



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE October 20, 2004

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$3,128,483 for the year ended June 30, 2004. The receipts included \$241,664 in property tax, \$47,531 from tax increment financing collections, \$396,226 from charges for service, \$140,158 from operating grants, contributions and restricted interest, \$417,848 from capital grants, contributions and restricted interest, \$6,853 from unrestricted investment earnings, \$1,874,102 from bond proceeds and \$4,101 from the sale of assets.

Disbursements for the year totaled \$3,000,075, and included \$2,286,839 for capital projects, \$116,903 for public works and \$80,534 for debt service. Also, disbursements for business type activities totaled \$338,196.

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

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**CITY OF SHELLSBURG**

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

**JUNE 30, 2004**

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**City of Shellsburg**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Thomas W. Busenbark	Mayor	Jan 2004
Shelly A. Krueter	Mayor Pro tem	Jan 2004
Carla J. Charlier	Council Member	Jan 2004
Steve Ternus	Council Member	Jan 2004
Gary L. Hekel	Council Member	Jan 2006
Edward E. Shaeffler (Appointed)	Council Member	Jan 2006
Tom Harrelson	Council Member	Resigned
<b>(After January 2004)</b>		
Thomas W. Busenbark	Mayor	Jan 2006
Shelly A. Krueter	Mayor Pro tem	Jan 2006
Sharon Hennigan (Appointed)	Council Member	Jan 2006
Ed Schaefer	Council Member	Jan 2006
Carla J. Charlier	Council Member	Resigned
Tim Peters	Council Member	Jan 2008
Phillip Travis	Council Member	Jan 2008
Nancy E. Deklotz	Clerk	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, 2004, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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.

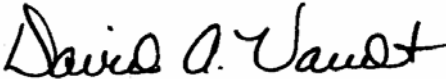
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shellsburg as of June 30, 2004, 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.

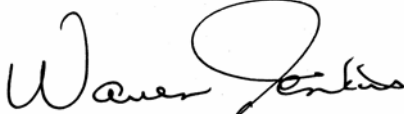
As described in Note 10, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 2, 2004 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 grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Shellsburg's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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, 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

August 2, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 316.4%, or approximately \$2,225,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$3,700 and intergovernmental revenues increased approximately \$316,000. In addition, the City received \$1,874,102 of bond proceeds.
- Disbursements increased 300.3%, or approximately \$1,997,000, in fiscal 2004 from fiscal 2003. General government, debt service and capital projects disbursements increased approximately \$10,000, \$1,000 and \$2,006,000, respectively.
- The City's total cash basis net assets increased 10.8%, or approximately \$128,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$266,000 and the assets of the business type activities decreased by approximately \$138,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds. 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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, wastewater and garbage utilities. 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, 4) the Capital Projects Fund and 5) 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, wastewater and garbage funds. The water and wastewater funds are 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

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year Ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 19
Operating grants, contributions and restricted interest	140
Capital grants, contributions and restricted interest	418
General receipts:	
Property tax	289
Unrestricted investment earnings	4
Bond proceeds	1,874
Other general receipts	4
Transfers, net	180
Total receipts and transfers	2,928
Disbursements:	
Public safety	76
Public works	117
Culture and recreation	56
General government	45
Debt service	81
Capital projects	2,287
Total disbursements	2,662
Increase in cash basis net assets	266
Cash basis net assets beginning of year	555
Cash basis net assets end of year	\$ 821

The City's total receipts for governmental activities increased by 316.4%, or \$2,224,778. The total cost of all programs and services increased by \$1,996,904, or 300.3%. The significant increase in receipts was primarily the result of bond proceeds received from the Clean Water State Revolving Funds and Community Development Block Grant Fund used to build a Wastewater Treatment Plant.

The City increased property tax rates for 2004 by an average of 7.2%. This increase, the first in three years, raised the City's property tax receipts by approximately \$3,700 in 2004. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase approximately \$6,000 next year.

The cost of all governmental activities this year was \$2,661,879 compared to \$664,975 last year. However, as shown on pages 14-15, the amount taxpayers ultimately financed for these activities was \$2,084,840 because some of the cost was paid by those directly benefited from the programs (\$19,033) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$558,006). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$355,000 to approximately \$577,000, principally due to receiving grant proceeds to complete the Waste Water Treatment Plant project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$241,664 in tax (some of which could only be used for certain programs), \$1,874,102 in bond proceeds and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 91
Wastewater	223
Garbage	63
General receipts:	
Unrestricted interest on investments	3
Total receipts	<u>380</u>
Disbursements and transfers:	
Water	85
Wastewater	201
Garbage	52
Transfers	180
Total disbursements and transfers	<u>518</u>
Decrease in cash basis net assets	(138)
Cash basis net assets beginning of year	<u>632</u>
Cash basis net assets end of year	<u>\$ 494</u>

Total business type activities receipts for the fiscal year were \$380,470 compared to \$239,921 last year. The cash basis net assets decreased by \$137,726 from the prior year. Total disbursements and transfers for the fiscal year increased by 235.2% to a total of \$518,196.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Shellsburg completed the year, its governmental funds reported a combined fund balance of \$820,618, an increase of \$266,134 above last year's total of \$554,484. 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 \$4,308 from the prior year to \$379,885. This increase is due to a tax levy increase. The City intends to use these receipts to help offset revenue cuts from the State.
- The Capital Projects Fund cash balance increased by \$238,113, from (\$83,465) to \$154,648, during the fiscal year. This increase was attributable to approximately \$2,291,950 from grants and bond proceeds received this fiscal year. The City used this money to construct a new Wastewater Treatment Plant. Disbursements for the Wastewater Treatment Plant totaled \$2,286,839 during fiscal 2004.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Wastewater Fund cash balance decreased by \$156,542 to \$241,467, due primarily to the increase in revenue bond principal and interest payments over the prior year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 19, 2004 and resulted in an increase in operating disbursements of \$1,195,817 related to wastewater and water main extension projects not originally anticipated to be completed during the fiscal year.

## DEBT ADMINISTRATION

At June 30, 2004, the City had \$2,273,000 in outstanding bonds and notes, compared to approximately \$518,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2004	2003
General obligation bonds	\$ 125	50
General obligation notes	405	450
Revenue bonds	1,743	18
Total	\$ 2,273	518

Debt increased as a result of issuing general obligation bonds and revenue bonds for a sewer construction project.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Shellsburg's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. The City's population increased according to the latest census by 173 people or 22.5%. The City of Shellburg's population at the last census was 938. Unemployment in Shellburg (Benton County) now stands at 4.7% versus 6.2% a year ago. This compares with the State's unemployment rate of 3.4% and the national rate of 3.9%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2% for fiscal year 2004 compared with the national rate of 3.4%. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$843,551, a decrease of 289% over the final 2004 budget. Property tax (benefiting from the 2004 rate increases and increases in assessed valuations) are expected to help maintain the budget. A majority of a Wastewater Project was done in 2004, inflating the City's revenues and expenditures by approximately \$2,600,000. The City has added no major new programs or initiatives to the 2005 budget.

The City's budgeted cash balance is expected to decrease by approximately \$33,500 by the close of 2005. This decrease is due partly to the State Legislature eliminating the Personal Property Replacement Tax.

## **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, P.O. Box J, Shellburg, 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, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 76,419	6,024	1,255	-
Public works	116,903	3,041	78,124	-
Culture and recreation	56,183	8,158	9,255	-
General government	45,001	1,810	951	-
Debt service	80,534	-	-	-
Capital projects	2,286,839	-	50,573	417,848
	2,661,879	19,033	140,158	417,848
Business type activities:				
Water	85,489	90,828	-	-
Wastewater	201,126	223,222	-	-
Garbage	51,581	63,143	-	-
Total business type activities	338,196	377,193	-	-
Total	\$ 3,000,075	396,226	140,158	417,848
<b>General Receipts:</b>				
Property and other City tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Bond proceeds				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

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

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Governmental Activities	Business Type Activities	Total
(69,140)	-	(69,140)
(35,738)	-	(35,738)
(38,770)	-	(38,770)
(42,240)	-	(42,240)
(80,534)	-	(80,534)
(1,818,418)	-	(1,818,418)
(2,084,840)	-	(2,084,840)

-	5,339	5,339
-	22,096	22,096
-	11,562	11,562
-	38,997	38,997
(2,084,840)	38,997	(2,045,843)

197,855	-	197,855
47,531	-	47,531
43,809	-	43,809
3,576	3,277	6,853
1,874,102	-	1,874,102
4,101	-	4,101
180,000	(180,000)	-
2,350,974	(176,723)	2,174,251
266,134	(137,726)	128,408
554,484	631,804	1,186,288
\$ 820,618	494,078	1,314,696

\$ 86,114	-	86,114
74,156	-	74,156
40,896	15,392	56,288
50,584	-	50,584
568,868	478,686	1,047,554
\$ 820,618	494,078	1,314,696



City of Shellsburg

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

As of and for the year ended June 30, 2004

	General	Road Use Tax	Capital Projects
<b>Receipts:</b>			
Property tax	\$ 150,594	-	-
Tax increment financing collections	-	-	-
Other city tax	7,376	-	-
Licenses and permits	3,547	-	-
Use of money and property	2,628	-	-
Intergovernmental	7,433	78,124	417,848
Charges for service	12,445	-	-
Miscellaneous	1,838	-	53,002
Total receipts	<u>185,861</u>	<u>78,124</u>	<u>470,850</u>
<b>Disbursements:</b>			
Operating:			
Public safety	56,872	-	-
Public works	40,907	62,417	-
Culture and recreation	46,036	-	-
General government	37,733	-	-
Debt service	-	-	-
Capital projects	-	-	2,286,839
Total disbursements	<u>181,548</u>	<u>62,417</u>	<u>2,286,839</u>
Excess (deficiency) of receipts over (under) disbursements	<u>4,313</u>	<u>15,707</u>	<u>(1,815,989)</u>
<b>Other financing sources (uses):</b>			
Bond proceeds	-	-	1,874,102
Sale of capital assets	4,101	-	-
Operating transfers in	5,500	-	180,000
Operating transfers out	(9,606)	(5,500)	-
Total other financing sources (uses)	<u>(5)</u>	<u>(5,500)</u>	<u>2,054,102</u>
Net change in cash balances	4,308	10,207	238,113
Cash balances beginning of year	<u>375,577</u>	<u>75,907</u>	<u>(83,465)</u>
Cash balances end of year	<u>\$ 379,885</u>	<u>86,114</u>	<u>154,648</u>
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	379,885	-	-
Special revenue funds	-	86,114	-
Capital projects fund	-	-	154,648
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 379,885</u>	<u>86,114</u>	<u>154,648</u>

See notes to financial statements.

Nonmajor Governmental Funds	Total
81,405	231,999
47,531	47,531
2,289	9,665
-	3,547
948	3,576
-	503,405
-	12,445
2,802	57,642
<u>134,975</u>	<u>869,810</u>
19,547	76,419
13,579	116,903
10,147	56,183
7,268	45,001
80,534	80,534
-	2,286,839
<u>131,075</u>	<u>2,661,879</u>
<u>3,900</u>	<u>(1,792,069)</u>
-	1,874,102
-	4,101
51,229	236,729
(41,623)	(56,729)
<u>9,606</u>	<u>2,058,203</u>
13,506	266,134
<u>186,465</u>	<u>554,484</u>
<u>199,971</u>	<u>820,618</u>
40,896	40,896
-	379,885
127,372	213,486
-	154,648
<u>31,703</u>	<u>31,703</u>
<u>199,971</u>	<u>820,618</u>

**City of Shellsburg**

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

As of and for the year ended June 30, 2004

	Water	Wastewater	Nonmajor - Garbage	Total
Operating receipts:				
Charges for service	\$ 90,828	223,222	63,143	377,193
Operating disbursements:				
Business type activities	85,489	93,458	51,581	230,528
Excess of operating receipts over operating disbursements	5,339	129,764	11,562	146,665
Non-operating receipts (disbursements):				
Interest on investments	1,915	1,362	-	3,277
Debt service	-	(107,668)	-	(107,668)
Total non-operating receipts (disbursements)	1,915	(106,306)	-	(104,391)
Excess of receipts over disbursements	7,254	23,458	11,562	42,274
Operating transfers out	-	(180,000)	-	(180,000)
Net change in cash balances	7,254	(156,542)	11,562	(137,726)
Cash balances beginning of year	233,795	398,009	-	631,804
Cash balances end of year	\$ 241,049	241,467	11,562	494,078
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	15,392	-	15,392
Unreserved	241,049	226,075	11,562	478,686
Total cash basis fund balances	\$ 241,049	241,467	11,562	494,078

See notes to financial statements.

City of Shellsburg

Notes to Financial Statements

June 30, 2004

**(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, wastewater 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, Benton County Emergency Management 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 two categories:

*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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental 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 that are not paid from other funds.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

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

D. Budgets and Budgetary Accounting

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

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 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.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 5,000	3,750	55,000	23,142	60,000	26,892
2006	5,000	3,600	55,000	20,128	60,000	23,728
2007	6,000	3,450	60,000	17,062	66,000	20,512
2008	6,000	3,270	35,000	13,653	41,000	16,923
2009	6,000	3,090	35,000	11,652	41,000	14,742
2010 - 2014	33,000	12,660	135,000	31,698	168,000	44,358
2015 - 2019	38,000	7,410	30,000	1,800	68,000	9,210
2020 - 2022	26,000	1,590	-	-	26,000	1,590
Total	\$ 125,000	38,820	405,000	119,135	530,000	157,955

During the year ended June 30, 2004, the City retired \$50,000 of bonds and notes.

On April 16, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$1,847,000 of sewer improvement revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sanitary sewer system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2004, the City had drawn \$1,812,074, including an \$18,470 initiation fee, of the \$1,847,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$34,926 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted. However, the City has paid \$69,000 in principal and \$34,051 in interest on the bonds.

The resolution providing for the issuance of the sewer improvement revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a separate wastewater revenue bond sinking account for the purpose of making principal and interest payments when due.

**(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 and 2003 were \$10,655 and \$10,357, respectively, equal to the required contribution for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, personal, or compensatory 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, personal and compensatory hours payable to employees at June 30, 2004, primarily related to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,000
Personal	13,000
Compensatory hours	<u>7,000</u>
Total	<u>\$ 17,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.



**(6) Development Agreement**

The City has entered into a development agreement to assist in an urban renewal project. The City agreed to rebate 65.8% of the incremental tax paid by a developer in exchange for street improvements made by the developer. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years, beginning December 1, 2002. The total to be paid by the City under this agreement is not to exceed \$24,128.

During the year ended June 30, 2004, the City rebated \$774 of incremental tax under this agreement. The maximum remaining balance at June 30, 2004 was \$22,775.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Road Use Tax	\$ 5,500
Special Revenue: Employee benefits Library	General	9,016 590
Debt Service	Special Revenue: Tax Increment Financing	41,623
Enterprise: Wastewater	Capital Projects: Wastewater	<u>180,000</u>
Total		<u>\$ 236,729</u>

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

**(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 Contract/Commitments**

The City entered into a construction contract totaling \$507,162 for the Wastewater Treatment Plant DIV I. The City paid \$466,831 on this contract during the year ended June 30, 2004. The balance of \$40,331 remaining at June 30, 2004 will be paid as work on the project progresses.

**(10) Accounting Change and Restatements**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**City of Shellsburg**

**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, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
<b>Receipts:</b>			
Property tax	\$ 231,999	-	231,999
Tax increment financing collections	47,531	-	47,531
Other city tax	9,665	-	9,665
Licenses and permits	3,547	-	3,547
Use of money and property	3,576	3,277	6,853
Intergovernmental	503,405	-	503,405
Charges for service	12,445	377,193	389,638
Miscellaneous	57,642	-	57,642
Total receipts	<u>869,810</u>	<u>380,470</u>	<u>1,250,280</u>
<b>Disbursements:</b>			
Public safety	76,419	-	76,419
Public works	116,903	-	116,903
Culture and recreation	56,183	-	56,183
General government	45,001	-	45,001
Debt service	80,534	-	80,534
Capital projects	2,286,839	-	2,286,839
Business type activities	-	338,196	338,196
Total disbursements	<u>2,661,879</u>	<u>338,196</u>	<u>3,000,075</u>
Excess (deficiency) of receipts over (under) disbursements	(1,792,069)	42,274	(1,749,795)
Other financing sources, net	<u>2,058,203</u>	<u>(180,000)</u>	<u>1,878,203</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	266,134	(137,726)	128,408
Balances beginning of year	<u>554,484</u>	<u>631,804</u>	<u>1,186,288</u>
Balances end of year	<u>\$ 820,618</u>	<u>494,078</u>	<u>1,314,696</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual Variance
234,265	234,265	(2,266)
40,616	40,616	6,915
11,118	11,118	(1,453)
2,262	2,262	1,285
9,900	9,900	(3,047)
92,789	92,789	410,616
372,852	372,852	16,786
500	500	57,142
<u>764,302</u>	<u>764,302</u>	<u>485,978</u>
83,297	85,357	8,938
112,288	154,288	37,385
65,252	77,409	21,226
51,088	60,088	15,087
86,451	97,451	16,917
1,332,000	2,416,600	129,761
375,102	410,102	71,906
<u>2,105,478</u>	<u>3,301,295</u>	<u>301,220</u>
(1,341,176)	(2,536,993)	787,198
<u>1,332,000</u>	<u>2,396,600</u>	<u>(518,397)</u>
(9,176)	(140,393)	268,801
<u>1,052,779</u>	<u>1,185,288</u>	<u>1,000</u>
<u>1,043,603</u>	<u>1,044,895</u>	<u>269,801</u>

City of Shellsburg

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Permanent Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$1,195,817. The budget amendment is reflected in the final budgeted amounts.

**Other Supplementary Information**



City of Shellsburg

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

As of and for the year ended June 30, 2004

	Special Revenue		
	Employee Benefits	Tax Increment Financing	Library
Receipts:			
Property tax	\$ 37,596	-	-
Tax increment financing collections	-	47,531	-
Other city tax	1,110	-	-
Use of money and property	-	286	662
Miscellaneous	-	-	2,795
Total receipts	38,706	47,817	3,457
Disbursements:			
Operating:			
Public safety	19,547	-	-
Public works	13,579	-	-
Culture and recreation	7,430	-	2,713
General government	7,268	-	-
Debt service	-	-	-
Total disbursements	47,824	-	2,713
Excess (deficiency) of receipts over (under) disbursements	(9,118)	47,817	744
Other financing sources (uses):			
Operating transfers in	9,016	-	590
Operating transfers out	-	(41,623)	-
Total other financing sources (uses)	9,016	(41,623)	590
Net change in cash balances	(102)	6,194	1,334
Cash balances beginning of year	18,983	67,962	33,001
Cash balances end of year	\$ 18,881	74,156	34,335
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
Special revenue funds	18,881	74,156	34,335
Permanent fund	-	-	-
Total cash basis fund balances	\$ 18,881	74,156	34,335

See accompanying independent auditor's report.

Debt Service	Permanent Cemetery Perpetual Care	Total
43,809	-	81,405
-	-	47,531
1,179	-	2,289
-	-	948
-	7	2,802
44,988	7	134,975
-	-	19,547
-	-	13,579
-	4	10,147
-	-	7,268
80,534	-	80,534
80,534	4	131,075
(35,546)	3	3,900
41,623	-	51,229
-	-	(41,623)
41,623	-	9,606
6,077	3	13,506
34,819	31,700	186,465
40,896	31,703	199,971
40,896	-	40,896
-	-	127,372
-	31,703	31,703
40,896	31,703	199,971

City of Shellsburg  
 Schedule of Indebtedness  
 Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Water	Jan 1, 1994	3.60-6.00%	\$ 135,000
Street improvement	Jul 1, 1996	4.90-5.80	200,000
Municipal building	Apr 1, 2000	3.60-6.00	320,000
Total			
General obligations bonds:			
Sewer improvements	Apr 16, 2003	3.00%	\$ 135,000
Revenue bonds:			
Sewer Improvement	Apr 16, 2003	3.00%	\$ 1,847,000

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
75,000	-	10,000	65,000	4,330
95,000	-	20,000	75,000	5,375
280,000	-	15,000	265,000	15,858
<u>\$ 450,000</u>	<u>-</u>	<u>45,000</u>	<u>405,000</u>	<u>25,563</u>
<u>49,502</u>	<u>80,498</u>	<u>5,000</u>	<u>125,000</u>	<u>3,573</u>
<u>18,470</u>	<u>1,793,604</u>	<u>69,000</u>	<u>1,743,074</u>	<u>34,051</u>

**Schedule 3**

City of Shellsburg  
 Bond and Note Maturities  
 June 30, 2004

Year Ending June 30,	General Obligation Notes						Total
	Water		Street Improvement		Municipal Building		
	Issued Jan 1, 1994		Issued Jun 1, 1996		Issued Apr 1, 2000		
	Interest Rates	Principal	Interest Rates	Principal	Interest Rates	Principal	
2005	5.45%	\$ 10,000	5.60%	\$ 25,000	5.35%	\$ 20,000	55,000
2006	5.60	10,000	5.70	25,000	5.40	20,000	55,000
2007	5.80	15,000	5.80	25,000	5.45	20,000	60,000
2008	6.00	15,000	-	-	5.50	20,000	35,000
2009	6.20	15,000	-	-	5.55	20,000	35,000
2010	-	-	-	-	5.65	25,000	25,000
2011	-	-	-	-	5.70	25,000	25,000
2012	-	-	-	-	5.80	25,000	25,000
2013	-	-	-	-	5.85	30,000	30,000
2014	-	-	-	-	5.90	30,000	30,000
2015	-	-	-	-	6.00	30,000	30,000
Total		<u>\$ 65,000</u>		<u>\$ 75,000</u>		<u>\$ 265,000</u>	<u>405,000</u>

Year Ending June 30,	General Obligation Bonds	
	Sewer	
	Issued Apr 16, 2003	
Interest Rates	Principal	
2005	3.00%	\$ 5,000
2006	3.00	5,000
2007	3.00	6,000
2008	3.00	6,000
2009	3.00	6,000
2010	3.00	6,000
2011	3.00	6,000
2012	3.00	7,000
2013	3.00	7,000
2014	3.00	7,000
2015	3.00	7,000
2016	3.00	7,000
2017	3.00	8,000
2018	3.00	8,000
2019	3.00	8,000
2020	3.00	8,000
2021	3.00	9,000
2022	3.00	9,000
Total		<u>\$ 125,000</u>

See accompanying independent auditor's report.

## City of Shellsburg

Schedule of Receipts By Source and Disbursements By Function-  
All Governmental Funds

For the Last Two Years

	2004	2003
Receipts:		
Property tax	\$ 231,999	228,285
Tax increment financing collections	47,531	48,205
Other city tax	9,665	10,974
Licenses and permits	3,547	3,034
Use of money and property	3,576	4,773
Intergovernmental	503,405	241,975
Charges for service	12,445	74,499
Miscellaneous	57,642	35,662
	<hr/>	<hr/>
Total	\$ 869,810	647,407
	<hr/> <hr/>	<hr/> <hr/>
Disbursements:		
Operating:		
Public safety	\$ 76,419	79,706
Public works	116,903	133,789
Culture and recreation	56,183	56,566
General government	45,001	34,901
Debt service	80,534	79,495
Capital projects	2,286,839	280,518
	<hr/>	<hr/>
Total	\$ 2,661,879	664,975
	<hr/> <hr/>	<hr/> <hr/>

See accompanying independent auditor's report.

**Schedule 5**

City of Shellsburg  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	02-WS-089	\$ 384,207
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS19221701	<u>1,234,351</u>
Total			<u>\$ 1,618,558</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Shellsburg and is presented in conformity with an other comprehensive basis of accounting. The information on 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.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Shellsburg, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 2, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

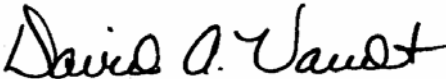
In planning and performing our audit, we considered the City of Shellsburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial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




A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04.

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

August 2, 2004

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control over Compliance**

**City of Shellsburg**



**OFFICE OF AUDITOR OF STATE**  
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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Shellsburg, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The City of Shellsburg's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Shellsburg's management. Our responsibility is to express an opinion on the City of Shellsburg's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Shellsburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Shellsburg's compliance with those requirements.

In our opinion, the City of Shellsburg complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

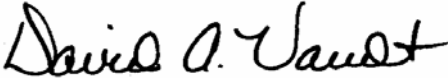
Internal Control Over Compliance

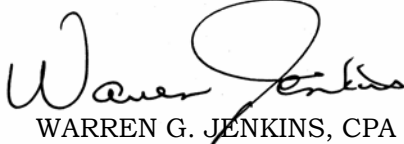
The management of the City of Shellsburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Shellsburg's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of

laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 2, 2004

City of Shellsburg  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

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

- (a) An unqualified opinion was 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) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no 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 programs were as follows:
  - CFDA Number 14.228 – Community Development Block Grants/State's Program
  - CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Shellsburg did not qualify as a low-risk auditee.

City of Shellsburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record-keeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Long-term debt – recording.
- (6) Payroll – preparing and distributing.
- (7) Disbursements – check writing, signing, posting and reconciling.

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.

Response – The Council will review current procedures and implement any possible changes utilizing existing staff.

Conclusion – Response accepted.

City of Shellsburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

No material weaknesses in internal control over major programs were noted.



City of Shellsburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part IV: Other Findings Related to Statutory Reporting:**

- IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- IV-C-04 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ed Schaeffer, Council Member, JEM Video	Internet service	\$ 300
	Equipment and repairs	250
		550
Steve Ternus, Council Member, Shellsburg Welding	Parts and repairs	544
Sheryl Nieland, Librarian	Computer parts	34
Robert Nieland, Librarian's Spouse	Maintenance at Library	132

In accordance with Chapter 362.5(10) of the Code of Iowa, none of these transactions appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Shellsburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- IV-I-04 Revenue Bonds – The City has complied with the revenue bond resolution.

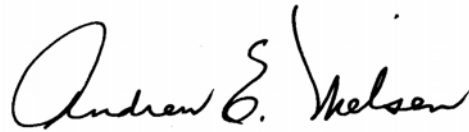
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City of Shellsburg

Staff

This audit was performed by:

Michelle Meyer, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Billie Jo Heth, Staff Auditor  
Daniel Grady, 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