

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

JUNE 30, 2012

- Prepared By -

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CITY OF SHELL ROCK, IOWA

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CITY OF SHELL ROCK, IOWA

OFFICIALS

(Before January 2012)

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

(After January 2012)

Larry Young	Mayor	January 2014
Benjamin DeWitt	Mayor Pro tem	January 2014
James DeWitt	Council Member	January 2014
Donald Bonzer	Council Member	January 2016
Rosalee Meyer	Council Member	January 2016
Edward Willert	Council Member	January 2016
Marilyn Hardee	Clerk/Treasurer	January 2013
Karl Nelson and Bruce Toenjes	Attorney	January 2013



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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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of 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, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated December 13, 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.

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 two years ended June 30, 2011 (which are not presented herein) and expressed qualified and unqualified opinions, respectively, on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 23 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script, appearing to read "Larry Pumph".

December 13, 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, 2012. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 15.4%, or approximately \$506,000 from fiscal year 2011 to fiscal year 2012. Capital grants, contributions and restricted interest and property tax increased approximately \$1,139,000 and \$71,000, respectively, while charges for service and note and bank proceeds decreased approximately \$41,000 and \$1,692,000 respectively.

Disbursements of the City's governmental activities increased 24.2%, or approximately \$604,000 in fiscal year 2012 from fiscal year 2011. Public works and debt service disbursements increased approximately \$1,119,000 and \$570,000, respectively, while community and economic development and general government disbursements decreased approximately \$1,059,000 and \$23,000, respectively.

The City's total cash basis net assets decreased 14.3%, or approximately \$363,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities decreased approximately \$328,000 and the assets of the business type activities decreased by approximately \$35,000.

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 financial statement by providing information about the most significant funds.

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

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

Supplementary Information provides detailed information about the nonmajor governmental 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 decreased from a year ago, decreasing from \$2,162,501 to \$1,834,536. 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>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service	\$ 65	\$ 106
Operating grants, contributions and restricted interest	152	149
Capital grants, contributions and restricted interest	1,699	560
General receipts:		
Property tax	544	473
Local option sales tax	74	64
Unrestricted interest on investments	9	9
Note proceeds, net	190	1,662
Bank loan proceeds	-	220
Other general receipts	45	41
Total receipts	<u>\$ 2,778</u>	<u>\$ 3,284</u>
Disbursements:		
Public safety	\$ 151	\$ 144
Public works	1,729	610
Health and social services	3	1
Culture and recreation	149	161
Community and economic development	276	1,335
General government	118	141
Debt service	679	109
Total disbursements	<u>\$ 3,105</u>	<u>\$ 2,501</u>
Change in cash basis net assets before transfers	\$ (327)	\$ 783
Transfers, net	<u>-</u>	<u>74</u>
Change in cash basis net assets	\$ (327)	\$ 857
Cash basis net assets beginning of year	<u>2,162</u>	<u>1,305</u>
Cash basis net assets end of year	<u>\$ 1,835</u>	<u>\$ 2,162</u>

The City's total receipts for governmental activities decreased by 15.4%, or approximately \$506,000. The total cost of all programs and services increased by approximately \$604,000, or 24.2%. The decrease in receipts was primarily the result of proceeds received from the issuance of notes in the prior year. The increase in disbursements was due primarily to the Cherry Street Bridge Project during the year.

The cost of all governmental activities this year was approximately \$3,105,000 compared to approximately \$2,501,000 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 \$1,189,000 because some of the cost was paid by those directly benefited from the programs (\$65,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$1,851,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from approximately \$815,000 to approximately \$1,916,000, principally due to receiving grant proceeds.

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

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 128	\$ 118
Other	207	221
General receipts:		
Unrestricted interest on investments	2	2
Total receipts	<u>\$ 337</u>	<u>\$ 341</u>
Disbursements:		
Sewer	\$ 107	\$ 88
Other	265	234
Total disbursements	<u>\$ 372</u>	<u>\$ 322</u>
Change in cash basis net assets before transfers	\$ (35)	\$ 19
Transfers, net	<u>-</u>	<u>(74)</u>
Change in cash basis net assets	\$ (35)	\$ (55)
Cash basis net assets beginning of year	<u>383</u>	<u>438</u>
Cash basis net assets end of year	<u>\$ 348</u>	<u>\$ 383</u>

Total business type activities receipts for the fiscal year were approximately \$337,000 compared to approximately \$341,000 last year. The cash balance decreased by approximately \$35,000 from the prior year due to the water main repair. Total disbursements for the fiscal year increased by 15.5% to a total of approximately \$50,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shell Rock completed the year, its governmental funds reported a combined fund balance of \$1,834,536, a decrease of \$327,965 below last year's total of \$2,162,501. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$41,242 from the prior year to \$380,229.

The Special Revenue, Road Use Tax Fund cash balance increased by \$23,315 to \$284,785 during the fiscal year.

The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$28,822 to \$199,739 during the fiscal year.

The Special Revenue, Cherry Street Bridge Project Fund cash balance decreased by \$148,894 to \$416,885 due primarily to project expenses during the fiscal year.

The Special Revenue, Capital Improvements Fund cash balance increased \$30,559 to \$438,858 during the year.

The Debt Service Fund cash balance decreased \$298,041 to \$(7,787) due to note payments during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance increased \$21,535 from the prior year to \$130,900.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget one time. The amendment was approved on June 5, 2012 and resulted in an increase in operating disbursements of \$3,356,000 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 health and social services, community and economic development and debt service functions for the year ended June 30, 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$1,755,000 in notes and other long-term debt outstanding, compared to \$1,920,000 last year, as shown below:

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2012	2011
General obligation notes	\$ 1,565	\$ 1,700
Special assessment note	190	-
Bank loan	-	220
	<u> </u>	<u> </u>
Total	<u>\$ 1,755</u>	<u>\$ 1,920</u>

Debt decreased as a result of scheduled debt payments made during the year.

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 \$1,565,000 is below its constitutional debt limit of \$2,908,853.

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 2013 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, 2012

	<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	\$ 151,179	\$ -	\$ 21,730	\$ -
Public works	1,728,762	4,237	122,927	1,428,266
Health and social services	3,135	-	-	-
Culture and recreation	148,550	27,542	7,581	-
Community and economic development	275,733	23,600	-	270,984
General government	118,410	5,334	-	-
Debt Service	678,686	-	-	-
Capital Projects	<u>1,915</u>	<u>4,658</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$3,106,370</u>	<u>\$ 65,371</u>	<u>\$ 152,238</u>	<u>\$1,699,250</u>
Business type activities:				
Sewer	\$ 106,530	\$ 127,718	\$ -	\$ -
Other	<u>265,050</u>	<u>207,014</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 371,580</u>	<u>\$ 334,732</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$3,477,950</u>	<u>\$ 400,103</u>	<u>\$ 152,238</u>	<u>\$1,699,250</u>

(Continued)

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

<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
\$ (129,449)	\$ -	\$ (129,449)
(173,332)	-	(173,332)
(3,135)	-	(3,135)
(113,427)	-	(113,427)
18,851	-	18,851
(113,076)	-	(113,076)
(678,686)	-	(678,686)
<u>2,743</u>	<u>-</u>	<u>2,743</u>
<u>\$ (1,189,511)</u>	<u>\$ -</u>	<u>\$ (1,189,511)</u>
\$ -	\$ 21,188	\$ 21,188
<u>-</u>	<u>(58,036)</u>	<u>(58,036)</u>
<u>\$ -</u>	<u>\$ (36,848)</u>	<u>\$ (36,848)</u>
<u>\$ (1,189,511)</u>	<u>\$ (36,848)</u>	<u>\$ (1,226,359)</u>

CITY OF SHELL ROCK, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

General Receipts:

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

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

- Restricted:
 - Expendable:
 - Streets
 - Urban renewal purposes
 - Debt service
 - Other purposes
 - Committed for projects
 - 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>
\$ 397,789	\$ -	\$ 397,789
107,642	-	107,642
39,027	-	39,027
73,822	-	73,822
8,574	1,676	10,250
190,000	-	190,000
<u>44,692</u>	<u>-</u>	<u>44,692</u>
<u>\$ 861,546</u>	<u>\$ 1,676</u>	<u>\$ 863,222</u>
\$ (327,965)	\$ (35,172)	\$ (363,137)
<u>2,162,501</u>	<u>383,270</u>	<u>2,545,771</u>
<u>\$ 1,834,536</u>	<u>\$ 348,098</u>	<u>\$ 2,182,634</u>
\$ 284,785	\$ -	\$ 284,785
16,343	-	16,343
-	51,943	51,943
373,708	-	373,708
427,158	-	427,158
481,387	-	481,387
<u>251,155</u>	<u>296,155</u>	<u>547,310</u>
<u>\$ 1,834,536</u>	<u>\$ 348,098</u>	<u>\$ 2,182,634</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, 2012

	Special		
General	Road Use Tax	Local Option Sales Tax	
RECEIPTS:			
Property tax	\$ 313,832	\$ -	\$ -
Tax increment financing	-	-	-
Other city tax	5,167	-	73,822
Licenses and permits	4,427	-	-
Use of money and property	10,972	-	-
Intergovernmental	87,517	122,927	-
Charges for service	21,932	-	-
Special assessments	-	-	-
Miscellaneous	21,079	-	-
Total receipts	\$ 464,926	\$ 122,927	\$ 73,822
DISBURSEMENTS:			
Operating:			
Public safety	\$ 151,179	\$ -	\$ -
Public works	51,990	99,612	-
Health and social services	3,135	-	-
Culture and recreation	148,550	-	-
Community and economic development	28,240	-	-
General government	118,410	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 501,504	\$ 99,612	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ (36,578)	\$ 23,315	\$ 73,822
Other financing sources (uses):			
Note proceeds	\$ -	\$ -	\$ -
Operating transfers in	92,311	-	-
Operating transfers out	(14,491)	-	(45,000)
Total other financing sources (uses)	\$ 77,820	\$ -	\$ (45,000)
Net change in cash balances	\$ 41,242	\$ 23,315	\$ 28,822
Cash balances beginning of year	338,987	261,470	170,917
Cash balances end of year	\$ 380,229	\$ 284,785	\$ 199,739
Cash Basis Fund Balances:			
Restricted for:			
Urban renewal purposes	\$ -	\$ -	\$ -
Streets	-	284,785	-
Other purposes	-	-	199,739
Committed for projects	-	-	-
Assigned for various	-	-	-
Unassigned	380,229	-	-
Total cash basis fund balances	\$ 380,229	\$ 284,785	\$ 199,739

See Notes to Financial Statements.

<u>Revenue</u>				
<u>Cherry Street Bridge Project</u>	<u>Capital Improvements</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ -	\$ 107,642	\$ 78,790	\$ 500,264
-	-	-	39,027	39,027
-	-	-	-	78,989
-	-	-	-	4,427
-	3,548	83	-	14,603
1,428,266	-	-	212,788	1,851,498
-	-	-	-	21,932
-	-	-	32,495	32,495
-	24,091	-	-	45,170
<u>\$1,428,266</u>	<u>\$ 27,639</u>	<u>\$ 107,725</u>	<u>\$ 363,100</u>	<u>\$2,588,405</u>
\$ -	\$ -	\$ -	\$ -	\$ 151,179
1,577,160	-	-	-	1,728,762
-	-	-	-	3,135
-	-	-	-	148,550
-	-	-	247,493	275,733
-	-	-	-	118,410
-	-	450,766	227,920	678,686
-	-	-	1,915	1,915
<u>\$1,577,160</u>	<u>\$ -</u>	<u>\$ 450,766</u>	<u>\$ 477,328</u>	<u>\$3,106,370</u>
<u>\$ (148,894)</u>	<u>\$ 27,639</u>	<u>\$ (343,041)</u>	<u>\$ (114,228)</u>	<u>\$ (517,965)</u>
\$ -	\$ -	\$ -	\$ 190,000	\$ 190,000
-	14,491	45,000	52,718	204,520
-	(11,571)	-	(133,458)	(204,520)
<u>\$ -</u>	<u>\$ 2,920</u>	<u>\$ 45,000</u>	<u>\$ 109,260</u>	<u>\$ 190,000</u>
<u>\$ (148,894)</u>	<u>\$ 30,559</u>	<u>\$ (298,041)</u>	<u>\$ (4,968)</u>	<u>\$ (327,965)</u>
565,779	408,299	290,254	126,795	2,162,501
<u>\$ 416,885</u>	<u>\$ 438,858</u>	<u>\$ (7,787)</u>	<u>\$ 121,827</u>	<u>\$1,834,536</u>
\$ -	\$ -	\$ -	\$ 16,343	\$ 16,343
-	-	-	-	284,785
-	-	-	173,969	373,708
416,885	-	-	10,273	427,158
-	438,858	-	42,529	481,387
-	-	(7,787)	(121,287)	251,155
<u>\$ 416,885</u>	<u>\$ 438,858</u>	<u>\$ (7,787)</u>	<u>\$ 121,827</u>	<u>\$1,834,536</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, 2012

	<u>Enterprise</u>		
	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$127,718	\$ 206,873	\$ 334,591
Operating disbursements:			
Business type activities	<u>74,606</u>	<u>204,775</u>	<u>279,381</u>
Excess of operating receipts over operating disbursements	<u>\$ 53,112</u>	<u>\$ 2,098</u>	<u>\$ 55,210</u>
Non-operating receipts (disbursements):			
Interest on investments	\$ 347	\$ 1,329	\$ 1,676
Special assessments	-	141	141
Capital projects	<u>(31,924)</u>	<u>(60,275)</u>	<u>(92,199)</u>
Net non-operating receipts (disbursements)	<u>\$(31,577)</u>	<u>\$ (58,805)</u>	<u>\$ (90,382)</u>
Net change in cash balances	\$ 21,535	\$ (56,707)	\$ (35,172)
Cash balances beginning of year	<u>109,365</u>	<u>273,905</u>	<u>383,270</u>
Cash balances end of year	<u>\$130,900</u>	<u>\$ 217,198</u>	<u>\$ 348,098</u>
Cash Basis Fund Balances:			
Restricted for debt service	\$ -	\$ 51,943	\$ 51,943
Committed for customer deposits	-	28,965	28,965
Unrestricted	<u>130,900</u>	<u>136,290</u>	<u>267,190</u>
Total cash basis fund balances	<u>\$130,900</u>	<u>\$ 217,198</u>	<u>\$ 348,098</u>

See Notes to Financial Statements.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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, 2012

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

The Local Option Sales Tax Fund is used to account for local option sales tax revenue.

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

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 property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer 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 City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the health and social services, community and economic development and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2012, 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 and special assessment notes are as follows:

Year Ending June 30,	General Obligation Notes		Special Assessment Notes		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 160,000	\$ 33,054	\$ 20,000	\$ 4,132	\$ 180,000	\$ 37,186
2014	165,000	31,414	20,000	4,113	185,000	35,527
2015	170,000	29,149	20,000	3,813	190,000	32,962
2016	175,000	26,399	20,000	3,463	195,000	29,862
2017	180,000	22,904	20,000	3,062	200,000	25,966
2018-2021	715,000	47,159	90,000	7,099	805,000	54,258
Total	<u>\$1,565,000</u>	<u>\$190,079</u>	<u>\$ 190,000</u>	<u>\$ 25,682</u>	<u>\$1,755,000</u>	<u>\$215,761</u>

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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.

(4) **Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$20,337, \$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 3 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.

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 \$481 for single coverage and \$1,148 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$46,441 and plan members eligible for benefits did not contribute to the plan.

CITY OF SHELL ROCK, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 10,208
Comp time	2,196
Sick leave	98,419
Total	<u>\$110,823</u>

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

(7) Risk Management

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

(8) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 81,223
	Capital Improvements	8,571
	Flood Buyout	2,517
		<u>\$ 92,311</u>
Special Revenue:	General	
Capital Improvements		\$ 14,491
Special Revenue:	Special Revenue:	
2010 Industrial Park	Tax Increment Financing	\$ 3,425
HMGP Demolition	Flood Buyout	45,930
Flood Buyout	CDBG Flood Buyout	363
		<u>\$ 49,718</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 45,000
Capital projects:	Special Revenue:	
Library Building Project	Capital Improvements	\$ 3,000
Total		<u>\$204,520</u>

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

CITY OF SHELL ROCK, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(9) **Deficit Balance**

The Special Revenue, CDBG Flood Buyout and Flood Buyout Funds had deficit balances of \$28,731 and \$92,556, respectively, and the Debt Service Fund had a deficit of \$7,787 at June 30, 2012. 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 \$3,797 during the year ended June 30, 2012.

(11) **Commitments**

At June 30, 2012, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Cherry Street Bridge Reconstruction	\$1,809,835	\$1,785,333
2012 Street Improvements	550,459	-
Sanitary Sewer Lining	43,221	-
Wastewater Treatment Plant	<u>63,217</u>	<u>-</u>
Total	<u>\$2,466,732</u>	<u>\$1,785,333</u>

(12) **Subsequent Events**

The City Council approved three change orders for the 2012 Street Improvements Project for a total of \$64,266.

Other 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
 OTHER INFORMATION
 YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted
RECEIPTS:			
Property tax	\$ 500,264	\$ -	\$ -
Tax increment financing	39,027	-	-
Other city tax	78,989	-	-
Licenses and permits	4,427	-	-
Use of money and property	14,603	1,676	-
Intergovernmental	1,851,498	-	-
Charges for service	21,932	334,591	-
Special assessments	32,495	141	-
Miscellaneous	45,170	-	-
Total receipts	<u>\$ 2,588,405</u>	<u>\$ 336,408</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 151,179	\$ -	\$ -
Public works	1,728,762	-	-
Health and social services	3,135	-	-
Culture and recreation	148,550	-	-
Community and economic development	275,733	-	-
General government	118,410	-	-
Debt service	678,686	-	-
Capital projects	1,915	-	-
Business type activities	-	371,580	-
Total disbursements	<u>\$ 3,106,370</u>	<u>\$ 371,580</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (517,965)	\$ (35,172)	\$ -
Other financing sources, net	<u>190,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (327,965)	\$ (35,172)	\$ -
Balances beginning of year	<u>2,162,501</u>	<u>383,270</u>	<u>-</u>
Balances end of year	<u>\$ 1,834,536</u>	<u>\$ 348,098</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>	
\$ 500,264	\$ 486,522	\$ 486,522	\$ 13,742
39,027	37,698	37,698	1,329
78,989	93,357	93,357	(14,368)
4,427	10,430	10,430	(6,003)
16,279	16,200	16,200	79
1,851,498	146,983	1,864,710	(13,212)
356,523	386,370	386,370	(29,847)
32,636	9,530	9,530	23,106
45,170	71,320	1,071,320	(1,026,150)
<u>\$ 2,924,813</u>	<u>\$1,258,410</u>	<u>\$ 3,976,137</u>	<u>\$(1,051,324)</u>
\$ 151,179	\$ 160,565	\$ 185,565	\$ 34,386
1,728,762	200,172	2,382,172	653,410
3,135	935	935	(2,200)
148,550	167,950	289,950	141,400
275,733	34,798	84,798	(190,935)
118,410	141,266	231,266	112,856
678,686	152,330	584,330	(94,356)
1,915	3,000	3,000	1,085
371,580	370,087	825,087	453,507
<u>\$ 3,477,950</u>	<u>\$1,231,103</u>	<u>\$ 4,587,103</u>	<u>\$ 1,109,153</u>
\$ (553,137)	\$ 27,307	\$ (610,966)	\$ 57,829
<u>190,000</u>	<u>-</u>	<u>-</u>	<u>190,000</u>
\$ (363,137)	\$ 27,307	\$ (610,966)	\$ 247,829
<u>2,545,771</u>	<u>1,731,084</u>	<u>1,731,084</u>	<u>814,687</u>
<u>\$ 2,182,634</u>	<u>\$1,758,391</u>	<u>\$ 1,120,118</u>	<u>\$ 1,062,516</u>

CITY OF SHELL ROCK, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, 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 \$3,356,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the health and social services, community and economic development and debt services functions.

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, 2012

	Special			
	Employee Benefits	Tax Increment Financing	Tax Increment Financing- Wosepka	Low to Moderate Income
RECEIPTS:				
Property tax	\$ 78,790	\$ -	\$ -	\$ -
Tax increment financing	-	-	19,513	19,514
Intergovernmental	-	-	-	-
Special assessments	-	-	-	-
Total receipts	\$ 78,790	\$ -	\$ 19,513	\$ 19,514
DISBURSEMENTS:				
Operating:				
Community and economic development	\$ -	\$ -	\$ 19,513	\$ -
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	\$ -	\$ -	\$ 19,513	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 78,790	\$ -	\$ -	\$ 19,514
Other financing sources (uses):				
Note proceeds	\$ -	\$ -	\$ -	\$ -
Operating transfers in	-	-	-	-
Operating transfers out	(81,223)	(3,425)	-	-
Total other financing sources (uses)	\$(81,223)	\$ (3,425)	\$ -	\$ -
Net change in cash balances	\$ (2,433)	\$ (3,425)	\$ -	\$ 19,514
Cash balances beginning of year	2,702	11,888	7,880	61,696
Cash balances end of year	\$ 269	\$ 8,463	\$ 7,880	\$ 81,210
Cash Basis Fund Balances:				
Restricted for other purposes	\$ 269	\$ 8,463	\$ 7,880	\$ 81,210
Committed for streets	-	-	-	-
Assigned for:				
Capital projects	-	-	-	-
Other	-	-	-	-
Unassigned	-	-	-	-
Total cash basis fund balances	\$ 269	\$ 8,463	\$ 7,880	\$ 81,210

(Continued)

Revenue

<u>Revolving Economic Development</u>	<u>2010 Industrial Park</u>	<u>Willow Tree First Addition</u>	<u>Street Special Assessments</u>	<u>HMGP Demolition</u>	<u>CDBG Flood Buyout</u>	<u>Flood Buyout</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	31,954	-	-	46,560	134,274	-
-	-	23,600	4,237	-	-	-
<u>\$ -</u>	<u>\$ 31,954</u>	<u>\$ 23,600</u>	<u>\$ 4,237</u>	<u>\$ 46,560</u>	<u>\$134,274</u>	<u>\$ -</u>
\$ -	\$ 34,117	\$ 31,282	\$ -	\$ -	\$162,581	\$ -
-	-	227,920	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 34,117</u>	<u>\$ 259,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$162,581</u>	<u>\$ -</u>
\$ -	\$ (2,163)	\$ (235,602)	\$ 4,237	\$ 46,560	\$ (28,307)	\$ -
\$ -	\$ -	\$ 190,000	\$ -	\$ -	\$ -	\$ -
-	3,425	-	-	45,930	-	363
-	-	-	-	-	(363)	(48,447)
<u>\$ -</u>	<u>\$ 3,425</u>	<u>\$ 190,000</u>	<u>\$ -</u>	<u>\$ 45,930</u>	<u>\$ (363)</u>	<u>\$ (48,084)</u>
\$ -	\$ 1,262	\$ (45,602)	\$ 4,237	\$ 92,490	\$ (28,670)	\$ (48,084)
18,493	(1,262)	45,602	6,036	-	(61)	(44,472)
<u>\$ 18,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,273</u>	<u>\$ 92,490</u>	<u>\$ (28,731)</u>	<u>\$ (92,556)</u>
\$ -	\$ -	\$ -	\$ -	\$ 92,490	\$ -	\$ -
-	-	-	10,273	-	-	-
-	-	-	-	-	-	-
18,493	-	-	-	-	-	-
-	-	-	-	-	(28,731)	(92,556)
<u>\$ 18,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,273</u>	<u>\$ 92,490</u>	<u>\$ (28,731)</u>	<u>\$ (92,556)</u>

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, 2012

	Capital Projects		
	Library Building Project	Street Improvement Project	Total
RECEIPTS:			
Property tax	\$ -	\$ -	\$ 78,790
Tax increment financing	-	-	39,027
Intergovernmental	-	-	212,788
Special assessments	-	4,658	32,495
Total receipts	\$ -	\$ 4,658	\$ 363,100
DISBURSEMENTS:			
Operating:			
Community and economic development	\$ -	\$ -	\$ 247,493
Debt service	-	-	227,920
Capital projects	1,915	-	1,915
Total disbursements	\$ 1,915	\$ -	\$ 477,328
Excess (deficiency) of receipts over (under) disbursements	\$ (1,915)	\$ 4,658	\$ (114,228)
Other financing sources (uses):			
Note proceeds	\$ -	\$ -	\$ 190,000
Operating transfers in	3,000	-	52,718
Operating transfers out	-	-	(133,458)
Total other financing sources (uses)	\$ 3,000	\$ -	\$ 109,260
Net change in cash balances	\$ 1,085	\$ 4,658	\$ (4,968)
Cash balances beginning of year	6,277	12,016	126,795
Cash balances end of year	\$ 7,362	\$ 16,674	\$ 121,827
Cash Basis Fund Balances:			
Restricted for other purposes	\$ -	\$ -	\$ 190,312
Committed for streets	-	-	10,273
Assigned for:			
Capital projects	7,362	16,674	24,036
Other	-	-	18,493
Unassigned	-	-	(121,287)
Total cash basis fund balances	\$ 7,362	\$ 16,674	\$ 121,827

See Accompanying Independent Auditors Report.

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, 2012

	<u>Enterprise</u>		
	<u>Water</u>	<u>Customer Deposits</u>	<u>Water Depreciation</u>
Operating Receipts:			
Charges for service	\$107,591	\$ 4,300	\$ -
Operating Disbursements:			
Business type activities	<u>105,149</u>	<u>2,700</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 2,442	\$ 1,600	\$ -
Non-operating receipts (disbursements):			
Interest on investments	\$ 889	\$ 75	\$ 230
Special assessments	141	-	-
Capital projects	<u>(60,275)</u>	<u>-</u>	<u>-</u>
Net non-operating receipts (disbursements)	\$ (59,245)	\$ 75	\$ 230
Net change in cash balances	\$ (56,803)	\$ 1,675	\$ 230
Cash balances beginning of year	<u>148,924</u>	<u>27,290</u>	<u>33,122</u>
Cash balances end of year	<u>\$ 92,121</u>	<u>\$ 28,965</u>	<u>\$ 33,352</u>
Cash Basis Fund Balances:			
Restricted for debt service	\$ -	\$ -	\$ 33,352
Committed for customer deposits	-	28,965	-
Unrestricted	<u>92,121</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 92,121</u>	<u>\$ 28,965</u>	<u>\$ 33,352</u>

See Accompanying Independent Auditor's Report.

<u>Sewer</u> <u>Depreciation</u>	<u>Garbage</u>	<u>Total</u>
\$ -	\$ 94,982	\$ 206,873
<u>-</u>	<u>96,926</u>	<u>204,775</u>
<u>\$ -</u>	<u>\$ (1,944)</u>	<u>\$ 2,098</u>
\$ 135	\$ -	\$ 1,329
-	-	141
<u>-</u>	<u>-</u>	<u>(60,275)</u>
<u>\$ 135</u>	<u>\$ -</u>	<u>\$ (58,805)</u>
\$ 135	\$ (1,944)	\$ (56,707)
<u>18,456</u>	<u>46,113</u>	<u>273,905</u>
<u>\$ 18,591</u>	<u>\$ 44,169</u>	<u>\$ 217,198</u>
\$ 18,591	\$ -	\$ 51,943
-	-	28,965
<u>-</u>	<u>44,169</u>	<u>136,290</u>
<u>\$ 18,591</u>	<u>\$ 44,169</u>	<u>\$ 217,198</u>

CITY OF SHELL ROCK, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2012

<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			
Special Assessment Note:			
Street improvement	12/20/11	1.25-3.25%	\$ 190,000
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>
\$ 280,000	\$ -	\$280,000	\$ -	\$ 1,805	\$ -
400,000	-	40,000	360,000	11,450	-
1,300,000	-	95,000	1,205,000	21,511	-
<u>\$1,980,000</u>	<u>\$ -</u>	<u>\$415,000</u>	<u>\$1,565,000</u>	<u>\$ 34,766</u>	<u>\$ -</u>
\$ -	\$ 190,000	\$ -	\$ 190,000	\$ -	\$ -
\$ 220,000	\$ -	\$220,000	\$ -	\$ 7,920	\$ -
<u>\$2,200,000</u>	<u>\$ 190,000</u>	<u>\$635,000</u>	<u>\$1,755,000</u>	<u>\$ 42,686</u>	<u>\$ -</u>

CITY OF SHELL ROCK, IOWA
NOTE MATURITIES
JUNE 30, 2012

GENERAL OBLIGATION NOTES							
Year Ending June 30,	Essential Corporate Purpose Issued July 27, 2010		Essential Corporate Purpose Issued June 23, 2011		Total		
	Interest Rates	Amount	Interest Rates	Amount			
	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>\$360,000</u>		<u>\$1,205,000</u>	<u>\$1,565,000</u>		

CAPITAL LOAN NOTES		
Year Ending June 30,	Special Assessment Issued December 20, 2011	
	Interest Rates	Amount
	2013	1.25%
2014	1.50	20,000
2015	1.75	20,000
2016	2.00	20,000
2017	2.25	20,000
2018	2.50	20,000
2019	2.75	20,000
2020	3.00	25,000
2021	3.25	25,000
Total		<u>\$ 190,000</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 THREE YEARS

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:			
Property tax	\$ 500,264	\$ 442,035	\$ 432,599
Tax increment financing	39,027	25,176	29,388
Other city tax	78,989	69,901	90,656
Licenses and permits	4,427	4,159	2,909
Use of money and property	14,603	12,138	18,618
Intergovernmental	1,851,498	708,776	403,447
Charges for service	21,932	14,313	15,577
Special assessments	32,495	83,637	9,691
Miscellaneous	45,170	42,406	79,281
Total	<u>\$2,588,405</u>	<u>\$1,402,541</u>	<u>\$1,082,166</u>
Disbursements:			
Operating:			
Public safety	\$ 151,179	\$ 143,704	\$ 159,234
Public works	1,728,762	610,181	118,290
Health and social services	3,135	1,270	435
Culture and recreation	148,550	161,335	172,662
Community and economic development	275,733	1,334,501	357,727
General government	118,410	141,277	110,745
Debt service	678,686	109,309	102,177
Capital Projects	1,915	-	-
Total	<u>\$3,106,370</u>	<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, 2012

<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	\$ 40,930
		08-DRHB-232	137,430
			<u>\$ 178,360</u>
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
Safety Belt Performance Grant	20.205	02-11-STPU-019	<u>\$1,163,426</u>
Total			<u>\$1,341,786</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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated December 13, 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

The management of the City of Shell Rock is responsible for establishing and maintaining effective 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-12, II-C-12, II-D-12, II-F-12 and II-I-12 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-12, II-E-12, II-G-12 and II-H-12 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, 2012 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.



December 13, 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, 2012. 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, 2012. 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-12 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 the 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-12 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.



December 13, 2012

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2012

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-12 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 utilizing currently available staff, including elected officials.

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

Conclusion - Response accepted.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

II-B-12 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-12 Posting of Financial Transactions - Receipts and disbursements were not always posted to the correct accounts and prior year activity was posted in the current year.

Recommendation - More care should be exercised when posting transactions to reduce the incidence of mispostings.

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

Conclusion - Response accepted.

II-D-12 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.

II-E-12 Post-dated Checks - I noted several checks 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.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

II-F-12 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-G-12 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-H-12 Utility Billings - I noted residential property utility customers with usage over 13,000 gallons were 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 residential accounts on the computer and made the appropriate change to the billings calculation.

Conclusion - Response accepted.

II-I-12 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, 2012

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: 2012
U.S. Department of Transportation
Passed through the Department of Transportation

III-A-12 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-12.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the health and social services, community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

The City's adopted budget did not reconcile to the proof of publication for the published budget. Also, Chapter 384.18 of the Code of Iowa 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. Also, the City should ensure the published budget agrees with the adopted budget and amendments are published prior to May 31.

Response - The budget will be amended in the future, if applicable, and the City will be more careful with the budget figures and budget amendment procedures.

Conclusion - Response accepted.

IV-B-12 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.

CITY OF SHELL ROCK, IOWA
Schedule of Findings
Year Ended June 30, 2012

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

IV-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 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	\$ 553
David Green, employee, Self-employed	Cleaning	1,994
Debra Heidemann, employee, Self-employed	Painting	625
Sue Kaus, employee, Self-employed	Painting	625

In accordance with chapter 362.5(3)(k) of the Code of Iowa, none of the transactions above appear to represent a conflict of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

IV-E-12 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-12 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

IV-G-12 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-12 Financial Condition - The Special Revenue, CDBG Flood Buyout and Flood Buyout Funds had deficit balances of \$28,731, and \$92,556, respectively, and the Debt Service Fund had a deficit balance of \$7,787 at June 30, 2012.

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.