

CITY OF SHELL ROCK, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

- Prepared By -

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CITY OF SHELL ROCK, IOWA

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CITY OF SHELL ROCK, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2010)		
Larry Young	Mayor	January 2010
Glen Kliebenstein	Mayor Pro tem	January 2012
Benjamin DeWitt	Council Member	January 2010
Steve Nieman	Council Member	January 2010
Donald Bonzer	Council Member	January 2012
Rosalee Meyer	Council Member	January 2012
Marilyn Hardee	Clerk/Treasurer	January 2010
Karl Nelson and Bruce Toenjes	Attorney	January 2010
(After January 2010)		
Larry Young	Mayor	January 2012
Glen Kliebenstein	Mayor Pro tem	January 2012
Rosalee Meyer	Council Member	January 2012
Donald Bonzer	Council Member	January 2012
Benjamin DeWitt	Council Member	January 2014
James DeWitt	Council Member	January 2014
Marilyn Hardee	Clerk/Treasurer	January 2011
Karl Nelson and Bruce Toenjes	Attorney	January 2011



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shell Rock, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Shell Rock's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my 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, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2009.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shell Rock as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated October 18, 2010 on my consideration of the City of Shell Rock's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 23 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shell Rock's basic financial statements. Other supplementary information included in Schedules 1 through 4 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Larry Pump".

October 18, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Shell Rock provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

The City's total cash basis net assets increased 6.8%, or approximately \$112,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$101,000 and the assets of the business type activities increased by approximately \$11,000.

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 nonmajor governmental and proprietary funds, and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and the solid waste collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and garbage funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,204,351 to \$1,305,247. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

(Expressed in Thousands)

	<u>Year ended June 30,</u> <u>2010</u>
Receipts:	
Program receipts:	
Charges for service	\$ 41
Operating grants, contributions and restricted interest	403
Capital grants, contributions and restricted interest	24
General receipts:	
Property tax	459
Local option sales tax	85
Unrestricted interest on investments	13
Other general receipts	97
Total receipts	<u>\$1,122</u>
Disbursements:	
Public safety	\$ 177
Public works	101
Health and social services	1
Culture and recreation	173
Community and economic development	357
General government	110
Debt service	102
Total disbursements	<u>\$1,021</u>
Change in cash basis net assets	\$ 101
Cash basis net assets beginning of year	<u>1,204</u>
Cash basis net assets end of year	<u>\$1,305</u>

Changes in Cash Basis Net Assets of Business Type Activities

(Expressed in Thousands)

	<u>Year ended June 30,</u> <u>2010</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 101
Sewer	116
Garbage	118
Other	4
General receipts:	
Unrestricted interest on investments	3
Total receipts	<u>\$ 342</u>
Disbursements:	
Water	\$ 92
Sewer	127
Garbage	110
Other	2
Total disbursements	<u>\$ 331</u>
Change in cash basis net assets	\$ 11
Cash basis net assets beginning of year	<u>427</u>
Cash basis net assets end of year	<u>\$ 438</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shell Rock completed the year, its governmental funds reported a combined fund balance of \$1,305,247, an increase of \$100,896 from last year's total of \$1,204,351. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$56,991 from the prior year to \$343,637. This decrease was due mainly to revenues being less than operating disbursements.

The Road Use Tax Fund cash balance increased by \$38,136 to \$248,285 during the fiscal year. This increase was attributable to timing of the completion of certain road projects for the upcoming fiscal year.

The Local Option Sales Tax Fund cash balance increased \$40,084 to \$151,412 due to receipts being more than transfers out.

The Capital Improvements Fund cash balance increased by \$80,340 to \$390,319 in 2010 due to no expenditures during the fiscal year.

The Debt Service Fund cash balance decreased by \$382 to \$35,054 due primarily to disbursements being more than transfers in.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased \$9,867 to \$179,715, due primarily to revenues greater than expenditures.

The Sewer Fund cash balance decreased by \$11,970 to \$153,618, due primarily to an increase in operating expenses.

The Garbage Fund cash balance increased by \$7,938 to \$30,335, due primarily to operating receipts being greater than operating disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once on June 1, 2010. This resulted in an increase in operating disbursements related to public works, culture and recreation, community and economic development and general government of \$636,000. The City had sufficient cash balances to absorb these additional costs.

The City exceeded the amounts budgeted in the community and economic development and debt service functions for the year ended June 30, 2010.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$365,000 in bonds and other long-term debt, compared to \$450,000 last year, as follows:

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2010	2009
General obligation bonds	<u>\$ 365</u>	<u>\$ 450</u>

The City did not incur any new debt during 2010. Principal and interest payments were made as scheduled. 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 \$365,000 is significantly below its constitutional debt limit of \$2,904,429.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Shell Rock's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

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 Marilyn Hardee, City Clerk, PO Box 522, Shell Rock, Iowa 50670-0522.

CITY OF SHELL ROCK, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 159,234	\$ 27,292	\$ -	\$ -
Public works	118,290	-	120,396	-
Health and social services	435	-	-	-
Culture and recreation	172,662	13,532	-	23,975
Community and economic development	357,727	-	283,051	-
General government	110,745	-	-	-
Debt service	102,177	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$1,021,270</u>	<u>\$ 40,824</u>	<u>\$ 403,447</u>	<u>\$ 23,975</u>
Business type activities:				
Water	\$ 91,778	\$ 101,166	\$ -	\$ -
Sewer	127,377	115,973	-	-
Garbage	109,985	117,923	-	-
Other	1,750	4,100	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total business type activities	<u>\$ 330,890</u>	<u>\$ 339,162</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$1,352,160</u>	<u>\$ 379,986</u>	<u>\$ 403,447</u>	<u>\$ 23,975</u>

(Continued)

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (131,942)	\$ -	\$ (131,942)
2,106	-	2,106
(435)	-	(435)
(135,155)	-	(135,155)
(74,676)	-	(74,676)
(110,745)	-	(110,745)
<u>(102,177)</u>	<u>-</u>	<u>(102,177)</u>
\$ (553,024)	\$ -	\$ (553,024)
\$ -	\$ 9,388	\$ 9,388
-	(11,404)	(11,404)
-	7,938	7,938
<u>-</u>	<u>2,350</u>	<u>2,350</u>
\$ -	\$ 8,272	\$ 8,272
\$ (553,024)	\$ 8,272	\$ (544,752)

CITY OF SHELL ROCK, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Sale of assets

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:

 Expendable:

 Streets
 Urban renewal purposes
 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**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 373,117	\$ -	\$ 373,117
56,660	-	56,660
29,388	-	29,388
85,084	-	85,084
12,577	3,017	15,594
57,094	-	57,094
<u>40,000</u>	<u>-</u>	<u>40,000</u>
<u>\$ 653,920</u>	<u>\$ 3,017</u>	<u>\$ 656,937</u>
\$ 100,896	\$ 11,289	\$ 112,185
<u>1,204,351</u>	<u>427,113</u>	<u>1,631,464</u>
<u>\$1,305,247</u>	<u>\$ 438,402</u>	<u>\$ 1,743,649</u>
\$ 248,285	\$ -	\$ 248,285
11,888	-	11,888
35,054	-	35,054
666,383	-	666,383
<u>343,637</u>	<u>438,402</u>	<u>782,039</u>
<u>\$1,305,247</u>	<u>\$ 438,402</u>	<u>\$ 1,743,649</u>

CITY OF SHELL ROCK, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	General	Special
		Road Use Tax
RECEIPTS:		
Property tax	\$ 307,739	\$ -
Tax increment financing	-	-
Other city tax	5,572	-
Licenses and permits	2,909	-
Use of money and property	11,793	-
Intergovernmental	283,051	120,396
Charges for service	15,577	-
Special assessments	-	-
Miscellaneous	55,306	-
Total receipts	\$ 681,947	\$ 120,396
DISBURSEMENTS:		
Operating:		
Public safety	\$ 159,234	\$ -
Public works	36,030	82,260
Health and social services	435	-
Culture and recreation	166,992	-
Community and economic development	321,737	-
General government	110,745	-
Debt service	-	-
Total disbursements	\$ 795,173	\$ 82,260
Excess (deficiency) of receipts over (under) disbursements	\$ (113,226)	\$ 38,136
Other financing sources (uses):		
Sale of capital assets	\$ -	\$ -
Operating transfers in	74,200	-
Operating transfers out	(17,965)	-
Total other financing sources (uses)	\$ 56,235	\$ -
Net change in cash balances	\$ (56,991)	\$ 38,136
Cash balances beginning of year	400,628	210,149
Cash balances end of year	\$ 343,637	\$ 248,285
Cash Basis Fund Balances:		
Reserved for debt service	\$ -	\$ -
Unreserved:		
General fund	343,637	-
Special revenue funds	-	248,285
Capital projects funds	-	-
Total cash basis fund balances	\$ 343,637	\$ 248,285

See Notes to Financial Statements.

<u>Revenue</u>				
<u>Local Option Sales Tax</u>	<u>Capital Improvements</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ -	\$ 56,660	\$ 68,200	\$ 432,599
-	-	-	29,388	29,388
85,084	-	-	-	90,656
-	-	-	-	2,909
-	6,400	135	290	18,618
-	-	-	-	403,447
-	-	-	-	15,577
-	-	-	9,691	9,691
-	21,975	-	2,000	79,281
<u>\$ 85,084</u>	<u>\$ 28,375</u>	<u>\$ 56,795</u>	<u>\$ 109,569</u>	<u>\$ 1,082,166</u>
\$ -	\$ -	\$ -	\$ -	\$ 159,234
-	-	-	-	118,290
-	-	-	-	435
-	-	-	5,670	172,662
-	-	-	35,990	357,727
-	-	-	-	110,745
-	-	102,177	-	102,177
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,177</u>	<u>\$ 41,660</u>	<u>\$ 1,021,270</u>
\$ 85,084	\$ 28,375	\$ (45,382)	\$ 67,909	\$ 60,896
\$ -	\$ 40,000	\$ -	\$ -	\$ 40,000
-	17,965	45,000	44,246	181,411
(45,000)	(6,000)	-	(112,446)	(181,411)
<u>\$ (45,000)</u>	<u>\$ 51,965</u>	<u>\$ 45,000</u>	<u>\$ (68,200)</u>	<u>\$ 40,000</u>
\$ 40,084	\$ 80,340	\$ (382)	\$ (291)	\$ 100,896
111,328	309,979	35,436	136,831	1,204,351
<u>\$ 151,412</u>	<u>\$ 390,319</u>	<u>\$ 35,054</u>	<u>\$ 136,540</u>	<u>\$ 1,305,247</u>
\$ -	\$ -	\$ 35,054	\$ -	\$ 35,054
-	-	-	-	343,637
151,412	390,319	-	104,089	894,105
-	-	-	32,451	32,451
<u>\$ 151,412</u>	<u>\$ 390,319</u>	<u>\$ 35,054</u>	<u>\$ 136,540</u>	<u>\$ 1,305,247</u>

CITY OF SHELL ROCK, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>
Operating receipts:			
Charges for service	\$ 101,166	\$ 115,973	\$ 117,923
Operating disbursements:			
Business type activities	<u>91,778</u>	<u>127,377</u>	<u>109,985</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 9,388	\$ (11,404)	\$ 7,938
Non-operating receipts:			
Interest on investments	<u>1,679</u>	<u>634</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 11,067</u>	<u>\$ (10,770)</u>	<u>\$ 7,938</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	<u>(1,200)</u>	<u>(1,200)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (1,200)</u>	<u>\$ (1,200)</u>	<u>\$ -</u>
Net change in cash balances	\$ 9,867	\$ (11,970)	\$ 7,938
Cash balances beginning of year	<u>169,848</u>	<u>165,588</u>	<u>22,397</u>
Cash balances end of year	<u>\$ 179,715</u>	<u>\$ 153,618</u>	<u>\$ 30,335</u>
Cash Basis Fund Balances			
Reserved for other	\$ -	\$ -	\$ -
Unreserved	<u>179,715</u>	<u>153,618</u>	<u>30,335</u>
Total cash basis fund balances	<u>\$ 179,715</u>	<u>\$ 153,618</u>	<u>\$ 30,335</u>

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total</u>
\$ 4,100	\$ 339,162
<u>1,750</u>	<u>330,890</u>
\$ 2,350	\$ 8,272
<u>704</u>	<u>3,017</u>
\$ <u>3,054</u>	\$ <u>11,289</u>
\$ 2,400	\$ 2,400
<u>-</u>	<u>(2,400)</u>
\$ <u>2,400</u>	\$ -
\$ 5,454	\$ 11,289
<u>69,280</u>	<u>427,113</u>
<u>\$ 74,734</u>	<u>\$ 438,402</u>
\$ 74,734	\$ 74,734
<u>-</u>	<u>363,668</u>
<u>\$ 74,734</u>	<u>\$ 438,402</u>

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The City of Shell Rock is a political subdivision of the State of Iowa located in Butler County. It was first incorporated in 1873 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 solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shell Rock 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 Butler County Assessor's Conference Board, Iowa Northland Regional Council of Governments and Butler County Emergency Management 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 services.

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

Expendable 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.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies - continued

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax fund is used to account for local option sales tax receipts and disbursements.

The Capital Improvements Fund is used to account for moneys set aside for various City capital improvements.

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 Garbage Fund is used to account for the operation of the City's solid waste collection.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies - continued

C. Measurement Focus and Basis of Accounting

The City of Shell Rock 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the community and economic development and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments at June 30, 2010 are as follows:

	Carrying Amount	Fair Value
U.S. Savings Bond	<u>\$ 550</u>	<u>\$ 550</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF SHELL ROCK, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

(3) **Bonds Payable**

Annual debt service requirements to maturity for general obligations bonds are as follows:

Year Ending June 30,	<u>General Obligation</u> <u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 85,000	\$ 13,940
2012	90,000	10,880
2013	95,000	7,505
2014	95,000	3,800
Total	<u>\$365,000</u>	<u>\$ 36,125</u>

The resolutions providing for the issuance of the general obligation bonds include the following provision:

At the option of the City, bonds maturing after June 1, 2009 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.

(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 statement and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010, was \$17,327, which was equal to the required contribution for the year.

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

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and no retired members in the plan. Participants must be age 55 or older at retirement.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$389 for single coverage and \$973 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$39,104, and plan members eligible for benefits did not contribute to the plan.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable, comp time payable, and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 11,978
Comp time	3,660
Sick leave	32,151
Total	<u>\$ 47,789</u>

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

(7) **Risk Management**

The City of Shell Rock 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 did not exceed commercial insurance coverage in the past fiscal year.

CITY OF SHELL ROCK, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 68,200
	Capital Improvements	6,000
		<u>\$ 74,200</u>
Special Revenue:		
Low to Moderate Income	Special Revenue:	
	Tax Increment Financing	
	- Wosepka	\$ 44,246
Capital Improvements	General	\$ 17,965
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 45,000
Enterprise:		
Water Depreciation	Enterprise:	
	Water	\$ 1,200
Sewer Depreciation	Enterprise:	
	Sewer	1,200
		<u>\$ 2,400</u>
Total		<u>\$183,811</u>

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

(9) **Commitments**

At June 30, 2010, the following construction commitments had been made:

<u>Project</u>	<u>Total</u>	<u>Costs</u>
	<u>Contract</u>	<u>Incurred</u>
		<u>To Date</u>
Boyd Building roof	\$ 21,751	\$ -
Industrial Park	617,001	-
Willow Tree First Addition	357,102	-
Asbestos removal	33,500	-
Total	<u>\$1,029,354</u>	<u>\$ -</u>

(10) **Subsequent Events**

In July 2010, the City issued \$400,000 of general obligation capital loan notes.

On July 6, 2010, the City approved housing rehabilitation projects in the amount of \$16,913.

On August 18, 2010 the City approved flood demolition and removal projects in the amount of \$46,785 and the purchase of a dump truck for \$25,000.

Required Supplementary Information

CITY OF SHELL ROCK, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted
RECEIPTS:			
Property tax	\$ 432,599	\$ -	\$ -
Tax increment financing	29,388	-	-
Other city tax	90,656	-	-
Licenses and permits	2,909	-	-
Use of money and property	18,618	3,017	-
Intergovernmental	403,447	-	-
Charges for service	15,577	339,162	-
Special assessments	9,691	-	-
Miscellaneous	79,281	-	-
Total receipts	<u>\$ 1,082,166</u>	<u>\$ 342,179</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 159,234	\$ -	\$ -
Public works	118,290	-	-
Health and social services	435	-	-
Culture and recreation	172,662	-	-
Community and economic development	357,727	-	-
General government	110,745	-	-
Debt service	102,177	-	-
Business type activities	-	330,890	-
Total disbursements	<u>\$ 1,021,270</u>	<u>\$ 330,890</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 60,896	\$ 11,289	\$ -
Other financing sources, net	<u>40,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 100,896	\$ 11,289	\$ -
Balances beginning of year	<u>1,204,351</u>	<u>427,113</u>	<u>-</u>
Balances end of year	<u>\$ 1,305,247</u>	<u>\$ 438,402</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 432,599	\$ 422,323	\$ 422,323	\$ 10,276
29,388	29,703	29,703	(315)
90,656	81,857	81,857	8,799
2,909	10,355	10,355	(7,446)
21,635	20,070	60,070	(38,435)
403,447	390,259	390,259	13,188
354,739	344,800	404,800	(50,061)
9,691	-	-	9,691
79,281	102,850	522,850	(443,569)
<u>\$1,424,345</u>	<u>\$1,402,217</u>	<u>\$ 1,922,217</u>	<u>\$ (497,872)</u>
\$ 159,234	\$ 163,613	\$ 163,613	\$ 4,379
118,290	404,995	654,995	536,705
435	935	935	500
172,662	172,046	218,046	45,384
357,727	20,669	320,669	(37,058)
110,745	137,221	177,221	66,476
102,177	101,788	101,788	(389)
330,890	478,136	478,136	147,246
<u>\$1,352,160</u>	<u>\$1,479,403</u>	<u>\$ 2,115,403</u>	<u>\$ 763,243</u>
\$ 72,185	\$ (77,186)	\$ (193,186)	\$ 265,371
<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
\$ 112,185	\$ (77,186)	\$ (193,186)	\$ 305,371
<u>1,631,464</u>	<u>1,489,292</u>	<u>1,489,292</u>	<u>142,172</u>
<u>\$1,743,649</u>	<u>\$1,412,106</u>	<u>\$ 1,296,106</u>	<u>\$ 447,543</u>

CITY OF SHELL ROCK, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2010

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, 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, one budget amendment increased budgeted disbursements by \$636,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

Other Supplementary Information

CITY OF SHELL ROCK, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Special		
	Employee Benefits	Tax Increment Financing	Tax Increment Financing-Wosepka
RECEIPTS:			
Property tax	\$ 68,200	\$ -	\$ -
Tax increment financing	-	-	29,388
Use of money and property	-	-	-
Special assessments	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>\$ 68,200</u>	<u>\$ -</u>	<u>\$ 29,388</u>
DISBURSEMENTS:			
Operating:			
Culture and recreation	\$ -	\$ -	\$ -
Community and economic development	-	-	14,694
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,694</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 68,200</u>	<u>\$ -</u>	<u>\$ 14,694</u>
Other financing sources (uses):			
Operating transfers in	\$ -	-	\$ -
Operating transfers out	(68,200)	-	(44,246)
Total other financing sources (uses)	<u>\$ (68,200)</u>	<u>\$ -</u>	<u>\$ (44,246)</u>
Net change in cash balances	\$ -	\$ -	\$ (29,552)
Cash balances beginning of year	-	11,888	29,552
Cash balances end of year	<u>\$ -</u>	<u>\$ 11,888</u>	<u>\$ -</u>
Cash Basis Fund Balances:			
Unreserved:			
Special revenue funds	\$ -	\$ 11,888	\$ -
Capital projects funds	-	-	-
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 11,888</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

Revenue			Capital Projects		Total
Low to Moderate Income	Revolving Economic Development	Street Special Assessment	Library Building Project	Street Improvement Project	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,200
-	-	-	-	-	29,388
-	290	-	-	-	290
-	-	2,822	-	6,869	9,691
-	-	-	2,000	-	2,000
<u>\$ -</u>	<u>\$ 290</u>	<u>\$ 2,822</u>	<u>\$ 2,000</u>	<u>\$ 6,869</u>	<u>\$ 109,569</u>
\$ -	\$ -	\$ -	\$ 5,670	\$ -	\$ 5,670
-	21,296	-	-	-	35,990
<u>\$ -</u>	<u>\$ 21,296</u>	<u>\$ -</u>	<u>\$ 5,670</u>	<u>\$ -</u>	<u>\$ 41,660</u>
\$ -	\$ (21,006)	\$ 2,822	\$ (3,670)	\$ 6,869	\$ 67,909
\$ 44,246	\$ -	\$ -	\$ -	\$ -	\$ 44,246
-	-	-	-	-	(112,446)
<u>\$ 44,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (68,200)</u>
\$ 44,246	\$ (21,006)	\$ 2,822	\$ (3,670)	\$ 6,869	\$ (291)
-	48,582	17,557	10,511	18,741	136,831
<u>\$ 44,246</u>	<u>\$ 27,576</u>	<u>\$ 20,379</u>	<u>\$ 6,841</u>	<u>\$ 25,610</u>	<u>\$ 136,540</u>
\$ 44,246	\$ 27,576	\$ 20,379	\$ -	\$ -	\$ 104,089
-	-	-	6,841	25,610	32,451
<u>\$ 44,246</u>	<u>\$ 27,576</u>	<u>\$ 20,379</u>	<u>\$ 6,841</u>	<u>\$ 25,610</u>	<u>\$ 136,540</u>

CITY OF SHELL ROCK, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise Funds</u>			<u>Total</u>
	<u>Customer Deposits</u>	<u>Water Depreciation</u>	<u>Sewer Depreciation</u>	
Operating Receipts:				
Charges for service	\$ 4,100	\$ -	\$ -	\$ 4,100
Operating Disbursements:				
Business type activities	<u>1,750</u>	<u>-</u>	<u>-</u>	<u>1,750</u>
Excess of operating receipts over operating disbursements	\$ 2,350	\$ -	\$ -	\$ 2,350
Non-operating receipts:				
Interest on investments	<u>58</u>	<u>435</u>	<u>211</u>	<u>704</u>
Excess of receipts over disbursements	\$ 2,408	\$ 435	\$ 211	\$ 3,054
Other financing sources:				
Operating transfers in	<u>-</u>	<u>1,200</u>	<u>1,200</u>	<u>2,400</u>
Net change in cash balances	\$ 2,408	\$ 1,635	\$ 1,411	\$ 5,454
Cash balances beginning of year	<u>23,681</u>	<u>29,942</u>	<u>15,657</u>	<u>69,280</u>
Cash balances end of year	<u>\$ 26,089</u>	<u>\$ 31,577</u>	<u>\$ 17,068</u>	<u>\$ 74,734</u>
Cash Basis Fund Balances:				
Reserved for other	<u>\$ 26,089</u>	<u>\$ 31,577</u>	<u>\$ 17,068</u>	<u>\$ 74,734</u>

See Accompanying Independent Auditor's Report.

CITY OF SHELL ROCK, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds: Essential Corporate Purpose	01/01/04	1.75-4.00%	\$ 835,000

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$450,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$365,000</u>	<u>\$ 16,788</u>	<u>\$ -</u>

CITY OF SHELL ROCK, IOWA
BOND MATURITIES
JUNE 30, 2010

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>GENERAL OBLIGATION BONDS</u>	
	<u>Essential</u>	
	<u>Corporate Purpose</u>	
	<u>Issued January 1, 2004</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2011	3.60%	\$ 85,000
2012	3.75	90,000
2013	3.90	95,000
2014	4.00	<u>95,000</u>
Total		<u>\$365,000</u>

See Accompanying Independent Auditor's Report.



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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:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shell Rock, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated October 18, 2010. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2009. I conducted my 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 my audit, I considered the City of Shell Rock's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Shell Rock's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Shell Rock's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shell Rock's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Shell Rock's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Shell Rock's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shell Rock and other parties to whom the City of Shell Rock may report, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shell Rock during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



October 18, 2010

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated.

Recommendation - I 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 - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Information Systems Controls - The City does not have a written disaster recovery plan. Also, adequate fire protection of computers and files does not exist.

Recommendation - The City should implement the controls necessary to protect the processing of computer information.

Response - We will do this.

Conclusion - Response accepted.

- (C) Bank Signature Cards - I noted that some of the bank signature cards were not current.

Recommendation - All bank authorized signature cards should be reviewed and updated. All current City employees, board members, or council members authorized by the City to sign checks should be on the signature card.

Response - We will review all signature cards and update them per guidelines recommended.

Conclusion - Response accepted.

- (D) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted several checks with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will follow procedures for two signatures on all checks.

Conclusion - Response accepted.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2010

Findings Related to the Financial Statements: - continued

(E) Deposits of Receipts - I noted that receipts were not being deposited in a timely manner.

Recommendation - To provide greater control over receipts, deposits should be taken to the bank for deposit in a timely manner.

Response - We are currently trying to make deposits at the bank at least twice a week.

Conclusion - Response accepted.

(F) Utility Billings - I noted a heavy commercial property utility customer was not being billed for sewer usage in accordance with the current City ordinance.

Recommendation - The City should comply with the current City ordinances for all utility billings.

Response - We have checked all heavy commercial accounts on the computer and made the appropriate change to the billings calculation.

Conclusion - Response accepted.

(G) Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as an auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the amount budgeted in the community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Also, Chapter 384.18 states in part that the City budget shall be amended by May 31 of the current fiscal year. The City amended the budget after May 31.

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, and prior to May 31.

Response - We will do this in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

- (4) Business Transactions - No business transactions between the City and City officials or employees were noted.

- (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 that the coverage is adequate for current operations.

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

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should comply with Chapter 372.13(6) of the Code of Iowa.

Response - We will publish minutes as required.

Conclusion - Response accepted.

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