Attorney	Indefinite

City of Schaller



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Schaller, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Schaller's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

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, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Schaller as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2003 on our consideration of the City of Schaller's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the third preceding paragraph, is fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 17, 2003

City of Schaller

Financial Statements

City of Schaller
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Receipts:				
Property tax	\$ 76,222	28,304	31,259	-
Other city tax	5,130	1,942	2,144	-
Licenses and permits	1,180	-	-	-
Use of money and property	8,528	707	-	571
Intergovernmental	38,617	62,396	-	-
Charges for service	6,252	-	-	-
Special assessments	-	-	19,111	-
Miscellaneous	37,993	13,818	-	-
Total receipts	<u>173,922</u>	<u>107,167</u>	<u>52,514</u>	<u>571</u>
Disbursements:				
Community Protection Program	56,627	24,024	-	-
Human Development Program	67,303	3,022	-	-
Home and Community Environment Program	5,945	62,526	77,260	-
Policy and Administration Program	19,150	11,223	-	-
Total disbursements	<u>149,025</u>	<u>100,795</u>	<u>77,260</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>24,897</u>	<u>6,372</u>	<u>(24,746)</u>	<u>571</u>
Other financing sources (uses):				
Operating transfers in	10,000	-	-	-
Operating transfers out	(10,000)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>24,897</u>	<u>6,372</u>	<u>(24,746)</u>	<u>571</u>
Balance beginning of year	<u>156,131</u>	<u>88,864</u>	<u>31,947</u>	<u>13,927</u>
Balance end of year	<u>\$ 181,028</u>	<u>95,236</u>	<u>7,201</u>	<u>14,498</u>

See notes to financial statements.

<u>Proprietary Fund Type</u> Enterprise	Total (Memorandum Only)
-	135,785
-	9,216
-	1,180
3,773	13,579
-	101,013
133,380	139,632
-	19,111
2,768	54,579
<u>139,921</u>	<u>474,095</u>
-	80,651
-	70,325
141,936	287,667
-	30,373
<u>141,936</u>	<u>469,016</u>
<u>(2,015)</u>	<u>5,079</u>
-	10,000
-	(10,000)
-	-
(2,015)	5,079
<u>105,628</u>	<u>396,497</u>
<u>103,613</u>	<u>401,576</u>

City of Schaller

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	<u>Actual</u>	<u>Budget</u>
Receipts:		
Property tax	\$ 135,785	151,895
Other city tax	9,216	-
Licenses and permits	1,180	1,030
Use of money and property	13,579	27,440
Intergovernmental	101,013	104,375
Charges for service	139,632	150,300
Special assessments	19,111	6,000
Miscellaneous	54,579	5,550
Total receipts	<u>474,095</u>	<u>446,590</u>
Disbursements:		
Community Protection Program	80,651	196,051
Human Development Program	70,325	77,755
Home and Community Environment Program	287,667	478,932
Policy and Administration Program	30,373	52,054
Total disbursements	<u>469,016</u>	<u>804,792</u>
Excess (deficiency) of receipts over (under) disbursements	5,079	(358,202)
Balance beginning of year	<u>396,497</u>	<u>384,481</u>
Balance end of year	<u>\$ 401,576</u>	<u>26,279</u>

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual as %</u> <u>of</u> <u>Budget</u>
(16,110)	89%
9,216	
150	115%
(13,861)	49%
(3,362)	97%
(10,668)	93%
13,111	319%
49,029	983%
<u>27,505</u>	<u>106%</u>
115,400	41%
7,430	90%
191,265	60%
21,681	58%
<u>335,776</u>	<u>58%</u>

City of Schaller
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates
General obligation notes:		
Street improvement	Feb 1, 1992	6.50%
Street improvement	May 1, 1996	5.30-5.55
Total		
Special assessment notes:		
Street improvement	May 1, 1996	5.65-5.95%

See notes to financial statements.

Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 255,000	50,000	50,000	-	2,600
150,000	125,000	5,000	120,000	6,785
	<u>\$ 175,000</u>	<u>55,000</u>	<u>120,000</u>	<u>9,385</u>
\$ 100,000	50,000	10,000	40,000	2,875

City of Schaller

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Schaller is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Schaller has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Schaller has no component units required to be reported in accordance with 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 or appoint representatives to the following boards and commissions: Sac County Assessor's Conference Board, Sac County Joint E911 Service Board, Sac County Emergency Management Commission, the Sac County Municipal League, the Northwest Iowa Municipal League, the Highway 20 West Association and the Region 5 Task Force.

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

B. Fund Accounting

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

Governmental Funds

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

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

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

Capital Projects Fund – The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Funds

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

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

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

(2) Deposits

The City's deposits in banks at June 30, 2002 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.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Special Assessment Notes	
	Principal	Interest	Principal	Interest
2003	\$ 30,000	6,525	\$ 10,000	2,320
2004	30,000	4,935	10,000	1,755
2005	30,000	3,315	10,000	1,180
2006	30,000	1,665	10,000	595
Total	\$ 120,000	16,440	\$ 40,000	5,850

The resolution providing for the issuance of the special assessment notes required the establishment of a Special Assessment Note Fund to be used for the collection of special assessments and payment of principal and interest on the notes. The City has not established the Special Assessment Note Fund.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$8,188, equal to the required contribution for that year.

(5) Compensated Absences

City employees accumulate 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 payments payable to employees at June 30, 2002, primarily relating to the General Fund, is \$7,400. This liability has been computed based on rates of pay in effect at June 30, 2002.

(6) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 400 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expense and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contribution to the Pool for the year ended June 30, 2002 was \$8,050.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhaust total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2002, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

(7) Economic Development Revolving Loan Fund

The City has established an Economic Development Revolving Loan Fund and makes loans for economic development projects. During fiscal year 2002, the City approved two loan applications totaling \$17,300. Conditions of the loans are determined by the Loan Review Committee on a case by case basis, with final approval by the City Council. Current loans are for a period of 18 months to seven years, bear interest rates from 2.75% to 7.50% and are to be repaid in either monthly or quarterly installments. During the year ended June 30, 2002, principal collections of \$10,582 were received. The outstanding loan principal balance at June 30, 2002 was \$63,407.

(8) Commitment

The City has committed to provide \$47,759 for financial assurance in connection with its participation in the operation of the Sac County Solid Waste Agency. This represents the City's proportionate share of the liability for closure and postclosure costs.

(9) Subsequent Events

In July 2002, the City approved the purchase of a housing unit for approximately \$40,000 to be used as income property. In January 2003, the City and townships agreed to purchase a new fire truck for approximately \$149,000. These purchases will be paid from existing funds and by donations and contributions from the townships.

Supplemental Information

Schedule 1

City of Schaller
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire Department	Playground Equipment	Total
Receipts:				
Property tax	\$ 76,222	-	-	76,222
Other city tax:				
Utility tax replacement excise tax	5,130	-	-	5,130
Licenses and permits	1,180	-	-	1,180
Use of money and property:				
Interest on investments	8,438	-	-	8,438
Rent	90	-	-	90
	8,528	-	-	8,528
Intergovernmental:				
State allocation	12,099	-	-	12,099
Bank franchise tax	2,198	-	-	2,198
State grants and reimbursements	2,893	-	-	2,893
County library contributions	10,232	-	-	10,232
Open access grant	966	-	-	966
Township fire protection	10,229	-	-	10,229
	38,617	-	-	38,617
Charges for service:				
Swimming pool charges	5,838	-	-	5,838
Miscellaneous	414	-	-	414
	6,252	-	-	6,252
Miscellaneous:				
Fines	231	-	-	231
Donations and contributions	71	4,049	27,142	31,262
Miscellaneous	6,003	497	-	6,500
	6,305	4,546	27,142	37,993
Total receipts	142,234	4,546	27,142	173,922

City of Schaller
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire Department	Playground Equipment	Total
Disbursements:				
Community Protection Program:				
Police:				
Personal services	31,400	-	-	31,400
Contractual services	411	-	-	411
Commodities	5,153	-	-	5,153
	<u>36,964</u>	<u>-</u>	<u>-</u>	<u>36,964</u>
Fire:				
Contractual services	11,010	-	-	11,010
Commodities	1,828	4,796	-	6,624
Capital outlay	-	505	-	505
	<u>12,838</u>	<u>5,301</u>	<u>-</u>	<u>18,139</u>
Ambulance:				
Contractual services	1,524	-	-	1,524
	<u>51,326</u>	<u>5,301</u>	<u>-</u>	<u>56,627</u>
Human Development Program:				
Library:				
Personal services	8,217	-	-	8,217
Contractual services	314	-	-	314
Commodities	4,312	-	-	4,312
Capital outlay	5,011	-	-	5,011
	<u>17,854</u>	<u>-</u>	<u>-</u>	<u>17,854</u>
Swimming pool:				
Personal services	16,470	-	-	16,470
Commodities	10,440	-	-	10,440
	<u>26,910</u>	<u>-</u>	<u>-</u>	<u>26,910</u>
Park :				
Personal services	3,211	-	-	3,211
Contractual services	10,000	-	-	10,000
Commodities	1,874	-	603	2,477
	<u>15,085</u>	<u>-</u>	<u>603</u>	<u>15,688</u>
Recreation center:				
Contractual services	4,400	-	-	4,400
Special events:				
Commodities	2,451	-	-	2,451
	<u>66,700</u>	<u>-</u>	<u>603</u>	<u>67,303</u>

Schedule 1

City of Schaller
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Fire Department	Playground Equipment	Total
Disbursements (continued):				
Home and Community Environment Program:				
Economic development:				
Contractual services	779	-	-	779
Street:				
Commodities	1,366	-	-	1,366
Storm sewers:				
Contractual services	3,800	-	-	3,800
	<u>5,945</u>	<u>-</u>	<u>-</u>	<u>5,945</u>
Policy and Administration Program:				
Personal services	8,296	-	-	8,296
Contractual services	9,801	-	-	9,801
Commodities	1,053	-	-	1,053
	<u>19,150</u>	<u>-</u>	<u>-</u>	<u>19,150</u>
Total disbursements	<u>143,121</u>	<u>5,301</u>	<u>603</u>	<u>149,025</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(887)</u>	<u>(755)</u>	<u>26,539</u>	<u>24,897</u>
Other financing sources (uses):				
Operating transfers in (out):				
General:				
General	-	-	(10,000)	(10,000)
Playground Equipment	10,000	-	-	10,000
Total other financing sources (uses)	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	9,113	(755)	16,539	24,897
Balance beginning of year	<u>153,050</u>	<u>2,581</u>	<u>500</u>	<u>156,131</u>
Balance end of year	<u>\$ 162,163</u>	<u>1,826</u>	<u>17,039</u>	<u>181,028</u>

See accompanying independent auditor's report.

City of Schaller

Schedule 2

City of Schaller
Schedule of Cash Transactions
Special Revenue Fund
Year ended June 30, 2002

	Road Use Tax	Employee Benefits	Revolving Loan	Total
Receipts:				
Property tax	\$ -	28,304	-	28,304
Other city tax:				
Utility tax replacement excise tax	-	1,942	-	1,942
Use of money and property:				
Interest on investments	-	-	707	707
Intergovernmental:				
Road use tax allocation	62,396	-	-	62,396
Miscellaneous:				
Loan repayments:				
Principal	-	-	10,582	10,582
Interest	-	-	3,236	3,236
Total receipts	62,396	30,246	14,525	107,167
Disbursements:				
Community Protection Program:				
Personal services	-	13,156	-	13,156
Street lighting:				
Contractual services	10,868	-	-	10,868
	10,868	13,156	-	24,024
Human Development Program:				
Personal services	-	3,022	-	3,022
Home and Community Environment Program:				
Personal services	18,383	7,092	-	25,475
Contractual services	8,548	-	-	8,548
Commodities	1,796	-	17,320	19,116
Capital outlay	9,387	-	-	9,387
	38,114	7,092	17,320	62,526
Policy and Administration Program:				
Personal services	-	11,223	-	11,223
Total disbursements	48,982	34,493	17,320	100,795
Excess (deficiency) of receipts over (under) disbursements	13,414	(4,247)	(2,795)	6,372
Balance beginning of year	35,756	24,150	28,958	88,864
Balance end of year	\$49,170	19,903	26,163	95,236

See accompanying independent auditor's report.

City of Schaller
 Schedule of Cash Transactions
 Debt Service Fund
 Year ended June 30, 2002

Receipts:		
Property tax	\$	31,259
Other city tax:		
Utility tax replacement excise tax		2,144
Special assessments		19,111
Total receipts		<u>52,514</u>
Disbursements:		
Home and Community Environment Program:		
Debt service:		
General obligation notes:		
Principal redemption		55,000
Interest payments		9,385
		<u>64,385</u>
Special assessment notes:		
Principal redemption		10,000
Interest payments		2,875
		<u>12,875</u>
Total disbursements		<u>77,260</u>
Deficiency of receipts under disbursements		(24,746)
Balance beginning of year		<u>31,947</u>
Balance end of year	\$	<u><u>7,201</u></u>

See accompanying independent auditor's report.

Schedule 4

City of Schaller
Schedule of Cash Transactions
Capital Projects Fund
Year ended June 30, 2002

	<u>Paving</u>
Receipts:	
Use of money and property:	
Interest on investments	\$ 571
Disbursements:	
None	<u>-</u>
Excess of receipts over disbursements	571
Balance beginning of year	<u>13,927</u>
Balance end of year	<u><u>\$ 14,498</u></u>

See accompanying independent auditor's report.

City of Schaller
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Sewer Rental	Garbage	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ 1,179	1,179	1,415	3,773
Charges for service:				
Sale of water	45,236	-	-	45,236
Sewer rental fees	-	12,930	-	12,930
Landfill fees	-	-	20,562	20,562
Solid waste collection fees	-	-	54,652	54,652
	<u>45,236</u>	<u>12,930</u>	<u>75,214</u>	<u>133,380</u>
Miscellaneous:				
Sales tax collected	2,768	-	-	2,768
Total receipts	<u>49,183</u>	<u>14,109</u>	<u>76,629</u>	<u>139,921</u>
Disbursements:				
Home and Community Environment Program:				
Utility operations:				
Personal services	26,858	15,592	22,847	65,297
Contractual services	11,811	-	25,394	37,205
Commodities	6,417	923	8,094	15,434
Capital outlay	-	-	24,000	24,000
Total disbursements	<u>45,086</u>	<u>16,515</u>	<u>80,335</u>	<u>141,936</u>
Excess (deficiency) of receipts over (under) disbursements	4,097	(2,406)	(3,706)	(2,015)
Balance beginning of year	<u>33,738</u>	<u>23,459</u>	<u>48,431</u>	<u>105,628</u>
Balance end of year	<u>\$ 37,835</u>	<u>21,053</u>	<u>44,725</u>	<u>103,613</u>

See accompanying independent auditor's report.

Schedule 6

City of Schaller

Note Maturities

June 30, 2002

Year Ending June 30,	General Obligation Notes		Special Assessment Notes	
	Street Improvement		Street Improvement	
	Issued May 1, 1996		Issued May 1, 1996	
	Interest Rates	Amount	Interest Rates	Amount
2003	5.30%	\$ 30,000	5.65%	\$ 10,000
2004	5.40	30,000	5.75	10,000
2005	5.50	30,000	5.85	10,000
2006	5.55	30,000	5.95	10,000
		<u>\$ 120,000</u>		<u>\$ 40,000</u>

See accompanying independent auditor's report.



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Schaller, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 17, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

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

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior statutory comments have been resolved.

Internal Control Over Financial Reporting

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

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

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 17, 2003

City of Schaller
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal 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 individual can have control over one or more of the following areas:

- (a) Receipts – collecting, depositing and posting.
- (b) Utility billing – billing, collecting, depositing, posting and reconciling billings to collections.
- (c) Investments – investing, recording and custody.

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

Response – Quarterly reports showing all receipts and disbursements and bank reconciliations will be reviewed by the Council. All checks are signed by two persons.

Conclusion – Response acknowledged. Additional control could be achieved through the Council's review of financial transactions.

(B) Records of Accounts – The Fire Department and Park Playground Equipment Committee maintain the accounting records pertaining to the operations of the fire and playground funds. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

In addition, one individual for each account handles all accounting functions for the respective activities.

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be integrated with the Clerk's accounting records.

Response – Quarterly reports of receipts, disbursements and balances will be reviewed by the Council for both accounts.

Conclusion – Response acknowledged. This information should also be included in the City's financial reports and annual budget.

City of Schaller

Schedule of Findings

Year ended June 30, 2002

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – The reconciliation of utility billings, collections and delinquencies was not documented throughout the year.

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

Response – Utility billings have been reconciled to the general ledger account beginning June 2002, when the current Clerk took over. This reconciliation will be part of Council's quarterly review.

Conclusion – Response acknowledged. The Council should also monitor delinquent accounts.

- (D) Monthly Clerk's Report – The City Clerk does not prepare a monthly financial report which includes beginning and ending balances by fund and all monthly activity by fund.

Recommendation – To strengthen the control over the accountability of receipts, disbursements and proper financial reporting, the City should prepare monthly financial reports.

Response – This report has been prepared annually; however, this will also be reviewed by the Council quarterly.

Conclusion – Response acknowledged. In order to strengthen controls over accountability and financial reporting, a monthly financial report should be prepared and submitted to the Council for review.

- (E) Backup Tapes – The City creates backup tapes of its computerized financial records. However, the tapes are not stored at an off site location.

Recommendation – The City should store backup tapes off site in order to ensure that financial records are safeguarded in the event of a disaster.

Response – Programs and backups are now being stored off site.

Conclusion – Response accepted.

City of Schaller

Schedule of Findings

Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.
- (2) Certified Budget – Disbursements during the year ended June 30, 2002 did not exceed the amounts budgeted.
- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Raymond Voss, Council Member, Owner of Voss and Son	Garage door installed	\$ 750

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transaction with the Council Member does not appear to represent a conflict of interest since the cumulative amount was less than \$2,500 during the fiscal year.

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

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish annual gross salaries as required.

Response – Salaries were published this year and will continue to be published annually.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Schaller

Schedule of Findings

Year ended June 30, 2002

- (9) Special Assessment Notes – The resolution providing for the issuance of special assessment street improvement notes required the establishment of a fund, the Special Assessment Note Fund, to be used for the collection of special assessments and payment of principal and interest on the notes.

The City collects special assessments for the street improvement project. However, the collections and all related activity are recorded in the Debt Service Fund.

Recommendation – The City should establish a separate fund, the Special Assessment Note Fund, and determine the balance of this fund at June 30, 2002. In addition, the proceeds of the special assessments must be used to retire the principal on the notes as rapidly as possible in accordance with Chapter 384.68(3) of the Code of Iowa.

Response – Only \$20,000 of notes will remain outstanding after this year. We will review with County to see if we can determine those amounts for complete payoffs.

Conclusion – Response acknowledged. The City should also establish a separate fund, the Special Assessment Note Fund, as required by the note resolution.

City of Schaller

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Daniel L. Durbin, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State