



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 16, 2010

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

The City's receipts totaled \$1,233,181 for the year ended June 30, 2009. The receipts included \$302,954 in property tax, \$50,466 from tax increment financing, \$485,736 from charges for service, \$174,708 from operating grants, contributions and restricted interest, \$40,269 from local option sales tax, \$18,040 from unrestricted interest on investments, \$96,780 of anticipatory project note proceeds and \$64,228 from other general receipts.

Disbursements for the year totaled \$1,198,723, and included \$214,602 for public works, \$171,045 for culture and recreation and \$117,468 for capital projects. Also, disbursements for business type activities totaled \$428,548.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

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CITY OF SHELLSBURG

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

JUNE 30, 2009

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City of Shellsburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phillip D. Travis	Mayor	Jan 2010
Michael Glynn	Council Member	Jan 2010
Sharon Heneghan	Council Member	Jan 2010
Daniel Pence	Council Member	Jan 2010
Dave Galli	Council Member	Jan 2012
Tim Peters	Council Member	Jan 2012
Nancy Deklotz	City Clerk	Indefinite
Anne Loomis	Attorney	Indefinite

City of Shellsburg



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shellsburg, Iowa, as of and for the year ended June 30, 2009, 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 Shellsburg's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shellsburg as of June 30, 2009, 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, we have also issued our report dated February 16, 2010 on our consideration of the City of Shellsburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shellsburg's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Shellsburg 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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2009 FINANCIAL HIGHLIGHTS

- The City's governmental activities cash basis net assets decreased \$10,732 to \$885,403 at June 30, 2009.
- The City's cash basis net assets for business-type activities increased \$45,190 to \$710,666 at June 30, 2009.

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 funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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 and the City sewer system. 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 Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

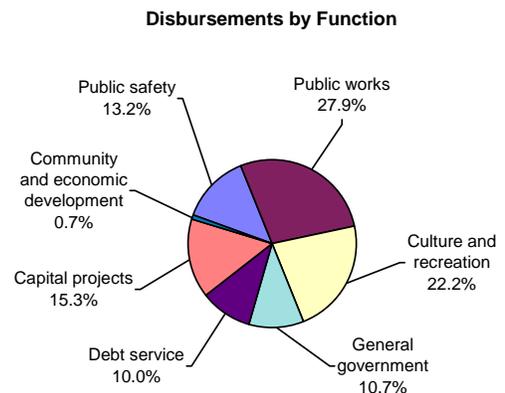
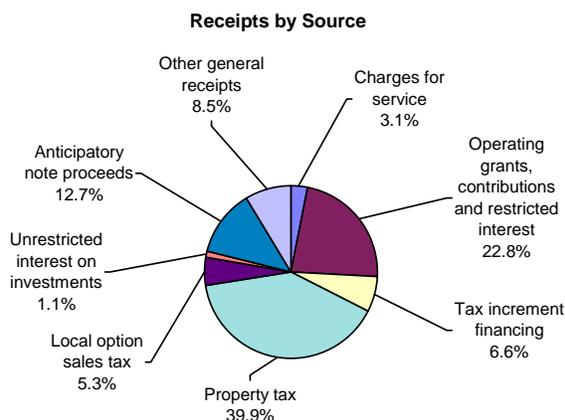
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Garbage Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from approximately \$896,000 to approximately \$885,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 23,230
Operating grants, contributions and restricted interest	172,831
General receipts:	
Property tax	302,954
Tax increment financing	50,466
Local option sales tax	40,269
Unrestricted interest on investments	8,685
Anticipatory note proceeds	96,780
Other general receipts	64,228
Total receipts	759,443
Disbursements:	
Public safety	101,781
Public works	214,602
Culture and recreation	171,045
Community and economic development	5,757
General government	82,185
Debt service	77,337
Capital projects	117,468
Total disbursements	770,175
Change in cash basis net assets	(10,732)
Cash basis net assets beginning of year	896,135
Cash basis net assets end of year	\$ 885,403



<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2009</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 115,775
Sewer	267,253
Garbage	79,478
Operating grants, contributions and restricted interest	1,877
General receipts:	
Unrestricted interest on investments	9,355
Total receipts	<u>473,738</u>
Disbursements:	
Water	119,115
Sewer	243,903
Garbage	65,530
Total disbursements	<u>428,548</u>
Change in cash basis net assets	45,190
Cash basis net assets beginning of year	<u>665,476</u>
Cash basis net assets end of year	<u><u>\$ 710,666</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shellsburg completed the year, its governmental funds reported a combined fund balance of \$885,403, an decrease of \$10,732 from last year's total of \$896,135. 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 \$95,602 from the prior year to \$486,381.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$93,215 at the end of the fiscal year, an increase of \$3,073 over the previous year. The increase was the result of incremental property tax generated from the increased taxable valuation in the district.
- The Special Revenue, Road Use Tax Fund cash balance increased \$3,766 over the prior year to \$99,675 at the end of the fiscal year. This increase was due to an increase in road use tax collected during the fiscal year.
- The Debt Service Fund cash balance was \$30,405 at the end of the fiscal year, an increase of \$534 over the previous year.
- The Capital Projects Fund cash balance increased \$66,003 over the prior year to \$55,451 at the end of the fiscal year due to anticipatory note proceeds received but not disbursed by June 30, 2009.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$2,544 to \$145,790 during the fiscal year.
- The Sewer Fund cash balance increased \$33,587 to \$496,403 during the fiscal year, primarily due to a rate increase.
- The Garbage Fund cash balance increased \$14,147 to \$68,473 during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 19, 2009 and resulted in an increase in disbursements, primarily relating to capital projects.

The City's receipts were \$4,834 less than budgeted.

Actual disbursements for the capital projects, culture and recreation and business type activities functions were \$574,913, \$88,409 and \$185,323, respectively, less than the amended budget. This was primarily due to the delay in starting projects in both the governmental funds and the enterprise funds.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$1,996,7800 in notes and other long-term debt outstanding, compared to \$2,031,000 last year, as shown below:

Outstanding Debt at Year-End		
	June 30, 2009	June 30, 2008
General obligation bonds	\$ 525,000	578,000
Revenue notes	1,375,000	1,453,000
Anticipatory notes	96,780	-
Total	\$ 1,996,780	2,031,000

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 \$621,780 is significantly below its constitutional debt limit of approximately \$2.4 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Shellsburg's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$980,122, a decrease of 50.9% from the final 2009 budget. The City has added no major new programs or initiatives to the fiscal year 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$161,325 by the close of fiscal year 2010.

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 Nancy Deklotz, City Clerk, 108 Main Street SW, Shellsburg, Iowa 52332.

Basic Financial Statements

City of Shellsburg

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 101,781	8,627	8,856
Public works	214,602	2,097	-
Culture and recreation	171,045	10,742	163,975
Community and economic development	5,757	-	-
General government	82,185	1,764	-
Debt service	77,337	-	-
Capital projects	117,468	-	-
Total governmental activities	770,175	23,230	172,831
Business type activities:			
Water	119,115	115,775	-
Sewer	243,903	267,253	1,877
Garbage	65,530	79,478	-
Total business type activities	428,548	462,506	1,877
Total	\$ 1,198,723	485,736	174,708
General Receipts:			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Anticipatory 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:			
Nonexpendable:			
Permanent fund			
Expendable:			
Debt service			
Urban renewal			
Streets			
Capital projects			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(84,298)	-	(84,298)
(212,505)	-	(212,505)
3,672	-	3,672
(5,757)	-	(5,757)
(80,421)	-	(80,421)
(77,337)	-	(77,337)
(117,468)	-	(117,468)
(574,114)	-	(574,114)
-	(3,340)	(3,340)
-	25,227	25,227
-	13,948	13,948
-	35,835	35,835
(574,114)	35,835	(538,279)
266,984	-	266,984
35,970	-	35,970
50,466	-	50,466
40,269	-	40,269
8,685	9,355	18,040
96,780	-	96,780
64,228	-	64,228
563,382	9,355	572,737
(10,732)	45,190	34,458
896,135	665,476	1,561,611
\$ 885,403	710,666	1,596,069
\$ 40,253	-	40,253
30,405	17,204	47,609
93,215	-	93,215
99,675	-	99,675
55,451	-	55,451
80,023	-	80,023
486,381	693,462	1,179,843
\$ 885,403	710,666	1,596,069

City of Shellsburg

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

As of and for the year ended June 30, 2009

	Special Revenue		
	General	Urban Renewal Tax Increment	Road Use Tax
Receipts:			
Property tax	\$ 213,080	-	-
Tax increment financing	-	50,466	-
Local option sales tax	40,269	-	-
Licenses and permits	8,627	-	-
Use of money and property	7,560	-	-
Intergovernmental	5,845	-	77,826
Charges for service	2,770	-	-
Miscellaneous	26,112	-	-
Total receipts	304,263	50,466	77,826
Disbursements:			
Operating:			
Public safety	74,884	-	-
Public works	134,592	-	65,768
Culture and recreation	159,253	-	-
Community and economic development	-	-	-
General government	78,991	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	447,720	-	65,768
Excess (deficiency) of receipts over (under) disbursements	(143,457)	50,466	12,058
Other financing sources (uses):			
Anticipatory note proceeds	-	-	-
Sale of capital assets	41,783	-	-
Operating transfers in	14,262	-	-
Operating transfers out	(8,190)	(47,393)	(8,292)
Total other financing sources (uses)	47,855	(47,393)	(8,292)
Net change in cash balances	(95,602)	3,073	3,766
Cash balances beginning of year	581,983	90,142	95,909
Cash balances end of year	486,381	93,215	99,675
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	486,381	-	-
Special revenue funds	-	93,215	99,675
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 486,381	93,215	99,675

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
35,970	-	53,904	302,954
-	-	-	50,466
-	-	-	40,269
-	-	-	8,627
265	-	860	8,685
-	80,305	-	163,976
-	-	-	2,770
-	5,315	11,706	43,133
36,235	85,620	66,470	620,880
-	-	26,897	101,781
-	-	14,242	214,602
-	-	11,792	171,045
5,757	-	-	5,757
-	-	3,194	82,185
77,337	-	-	77,337
-	117,468	-	117,468
83,094	117,468	56,125	770,175
(46,859)	(31,848)	10,345	(149,295)
-	96,780	-	96,780
-	-	-	41,783
47,393	7,041	1,149	69,845
-	(5,970)	-	(69,845)
47,393	97,851	1,149	138,563
534	66,003	11,494	(10,732)
29,871	(10,552)	108,782	896,135
30,405	55,451	120,276	885,403
30,405	-	-	30,405
-	-	-	486,381
-	-	80,023	272,913
-	55,451	-	55,451
-	-	40,253	40,253
30,405	55,451	120,276	885,403

Exhibit C

City of Shellsburg

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

As of and for the year ended June 30, 2009

	Enterprise			Total
	Water	Sewer	Garbage	
Operating receipts:				
Charges for service	\$ 115,775	267,253	79,478	462,506
Miscellaneous	-	1,877	-	1,877
Total operating receipts	115,775	269,130	79,478	464,383
Operating disbursements:				
Business type activities	119,115	118,680	65,530	303,325
Excess (deficiency) of operating receipts over (under) operating disbursements	(3,340)	148,573	13,948	159,181
Non-operating receipts (disbursements):				
Interest on investments	796	8,360	199	9,355
Debt service	-	(125,223)	-	(125,223)
Net non-operating receipts (disbursements)	796	(116,863)	199	(115,868)
Net change in cash balances	(2,544)	31,710	14,147	43,313
Cash balances beginning of year	148,334	462,816	54,326	665,476
Cash balances end of year	\$ 145,790	494,526	68,473	708,789
Cash Basis Fund Balances				
Reserved for debt service	\$ -	17,204	-	17,204
Unreserved	145,790	479,199	68,473	693,462
Total cash basis fund balances	\$ 145,790	496,403	68,473	710,666

See notes to financial statements.

City of Shellsburg

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Shellsburg is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1870 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 garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shellsburg 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: Benton County Assessor's Conference Board, City Assessor's Conference Board, Benton County Emergency Management Commission, Benton County Landfill Commission and Benton 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 three categories:

Restricted Net Assets:

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

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 funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the payment of debt for urban renewal projects.

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

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

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

The City reports the following major proprietary funds:

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

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

The Garbage Fund accounts for the collection and disbursement of garbage collection and landfill fees.

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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 43,000	16,468	81,000	41,250	124,000	57,718
2011	44,000	14,695	83,000	38,820	127,000	53,515
2012	45,000	12,895	85,000	36,330	130,000	49,225
2013	50,000	11,040	88,000	33,780	138,000	44,820
2014	51,000	8,880	91,000	31,140	142,000	40,020
2015 - 2019	142,000	21,915	495,000	113,250	637,000	135,165
2020 - 2024	112,000	8,385	452,000	34,410	564,000	42,795
2025 - 2026	38,000	855	-	-	38,000	855
Total	\$ 525,000	95,133	1,375,000	328,980	1,900,000	424,113

Sewer Revenue Notes

The City has pledged future customer receipts, net of specified operating disbursements, to repay \$1,847,000 of sewer revenue notes issued in April 2003. Proceeds from the notes provided financing for the construction of improvements and extensions to the utility. The notes are payable solely from customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require less than 81 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,703,980. For the current year, principal and interest paid and total customer net receipts were \$121,590 and \$150,450, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) All funds remaining in the sewer account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer surplus account within the Enterprise Funds. All money credited to the surplus account shall be transferred and credited to the sinking fund as necessary to prevent a default in the payment of the principal of or interest on the notes.

(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 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$14,624, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time 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, sick leave and compensatory time termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 7,000
Sick leave	14,000
Compensatory time	<u>4,000</u>
Total	<u>\$ 25,000</u>

These liabilities have been computed based on rates of pay in effect at June 30, 2009

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 8,292
	Capital Projects	<u>5,970</u>
		14,262
Special Revenue:		
Library	General	1,149
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	47,393
Capital Projects	General	<u>7,041</u>
Total		<u>\$ 69,845</u>

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

(7) Development Agreement

The City has entered into a development agreement to assist urban renewal projects. The City agreed to rebate 65.87% of the incremental tax paid by developers in exchange for installation of certain improvements, including sanitary sewers and water mains, and improvements related to housing and residential development made by the developers. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period of ten years, beginning December 1, 2002. The total to be paid by the City under these agreements is not to exceed \$24,128.

During the year ended June 30, 2009, the City rebated \$5,757 of incremental tax under the agreement. The maximum remaining balance at June 30, 2009 was \$4,323.

(8) 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.

(9) Construction Contracts

The City entered into various construction contracts during the year. Unpaid contract commitments as of June 30, 2009 totaled \$677,937, which will be paid as work on the projects progresses.

(10) Anticipatory Project Notes

Anticipatory project notes are notes which are agreed upon but not issued in accordance with Chapter 76.13 of the Code of Iowa. The notes accrue interest from the date of each advance on the project note.

For the year ended June 30, 2009, the City was advanced \$96,780 of anticipatory project notes, at 3.50% interest per annum, for a bridge replacement project. The maximum principal amount for these anticipatory notes is \$900,000. As of June 30, 2009, the balance of anticipatory project notes advanced to the City was \$96,780.

Required Supplementary Information

City of Shellsburg
 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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 302,954	-	302,954
Tax increment financing	50,466	-	50,466
Local option sales tax	40,269	-	40,269
Licenses and permits	8,627	-	8,627
Use of money and property	8,685	9,355	18,040
Intergovernmental	163,976	-	163,976
Charges for service	2,770	464,383	467,153
Miscellaneous	43,133	-	43,133
Total receipts	<u>620,880</u>	<u>473,738</u>	<u>1,094,618</u>
Disbursements:			
Public safety	101,781	-	101,781
Public works	214,602	-	214,602
Culture and recreation	171,045	-	171,045
Community and economic development	5,757	-	5,757
General government	82,185	-	82,185
Debt service	77,337	-	77,337
Capital projects	117,468	-	117,468
Business type activities	-	303,325	303,325
Total disbursements	<u>770,175</u>	<u>303,325</u>	<u>1,073,500</u>
Excess (deficiency) of receipts over (under) disbursements	(149,295)	170,413	21,118
Other financing sources, net	138,563	(125,223)	13,340
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(10,732)	45,190	34,458
Balances beginning of year	<u>896,135</u>	<u>665,476</u>	<u>1,561,611</u>
Balances end of year	<u>\$ 885,403</u>	<u>710,666</u>	<u>1,596,069</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
295,918	295,918	7,036
54,533	54,533	(4,067)
6,262	45,124	(4,855)
1,825	1,825	6,802
21,700	21,700	(3,660)
85,118	174,706	(10,730)
440,281	440,281	26,872
520	65,365	(22,232)
906,157	1,099,452	(4,834)
107,855	114,230	12,449
131,044	246,127	31,525
78,519	259,454	88,409
12,896	12,896	7,139
54,963	108,117	25,932
77,339	77,339	2
-	692,381	574,913
443,541	488,648	185,323
906,157	1,999,192	925,692
-	(899,740)	920,858
-	-	13,340
-	(899,740)	934,198
1,561,612	1,561,611	-
1,561,612	661,871	934,198

City of Shellsburg

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 Fund, the Permanent Fund 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 \$1,093,035. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Shellsburg

City of Shellsburg

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

	Special Revenue		Permanent	Total
	Employee Benefits	Library	Cemetery Perpetual Care	
Receipts:				
Property tax	\$ 53,904	-	-	53,904
Use of money and property	-	860	-	860
Miscellaneous	-	11,481	225	11,706
Total receipts	53,904	12,341	225	66,470
Disbursements:				
Operating:				
Public safety	26,897	-	-	26,897
Public works	14,242	-	-	14,242
Culture and recreation	7,324	4,468	-	11,792
General government	3,194	-	-	3,194
Total disbursements	51,657	4,468	-	56,125
Excess of receipts over disbursements	2,247	7,873	225	10,345
Other financing sources:				
Operating transfers in	-	1,149	-	1,149
Net change in cash balances	2,247	9,022	225	11,494
Cash balances beginning of year	25,398	43,356	40,028	108,782
Cash balances end of year	\$ 27,645	52,378	40,253	120,276
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 27,645	52,378	-	80,023
Permanent fund	-	-	40,253	40,253
Total cash basis fund balances	\$ 27,645	52,378	40,253	120,276

See accompanying independent auditor's report.

City of Shellsburg
 Schedule of Indebtedness
 Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Water	Jan. 1, 1994	3.60-6.00%	\$ 135,000
Well	Aug. 7, 2006	3.00	297,000
Sewer	Feb. 1, 2003	3.00	135,000
Municipal building	Dec. 1, 2000	5.65-6.00	320,000
Total			
Revenue notes:			
Sewer	Apr. 16, 2003	3.00%	\$ 1,847,000
Anticipatory notes:			
Bridge project	Various	3.50%	\$ 900,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
15,000	-	15,000	-	930
275,000	-	12,000	263,000	8,250
103,000	-	6,000	97,000	3,090
185,000	-	20,000	165,000	10,722
<u>\$ 578,000</u>	<u>-</u>	<u>53,000</u>	<u>525,000</u>	<u>22,992</u>
<u>1,453,000</u>	<u>-</u>	<u>78,000</u>	<u>1,375,000</u>	<u>43,590</u>
<u>-</u>	<u>96,780</u>	<u>-</u>	<u>96,780</u>	<u>-</u>

City of Shellsburg

Note Maturities

June 30, 2009

Year Ending June 30,	General Obligation Notes							Total
	Well		Sewer		Municipal Building			
	Issued August 7, 2006		Issued February 1, 2003		Issued December 1, 2000			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2010	3.00%	\$ 12,000	3.00%	\$ 6,000	5.65%	\$ 25,000	43,000	
2011	3.00	13,000	3.00	6,000	5.70	25,000	44,000	
2012	3.00	13,000	3.00	7,000	5.80	25,000	45,000	
2013	3.00	13,000	3.00	7,000	5.85	30,000	50,000	
2014	3.00	14,000	3.00	7,000	5.90	30,000	51,000	
2015	3.00	14,000	3.00	7,000	6.00	30,000	51,000	
2016	3.00	14,000	3.00	7,000	-	-	21,000	
2017	3.00	15,000	3.00	8,000	-	-	23,000	
2018	3.00	15,000	3.00	8,000	-	-	23,000	
2019	3.00	16,000	3.00	8,000	-	-	24,000	
2020	3.00	16,000	3.00	8,000	-	-	24,000	
2021	3.00	17,000	3.00	9,000	-	-	26,000	
2022	3.00	17,000	3.00	9,000	-	-	26,000	
2023	3.00	18,000	-	-	-	-	18,000	
2024	3.00	18,000	-	-	-	-	18,000	
2025	3.00	19,000	-	-	-	-	19,000	
2026	3.00	19,000	-	-	-	-	19,000	
Total		<u>\$ 263,000</u>		<u>\$ 97,000</u>		<u>\$ 165,000</u>	<u>525,000</u>	

See accompanying independent auditor's report.

Revenue Notes		
Sewer		
Issued April 16, 2003		
Interest Rates	Amount	Total
3.00%	\$ 81,000	81,000
3.00	83,000	83,000
3.00	85,000	85,000
3.00	88,000	88,000
3.00	91,000	91,000
3.00	93,000	93,000
3.00	96,000	96,000
3.00	99,000	99,000
3.00	102,000	102,000
3.00	105,000	105,000
3.00	108,000	108,000
3.00	111,000	111,000
3.00	115,000	115,000
3.00	118,000	118,000
	-	-
	-	-
	-	-
	<u>\$ 1,375,000</u>	<u>1,375,000</u>

City of Shellsburg



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shellsburg, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 16, 2010. Our report expressed qualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shellsburg's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Shellsburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Shellsburg's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Shellsburg's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Shellsburg's financial statements that is more than inconsequential will not be prevented or detected by the City of Shellsburg's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Shellsburg's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item (A) is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Shellsburg's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Shellsburg's responses and, accordingly, we 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 Shellsburg and other parties to whom the City of Shellsburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 16, 2010

City of Shellsburg
Schedule of Findings
June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas:

- (1) Cash – preparing bank account reconciliations, cash receipt and disbursement functions and handling and recording cash.
- (2) Investments – detail record keeping, custodianship and reconciling.
- (3) Receipts - collecting, depositing, journalizing and recording.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Utility receipts – billing, collection, depositing, recording and reconciling.
- (6) Disbursements – purchasing, check signing, recording and reconciling.
- (7) Payroll – preparing and distributing.
- (8) Bank reconciliations – preparing, reconciling and reviewing.
- (9) Financial reporting – journal entries are not reviewed by an independent person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The City will review procedures and make changes as possible.

Conclusion – Response accepted.

City of Shellsburg

Schedule of Findings

June 30, 2009

- (B) Information System – During our review of internal control, the existing control activities in the City's computer based financial system were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based financial system were noted:

The City does not have written policies over the following:

- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- requiring backups be performed daily and stored off site.
- ensuring only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- Passwords are not set at 6-8 characters and are not prohibited from being re-used.
- logging off unattended computers.
- Computer system does not deny access after a specified number of incorrect attempts to log into the system.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer based financial system.

Response – The City will review policies to secure the computer system.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Shellsburg
Schedule of Findings
June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials were noted.
- (5) Bond Coverage – Surety bond coverage of City officials is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. However, certain Council minutes were not signed timely.

Recommendation – Council minutes should be signed timely.

Response – Minutes will be signed at subsequent meetings.

Conclusion – Response accepted.

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

City of Shellsburg

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Shawn R. Elsbury, Senior Auditor
Reza Sepehri, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State