

CITY OF SHELL ROCK, IOWA

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

JUNE 30, 2011

- Prepared By -

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CITY OF SHELL ROCK, IOWA

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CITY OF SHELL ROCK, IOWA

OFFICIALS

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 2012
Karl Nelson and Bruce Toenjes	Attorney	January 2012



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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, 2011, 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.

In my opinion, 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, 2011, 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 January 12, 2012 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 grant agreements 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 24 through 26 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. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2010 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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".

January 12, 2012

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, 2011. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 192.7%, or approximately \$2,162,000 from fiscal year 2010 to fiscal year 2011. Capital grants, contributions and restricted interest and note proceeds increased approximately \$536,000 and \$1,662,000, respectively, while operating grants, contributions and restricted interest and other general receipts decreased approximately \$254,000 and \$56,000 respectively.

Disbursements of the City's governmental activities increased 145.0%, or approximately \$1,480,000 in fiscal year 2011 from fiscal year 2010. Public works, community and economic development and general government disbursements increased approximately \$509,000, \$978,000 and \$31,000, respectively.

The City's total cash basis net assets increased 46.0%, or approximately \$802,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$857,000 and the assets of the business type activities decreased by approximately \$55,000.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Business Type Activities include the waterworks, the 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 Funds. 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 several Enterprise Funds to provide separate information for the water, sewer and garbage funds.

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 \$1,305,247 to \$2,162,501. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service	\$ 106	\$ 41
Operating grants, contributions and restricted interest	149	403
Capital grants, contributions and restricted interest	560	24
General receipts:		
Property tax	473	459
Local option sales tax	64	85
Unrestricted interest on investments	9	13
Note proceeds, net	1,662	-
Bank loan proceeds	220	-
Other general receipts	41	97
Total receipts	<u>\$ 3,284</u>	<u>\$ 1,122</u>
Disbursements:		
Public safety	\$ 144	\$ 177
Public works	610	101
Health and social services	1	1
Culture and recreation	161	173
Community and economic development	1,335	357
General government	141	110
Debt service	109	102
Total disbursements	<u>\$ 2,501</u>	<u>\$ 1,021</u>
Change in cash basis net assets before transfers	\$ 783	\$ 101
Transfers, net	<u>74</u>	<u>-</u>
Change in cash basis net assets	\$ 857	\$ 101
Cash basis net assets beginning of year	<u>1,305</u>	<u>1,204</u>
Cash basis net assets end of year	<u>\$ 2,162</u>	<u>\$ 1,305</u>

The City's total receipts for governmental activities increased by 192.7%, or approximately \$2,162,000. The total cost of all programs and services increased by approximately \$1,480,000, or 145.0%. The increase in receipts was primarily the result of proceeds received from the issuance of notes and capital grants, contributions and restricted interest. The increase in disbursements was due primarily to several economic development projects during the year.

The cost of all governmental activities this year was approximately \$2,501,000 compared to approximately \$1,021,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$1,686,000 because some of the cost was paid by those directly benefited from the programs (\$106,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$709,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2011 from approximately \$468,000 to approximately \$815,000, principally due to receiving grant proceeds.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 100	\$ 101
Other	239	238
General receipts:		
Unrestricted interest on investments	2	3
Total receipts	\$ 341	\$ 342
Disbursements:		
Water	\$ 130	\$ 92
Other	192	239
Total disbursements	\$ 322	\$ 331
Change in cash basis net assets before transfers	\$ 19	\$ 11
Transfers, net	(74)	-
Change in cash basis net assets	\$ (55)	\$ 11
Cash basis net assets beginning of year	438	427
Cash basis net assets end of year	\$ 383	\$ 438

Total business type activities receipts for the fiscal year were approximately \$341,000 compared to approximately \$342,000 last year. The cash balance decreased by approximately \$55,000 from the prior year due to transfers out. Total disbursements for the fiscal year decreased by 2.7% to a total of approximately \$322,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shell Rock completed the year, its governmental funds reported a combined fund balance of \$2,162,501, an increase of \$857,254 above last year's total of \$1,305,247. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$10,257 from the prior year to \$338,987.

The Special Revenue, Road Use Tax Fund cash balance increased by \$13,185 to \$261,470 during the fiscal year.

The Special Revenue, Cherry Street Bridge Project Fund cash balance increased by \$565,779 to \$565,779 due primarily to note proceeds during the fiscal year.

The Special Revenue, 2010 Industrial Park Fund cash balance decreased by \$1,262 to \$(1,262) during the fiscal year.

The Special Revenue, Willow Tree First Addition Fund cash balance increased by \$45,602 from the prior year to \$45,602.

The Special Revenue, Capital Improvements Fund cash balance increased \$17,980 to \$408,229 during the year.

The Special Revenue, CDBG Flood Buyout Fund cash balance decreased by \$61 to \$(61) during the fiscal year.

The Debt Service Fund cash balance increased \$255,200 to \$290,254 due to note proceeds received during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance decreased \$30,791 from the prior year to \$148,924, due primarily to higher operating costs.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget one time. The amendment was approved on May 26, 2011 and resulted in an increase in operating disbursements of \$2,167,000 due mainly to buy-out and FEMA project expenses. The City received federal and state grant monies and note proceeds to cover these expenses.

The City exceeded the amounts budgeted in the community and economic development function for the year ended June 30, 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,920,000 in notes and other long-term debt outstanding, compared to \$365,000 last year, as shown below:

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2011	June 30, 2010
General obligation notes	\$ 1,700	\$ 365
Bank loan	220	-
Total	<u>\$ 1,920</u>	<u>\$ 365</u>

Debt increased as a result of issuing general obligation notes and a bank loan during fiscal year 2011. 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 \$1,920,000 is 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 2012 budget, tax rates and fees 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, 303 South Cherry Street, Shell Rock, Iowa 50670.

CITY OF SHELL ROCK, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	<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	\$ 143,704	\$ -	\$ 16,373	\$ -
Public works	610,181	13,029	124,972	-
Health and social services	1,270	-	-	-
Culture and recreation	161,335	14,816	7,581	-
Community and economic development	1,334,501	73,200	-	559,850
General government	141,277	5,037	-	-
Debt service	<u>109,309</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$2,501,577</u>	<u>\$ 106,082</u>	<u>\$ 148,926</u>	<u>\$ 559,850</u>
Business type activities:				
Water	\$ 130,444	\$ 99,552	\$ -	\$ -
Other	<u>191,636</u>	<u>238,800</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 322,080</u>	<u>\$ 338,352</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$2,823,657</u>	<u>\$ 444,434</u>	<u>\$ 148,926</u>	<u>\$ 559,850</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (127,331)	\$ -	\$ (127,331)
(472,180)	-	(472,180)
(1,270)	-	(1,270)
(138,938)	-	(138,938)
(701,451)	-	(701,451)
(136,240)	-	(136,240)
<u>(109,309)</u>	<u>-</u>	<u>(109,309)</u>
<u>\$ (1,686,719)</u>	<u>\$ -</u>	<u>\$ (1,686,719)</u>
\$ -	\$ (30,892)	\$ (30,892)
<u>-</u>	<u>47,164</u>	<u>47,164</u>
<u>\$ -</u>	<u>\$ 16,272</u>	<u>\$ 16,272</u>
<u>\$ (1,686,719)</u>	<u>\$ 16,272</u>	<u>\$ (1,670,447)</u>

CITY OF SHELL ROCK, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

General Receipts and Transfers:

Property and other city tax levied for:
 General purposes
 Debt service
Tax increment financing
Local option sales tax
Unrestricted interest on investments
Note proceeds, net
Bank loan proceeds
Miscellaneous
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Expendable:
 Streets
 Urban renewal purposes
 Debt service
 Other purposes
Assigned for various
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>
\$ 393,410	\$ -	\$ 393,410
54,021	-	54,021
25,176	-	25,176
64,505	-	64,505
9,213	2,318	11,531
1,662,568	-	1,662,568
220,000	-	220,000
41,358	-	41,358
<u>73,722</u>	<u>(73,722)</u>	<u>-</u>
<u>\$ 2,543,973</u>	<u>\$ (71,404)</u>	<u>\$ 2,472,569</u>
\$ 857,254	\$ (55,132)	\$ 802,122
<u>1,305,247</u>	<u>438,402</u>	<u>1,743,649</u>
<u>\$ 2,162,501</u>	<u>\$ 383,270</u>	<u>\$ 2,545,771</u>
\$ 261,470	\$ -	\$ 261,470
19,768	-	19,768
290,254	-	290,254
259,844	-	259,844
1,037,973	-	1,037,973
<u>293,192</u>	<u>383,270</u>	<u>676,462</u>
<u>\$ 2,162,501</u>	<u>\$ 383,270</u>	<u>\$ 2,545,771</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, 2011

	Special		
General	Road Use Tax	Cherry Street Bridge Project	
RECEIPTS:			
Property tax	\$ 306,301	\$ -	\$ -
Tax increment financing	-	-	-
Other city tax	5,396	-	-
Licenses and permits	4,159	-	-
Use of money and property	7,413	-	-
Intergovernmental	86,851	118,074	-
Charges for service	14,313	-	-
Special assessments	-	-	-
Miscellaneous	20,749	-	-
Total receipts	\$ 445,182	\$ 118,074	\$ -
DISBURSEMENTS:			
Operating:			
Public safety	\$ 143,704	\$ -	\$ -
Public works	71,071	104,889	434,221
Health and social services	1,270	-	-
Culture and recreation	160,771	-	-
Community and economic development	5,342	-	-
General government	141,277	-	-
Debt service	-	-	-
Total disbursements	\$ 523,435	\$ 104,889	\$ 434,221
Excess (deficiency) of receipts over (under) disbursements	\$ (78,253)	\$ 13,185	\$ (434,221)
Other financing sources (uses):			
Note proceeds	\$ -	\$ -	\$1,034,632
Note discount	-	-	(34,632)
Bank loan proceeds	-	-	-
Operating transfers in	76,703	-	-
Operating transfers out	(8,707)	-	-
Total other financing sources (uses)	\$ 67,996	\$ -	\$1,000,000
Net change in cash balances	\$ (10,257)	\$ 13,185	\$ 565,779
Cash balances beginning of year	349,244	248,285	-
Cash balances end of year	\$ 338,987	\$ 261,470	\$ 565,779
Cash Basis Fund Balances:			
Restricted for:			
Urban renewal purposes	\$ -	\$ -	\$ -
Debt service	-	-	-
Streets	-	261,470	-
Other purposes	-	-	-
Assigned for various	-	-	565,779
Unassigned	338,987	-	-
Total cash basis fund balances	\$ 338,987	\$ 261,470	\$ 565,779

See Notes to Financial Statements.

Revenue						
2010 Industrial Park	Willow Tree First Addition	Capital Improvements	CDBG Flood Buyout	Debt Service	Nonmajor	Total
\$ -	\$ -	\$ -	\$ -	\$ 54,021	\$ 81,713	\$ 442,035
-	-	-	-	-	25,176	25,176
-	-	-	-	-	64,505	69,901
-	-	-	-	-	-	4,159
-	-	4,482	-	120	123	12,138
243,112	-	-	222,367	-	38,372	708,776
-	-	-	-	-	-	14,313
-	73,200	-	-	-	10,437	83,637
-	-	12,207	-	-	9,450	42,406
<u>\$ 243,112</u>	<u>\$ 73,200</u>	<u>\$ 16,689</u>	<u>\$ 222,367</u>	<u>\$ 54,141</u>	<u>\$ 229,776</u>	<u>\$ 1,402,541</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 143,704
-	-	-	-	-	-	610,181
-	-	-	-	-	-	1,270
-	-	-	-	-	564	161,335
641,574	351,968	-	222,428	-	113,189	1,334,501
-	-	-	-	-	-	141,277
-	-	-	-	109,309	-	109,309
<u>\$ 641,574</u>	<u>\$ 351,968</u>	<u>\$ -</u>	<u>\$ 222,428</u>	<u>\$ 109,309</u>	<u>\$ 113,753</u>	<u>\$ 2,501,577</u>
<u>\$ (398,462)</u>	<u>\$ (278,768)</u>	<u>\$ 16,689</u>	<u>\$ (61)</u>	<u>\$ (55,168)</u>	<u>\$ 116,023</u>	<u>\$ (1,099,036)</u>
\$ 400,000	\$ -	\$ -	\$ -	\$ 265,368	\$ -	\$ 1,700,000
(2,800)	-	-	-	-	-	(37,432)
-	220,000	-	-	-	-	220,000
-	104,370	8,707	-	45,000	7,726	242,506
-	-	(7,416)	-	-	(152,661)	(168,784)
<u>\$ 397,200</u>	<u>\$ 324,370</u>	<u>\$ 1,291</u>	<u>\$ -</u>	<u>\$ 310,368</u>	<u>\$ (144,935)</u>	<u>\$ 1,956,290</u>
\$ (1,262)	\$ 45,602	\$ 17,980	\$ (61)	\$ 255,200	\$ (28,912)	\$ 857,254
-	-	390,319	-	35,054	282,345	1,305,247
<u>\$ (1,262)</u>	<u>\$ 45,602</u>	<u>\$ 408,299</u>	<u>\$ (61)</u>	<u>\$ 290,254</u>	<u>\$ 253,433</u>	<u>\$ 2,162,501</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,768	\$ 19,768
-	-	-	-	290,254	-	290,254
-	-	-	-	-	-	261,470
-	-	-	-	-	259,844	259,844
-	45,602	408,299	-	-	18,293	1,037,973
(1,262)	-	-	(61)	-	(44,472)	293,192
<u>\$ (1,262)</u>	<u>\$ 45,602</u>	<u>\$ 408,299</u>	<u>\$ (61)</u>	<u>\$ 290,254</u>	<u>\$ 253,433</u>	<u>\$ 2,162,501</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, 2011

	<u>Enterprise</u>		
	<u>Water</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 99,552	\$ 238,800	\$ 338,352
Operating disbursements:			
Business type activities	<u>130,444</u>	<u>191,636</u>	<u>322,080</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$(30,892)	\$ 47,164	\$ 16,272
Non-operating receipts:			
Interest on investments	<u>1,301</u>	<u>1,017</u>	<u>2,318</u>
Excess (deficiency) of receipts over (under) disbursements	\$(29,591)	\$ 48,181	\$ 18,590
Other financing sources (uses):			
Operating transfers in	\$ -	\$ 2,400	\$ 2,400
Operating transfers out	<u>(1,200)</u>	<u>(74,922)</u>	<u>(76,122)</u>
Total other financing sources (uses)	<u>\$ (1,200)</u>	<u>\$ (72,522)</u>	<u>\$ (73,722)</u>
Net change in cash balances	\$(30,791)	\$ (24,341)	\$ (55,132)
Cash balances beginning of year	<u>179,715</u>	<u>258,687</u>	<u>438,402</u>
Cash balances end of year	<u>\$148,924</u>	<u>\$ 234,346</u>	<u>\$ 383,270</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$148,924</u>	<u>\$ 234,346</u>	<u>\$ 383,270</u>

See Notes to Financial Statements.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(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 following boards and commissions: Butler County Assessor's Conference Board, Iowa Northland Regional Council of Governments, Butler County Emergency Management Commission, Butler County Solid Waste Commission and Butler County Joint E911 Service Board.

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies - continued

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.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Cherry Street Bridge Project Fund is used to account for the bridge renovation.

The 2010 Industrial Park Fund accounts for construction within the Shell Rock Industrial Park.

The Willow Tree First Addition Fund is used to account for construction costs and special assessments received on the sale of the lots.

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

The CDBG Flood Buyout Fund accounts for community development block grant receipts and disbursements.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies - continued

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

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the community and economic development function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 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.

At June 30, 2011, the City had the following investments:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Savings Bonds	<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.

3) **Notes Payable**

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

Year Ending June 30,	General Obligation Notes	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 135,000	\$ 32,886
2013	160,000	33,054
2014	165,000	31,414
2015	170,000	29,149
2016	175,000	26,399
2017-2021	<u>895,000</u>	<u>70,063</u>
Total	<u>\$1,700,000</u>	<u>\$222,965</u>

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(3) **Notes Payable** - continued

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

At the option of the City, notes due on the essential corporate purpose notes issues of July 27, 2010 and June 23, 2011, are subject to redemption and prepayment in whole or from time to time in part, in any order of maturity beginning June 1, 2017 and June 1, 2018, respectively, and within an annual maturity by lot, at a price of par plus accrued interest to call date, by giving proper notice.

Bank Loan

The City has also entered into the following loan agreement with Security State Bank, Shell Rock, Iowa:

Date of Loan	03/04/11
Original amount	\$220,000
Interest rate	4.50%
Payment dates	Annual
Payment amount	\$220,000
Maturity date	03/04/12

At June 30, 2011:

Number of payments remaining	1
Outstanding balance	\$220,000

(4) **Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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 contributions to IPERS for the years ended June 30, 2011 and 2010 were \$17,816 and \$17,327, respectively, equal to the required contributions for each year.

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

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

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.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$520 for single coverage and \$1,334 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$45,163 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, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,753
Comp time	1,618
Sick leave	31,933
Total	<u>\$ 41,304</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) **Risk Management**

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

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 69,287
	Capital Improvements	7,416
		<u>\$ 76,703</u>
Special Revenue:	General	
Capital Improvements		<u>\$ 8,707</u>

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(8) Interfund Transfers - continued

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Willow Tree First Addition	Special Revenue:	
	Street Special Assessment	\$ 19,187
	Capital Projects:	
	Street Improvement Project	19,187
	Enterprise:	
	Sewer	65,996
		<u>\$104,370</u>
Low to Moderate Income	Enterprise:	
	Sewer	<u>\$ 7,726</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>\$ 45,000</u>
Enterprise:		
Water Depreciation	Enterprise:	
	Water	\$ 1,200
Sewer Depreciation	Sewer	1,200
		<u>\$ 2,400</u>
Total		<u>\$244,906</u>

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

(9) Deficit Balance

The Special Revenue, 2010 Industrial Park, CDBG Flood Buyout and Flood Buyout Funds had deficit balances of \$1,262, \$61 and \$44,472, respectively, at June 30, 2011. These deficit balances were the result of project costs incurred prior to availability of funds. These deficits will be eliminated upon receipt of state grants.

(10) Related Party Transactions

The City had business transactions between the City and City employees totaling \$3,141 during the year ended June 30, 2011.

(11) Commitments

At June 30, 2011, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Industrial Park	\$ 642,650	\$ 610,517
Willow Tree First Addition	350,086	332,605
Cherry Street Bridge Reconstruction	1,744,185	331,051
	<u>\$2,736,921</u>	<u>\$1,274,173</u>

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(12) Subsequent Events

On July 5, 2011, the City Council approved a change order for the Cherry Street Bridge Reconstruction project not to exceed \$35,687.

On August 2, 2011, the City Council approved a change order in the amount of \$65,650 for the Cherry Street Bridge Reconstruction project.

On September 6, 2011, the City Council awarded the Asbestos Survey contract to ATC Associates for the flood buyout houses.

On December 6, 2011, the City Council approved a loan agreement for the issuance of \$190,000 Taxable Special Assessment Street Improvement Capital Loan Notes.

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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
RECEIPTS:			
Property tax	\$ 442,035	\$ -	\$ -
Tax increment financing	25,176	-	-
Other city tax	69,901	-	-
Licenses and permits	4,159	-	-
Use of money and property	12,138	2,318	-
Intergovernmental	708,776	-	-
Charges for service	14,313	338,352	-
Special assessments	83,637	-	-
Miscellaneous	42,406	-	-
Total receipts	<u>\$ 1,402,541</u>	<u>\$ 340,670</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 143,704	\$ -	\$ -
Public works	610,181	-	-
Health and social services	1,270	-	-
Culture and recreation	161,335	-	-
Community and economic development	1,334,501	-	-
General government	141,277	-	-
Debt service	109,309	-	-
Capital projects	-	-	-
Business type activities	-	322,080	-
Total disbursements	<u>\$ 2,501,577</u>	<u>\$ 322,080</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$(1,099,036)	\$ 18,590	\$ -
Other financing sources, net	<u>1,956,290</u>	<u>(73,722)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 857,254	\$ (55,132)	\$ -
Balances beginning of year	<u>1,305,247</u>	<u>438,402</u>	<u>-</u>
Balances end of year	<u>\$ 2,162,501</u>	<u>\$ 383,270</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>	
\$ 442,035	\$ 421,315	\$ 421,315	\$ 20,720
25,176	29,703	29,703	(4,527)
69,901	97,217	97,217	(27,316)
4,159	4,430	4,430	(271)
14,456	16,900	16,900	(2,444)
708,776	744,303	1,344,303	(635,527)
352,665	376,570	376,570	(23,905)
83,637	-	-	83,637
42,406	72,800	72,800	(30,394)
<u>\$ 1,743,211</u>	<u>\$1,763,238</u>	<u>\$ 2,363,238</u>	<u>\$ (620,027)</u>
\$ 143,704	\$ 146,682	\$ 156,682	\$ 12,978
610,181	783,237	883,237	273,056
1,270	7,135	7,135	5,865
161,335	176,022	201,022	39,687
1,334,501	70,979	1,135,979	(198,522)
141,277	134,026	784,026	642,749
109,309	98,940	398,940	289,631
-	3,000	3,000	3,000
322,080	392,366	409,366	87,286
<u>\$ 2,823,657</u>	<u>\$1,812,387</u>	<u>\$ 3,979,387</u>	<u>\$1,155,730</u>
\$(1,080,446)	\$ (49,149)	\$(1,616,149)	\$ 535,703
<u>1,882,568</u>	<u>-</u>	<u>1,870,000</u>	<u>12,568</u>
\$ 802,122	\$ (49,149)	\$ 253,851	\$ 548,271
<u>1,743,649</u>	<u>1,746,116</u>	<u>1,746,116</u>	<u>(2,467)</u>
<u>\$ 2,545,771</u>	<u>\$1,696,967</u>	<u>\$ 1,999,967</u>	<u>\$ 545,804</u>

CITY OF SHELL ROCK, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2011

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

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

Formal and legal budgetary control is based upon 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 Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,167,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the community and economic development function.

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, 2011

	Special			
	Employee Benefits	Local Option Sales Tax	Tax Increment Financing	Tax Increment Financing- Wosepka
RECEIPTS:				
Property tax	\$ 71,989	\$ -	\$ -	\$ -
Tax increment financing	-	-	-	25,176
Other city tax	-	64,505	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>\$ 71,989</u>	<u>\$ 64,505</u>	<u>\$ -</u>	<u>\$ 25,176</u>
DISBURSEMENTS:				
Operating:				
Culture and recreation	\$ -	\$ -	\$ -	\$ -
Community and economic development	-	-	-	17,296
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,296</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 71,989</u>	<u>\$ 64,505</u>	<u>\$ -</u>	<u>\$ 7,880</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	(69,287)	(45,000)	-	-
Total other financing sources (uses)	<u>\$ (69,287)</u>	<u>\$ (45,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	\$ 2,702	\$ 19,505	\$ -	\$ 7,880
Cash balances beginning of year	-	151,412	11,888	-
Cash balances end of year	<u>\$ 2,702</u>	<u>\$170,917</u>	<u>\$ 11,888</u>	<u>\$ 7,880</u>
Cash Basis Fund Balances:				
Restricted for other purposes	\$ 2,702	\$170,917	\$ 11,888	\$ 7,880
Assigned for capital projects	-	-	-	-
Unassigned	-	-	-	-
Total cash basis fund balances	<u>\$ 2,702</u>	<u>\$170,917</u>	<u>\$ 11,888</u>	<u>\$ 7,880</u>

See Accompanying Independent Auditor's Report.

Revenue				Capital Projects		Total
Low to Moderate Income	Revolving Economic Development	Street Special Assessment	Flood Buyout	Library Building Project	Street Improvement Project	
\$ 9,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,713
-	-	-	-	-	-	25,176
-	-	-	-	-	-	64,505
-	123	-	-	-	-	123
-	-	-	38,372	-	-	38,372
-	-	4,844	-	-	5,593	10,437
-	-	-	9,450	-	-	9,450
<u>\$ 9,724</u>	<u>\$ 123</u>	<u>\$ 4,844</u>	<u>\$ 47,822</u>	<u>\$ -</u>	<u>\$ 5,593</u>	<u>\$ 229,776</u>
\$ -	\$ -	\$ -	\$ -	\$ 564	\$ -	\$ 564
-	9,206	-	86,687	-	-	113,189
<u>\$ -</u>	<u>\$ 9,206</u>	<u>\$ -</u>	<u>\$ 86,687</u>	<u>\$ 564</u>	<u>\$ -</u>	<u>\$ 113,753</u>
<u>\$ 9,724</u>	<u>\$ (9,083)</u>	<u>\$ 4,844</u>	<u>\$ (38,865)</u>	<u>\$ (564)</u>	<u>\$ 5,593</u>	<u>\$ 116,023</u>
\$ 7,726	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,726
-	-	(19,187)	-	-	(19,187)	(152,661)
<u>\$ 7,726</u>	<u>\$ -</u>	<u>\$ (19,187)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (19,187)</u>	<u>\$ (144,935)</u>
\$ 17,450	\$ (9,083)	\$ (14,343)	\$ (38,865)	\$ (564)	\$ (13,594)	\$ (28,912)
44,246	27,576	20,379	(5,607)	6,841	25,610	282,345
<u>\$ 61,696</u>	<u>\$ 18,493</u>	<u>\$ 6,036</u>	<u>\$ (44,472)</u>	<u>\$ 6,277</u>	<u>\$ 12,016</u>	<u>\$ 253,433</u>
\$ 61,696	\$ 18,493	\$ 6,036	\$ -	\$ -	\$ -	\$ 279,612
-	-	-	-	6,277	12,016	18,293
-	-	-	(44,472)	-	-	(44,472)
<u>\$ 61,696</u>	<u>\$ 18,493</u>	<u>\$ 6,036</u>	<u>\$ (44,472)</u>	<u>\$ 6,277</u>	<u>\$ 12,016</u>	<u>\$ 253,433</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</u>			
	<u>Customer Deposits</u>	<u>Water Depreciation</u>	<u>Sewer</u>	<u>Sewer Depreciation</u>
Operating Receipts:				
Charges for service	\$ 4,001	\$ -	\$118,460	\$ -
Operating Disbursements:				
Business type activities	<u>2,875</u>	<u>-</u>	<u>88,200</u>	<u>-</u>
Excess of operating receipts over operating disbursements	\$ 1,126	\$ -	\$ 30,260	\$ -
Non-operating receipts:				
Interest on investments	<u>75</u>	<u>345</u>	<u>409</u>	<u>188</u>
Excess of receipts over disbursements	<u>\$ 1,201</u>	<u>\$ 345</u>	<u>\$ 30,669</u>	<u>\$ 188</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ 1,200	\$ -	\$ 1,200
Operating transfers out	<u>-</u>	<u>-</u>	<u>(74,922)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$(74,922)</u>	<u>\$ 1,200</u>
Net change in cash balances	\$ 1,201	\$ 1,545	\$(44,253)	\$ 1,388
Cash balances beginning of year	<u>26,089</u>	<u>31,577</u>	<u>153,618</u>	<u>17,068</u>
Cash balances end of year	<u>\$ 27,290</u>	<u>\$ 33,122</u>	<u>\$109,365</u>	<u>\$ 18,456</u>
Cash Basis Fund Balances:				
Committed for customer deposits	\$ 27,290	\$ -	\$ -	\$ -
Restricted for debt service	-	33,122	-	18,456
Unrestricted	<u>-</u>	<u>-</u>	<u>109,365</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 27,290</u>	<u>\$ 33,122</u>	<u>\$109,365</u>	<u>\$ 18,456</u>

See Accompanying Independent Auditor's Report.

<u>Garbage</u>	<u>Total</u>
\$ 116,339	\$ 238,800
<u>100,561</u>	<u>191,636</u>
\$ 15,778	\$ 47,164
<u>-</u>	<u>1,017</u>
\$ 15,778	\$ 48,181
\$ -	\$ 2,400
<u>-</u>	<u>(74,922)</u>
\$ -	\$ (72,522)
\$ 15,778	\$ (24,341)
<u>30,335</u>	<u>258,687</u>
<u>\$ 46,113</u>	<u>\$ 234,346</u>
\$ -	\$ 27,290
-	51,578
<u>46,113</u>	<u>155,478</u>
<u>\$ 46,113</u>	<u>\$ 234,346</u>

CITY OF SHELL ROCK, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Essential Corporate Purpose	01/01/04	1.75-4.00%	\$ 835,000
Essential Corporate Purpose	07/27/10	2.00-3.50	400,000
Essential Corporate Purpose	06/23/11	0.45-2.75	1,300,000
Total			
Bank Loan:			
Street, water and sewer improvement	03/04/11	4.50%	\$ 220,000
Total indebtedness			

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>
\$ 365,000	\$ -	\$365,000	\$ -	\$ 13,940	\$ -
-	400,000	-	400,000	9,669	-
-	1,300,000	-	1,300,000	-	-
<u>\$ 365,000</u>	<u>\$1,700,000</u>	<u>\$365,000</u>	<u>\$1,700,000</u>	<u>\$ 23,609</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u><u>\$ 365,000</u></u>	<u><u>\$1,920,000</u></u>	<u><u>\$365,000</u></u>	<u><u>\$1,920,000</u></u>	<u><u>\$ 23,609</u></u>	<u><u>\$ -</u></u>

CITY OF SHELL ROCK, IOWA
NOTE MATURITIES
JUNE 30, 2011

<u>Year Ending June 30,</u>	<u>GENERAL OBLIGATION NOTES</u>				
	<u>Essential Corporate Purpose Issued July 27, 2010</u>		<u>Essential Corporate Purpose Issued June 23, 2011</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2012	2.00%	\$ 40,000	0.45%	\$ 95,000	\$ 135,000
2013	2.00	40,000	0.70	120,000	160,000
2014	2.50	45,000	0.95	120,000	165,000
2015	2.50	45,000	1.30	125,000	170,000
2016	3.00	45,000	1.65	130,000	175,000
2017	3.00	45,000	1.88	135,000	180,000
2018	3.50	45,000	2.15	140,000	185,000
2019	3.50	45,000	2.35	140,000	185,000
2020	3.50	50,000	2.55	145,000	195,000
2021		-	2.75	150,000	150,000
Total		<u>\$400,000</u>		<u>\$1,300,000</u>	<u>\$1,700,000</u>

See Accompanying Independent Auditor's Report.

CITY OF SHELL ROCK, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST TWO YEARS

	<u>2011</u>	<u>2010</u>
Receipts:		
Property tax	\$ 442,035	\$ 432,599
Tax increment financing	25,176	29,388
Other city tax	69,901	90,656
Licenses and permits	4,159	2,909
Use of money and property	12,138	18,618
Intergovernmental	708,776	403,447
Charges for service	14,313	15,577
Special assessments	83,637	9,691
Miscellaneous	42,406	79,281
Total	<u>\$1,402,541</u>	<u>\$1,082,166</u>
Disbursements:		
Operating:		
Public safety	\$ 143,704	\$ 159,234
Public works	610,181	118,290
Health and social services	1,270	435
Culture and recreation	161,335	172,662
Community and economic development	1,334,501	357,727
General government	141,277	110,745
Debt service	109,309	102,177
Total	<u>\$2,501,577</u>	<u>\$1,021,270</u>

See Accompanying Independent Auditor's Report.

CITY OF SHELL ROCK, IOWA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2011

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant Program	14.228	07-HSG-063	\$ 21,237
		08-DRMH-219	1,282
		08-DRHB-232	221,803
			<u>\$ 244,322</u>
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
Safety Belt Performance Grant	20.205	02-11-STPU-019	<u>\$ 264,841</u>
U.S. Department of Homeland Security:			
Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Grant	97.039	HMGP-DR-1763- 0019-01	<u>\$ 690</u>
Total			<u>\$ 509,853</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Shell Rock and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated January 12, 2012. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Part II of the accompanying Schedule of Findings as items II-A-11, II-C-11, II-D-11, II-E-11, II-G-11 and II-I-11 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 deficiencies described in Part II of the accompanying Schedule of Findings as items II-B-11, II-F-11 and II-H-11 to be significant deficiencies.

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, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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 Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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, including federal awarding agencies and pass-through entities, 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.



January 12, 2012



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council:

Compliance

I have audited the City of Shell Rock, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Shell Rock's major federal program for the year ended June 30, 2011. The City of Shell Rock's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Shell Rock's management. My responsibility is to express an opinion on the City of Shell Rock's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shell Rock's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Shell Rock's compliance with those requirements.

In my opinion, the City of Shell Rock complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011. However, the results of my auditing procedures disclosed an instance of non-compliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and is described as item III-A-11 in the accompanying Schedule of Findings.

Internal Control Over Compliance

The management of the City of Shell Rock is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing my audit, I considered the City of Shell Rock's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Shell Rock's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, I identified a deficiency in internal control over compliance I consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-11 to be a material weakness.

The City of Shell Rock's response to the finding identified in my audit is described in the accompanying Schedule of Findings. While I have expressed my conclusion on the City's response, I did not audit the City of Shell Rock's response and, accordingly, I express no opinion on it.

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



January 12, 2012

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 - Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Shell Rock did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 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.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements: - continued

II-B-11 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.

II-C-11 Posting of Financial Transactions - Receipts and disbursements were not always posted to the correct accounts, and corrections were done directly to fund balance rather than the correct revenue or expense account.

Recommendation - More care should be exercised when posting transactions to reduce the incidence of mispostings and corrections should be done to the corresponding revenue or expense account.

Response - In the future, more care will be exercised when posting transactions.

Conclusion - Response accepted.

II-D-11 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.

II-E-11 Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted one check 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, 2011

Part II: Findings Related to the Financial Statements: - continued

- II-F-11 Post-dated Check - I noted one check that cleared the bank statement prior to the date on the check.
- Recommendation - The City should avoid the use of post-dating checks.
- Response - We will discontinue the use of post-dating checks in the future.
- Conclusion - Response accepted.
- II-G-11 Deposits of Receipts - I noted that receipts were not being deposited in a timely manner.
- Recommendation - The City should establish a cutoff time during the day to allow the Utility Clerk to balance out and make a bank deposit the same day. This procedure would reduce the risk inherent in money being transferred between facilities and in funds being held overnight. The City would also earn additional interest income by having the funds deposited earlier.
- Response - We will investigate the alternatives.
- Conclusion - Response accepted.
- II-H-11 Payroll - There was no formal approval of time cards for employees.
- Recommendation - All time cards should have formal approval before paychecks are authorized.
- Response - We will do this.
- Conclusion - Response accepted.
- II-I-11 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.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements: - continued

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.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted

INTERNAL CONTROL DEFICIENCY:

CFDA Number 20.205: Highway Planning and Construction

Pass through Agency Number: 02-11-STPU-019

Federal Award Year: 2011

U.S. Department of Transportation

Passed through the Department of Transportation

III-A-11 Segregation of Duties - The City did not properly segregate custody, recordkeeping and reconciling functions for receipts and disbursements, including those related to Federal Programs. See audit finding II-A-11.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - We will do this in the future.

Conclusion - Response accepted.

IV-B-11 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.

IV-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting: - continued

IV-D-11 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>
Michael Schuldt, volunteer fireman, Owner of Schuldt Auto Body	Service and Repairs	\$1,147
David Green, employee, Self-employed	Cleaning	1,994

In accordance with chapter 362.5(3)(k) of the Code of Iowa, the transactions with Michael Schuldt and David Green do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

IV-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-11 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

Minutes of Council proceedings were not always published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

Response - We will publish minutes as required.

Conclusion - Response accepted.

IV-G-11 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.

IV-H-11 Financial Condition - The Special Revenue, 2010 Industrial Park, CDBG Flood Buyout and Flood Buyout Funds had deficit balances of \$1,262, \$61 and \$44,472, respectively, at June 30, 2011.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Response - These deficits were due to construction costs incurred prior to receipt of grant monies. These deficits will be eliminated upon receipt of the grant money.

Conclusion - Response accepted.