

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

JUNE 30, 2020

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CITY OF SHELBY
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Kroll	Mayor	January 2022
Rick Kiesel	Mayor Pro-tem	January 2024
Jim Boeck	Council Member	January 2022
Karen Schlueter	Council Member	January 2024
Pat Honeywell	Council Member	January 2022
Christopher Evans	Council Member	January 2024
Chris Martin	City Clerk	Indefinite
Clint Fichter	City Attorney	Indefinite



Monte Broeckelman
Certified
Public Accountant

Independent Auditor's Report

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To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

To the Honorable Mayor and
Members of the City Council:

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

To the Honorable Mayor and
Members of the City Council:

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Other Information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 13 and 40 through 47 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 31, 2021 on my consideration of the City of Shelby's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby's internal control over financial reporting and compliance.



Harlan, Iowa
March 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Shelby 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, 2020. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2020 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 201%, or approximately \$1,348,000, from fiscal year 2019 to fiscal year 2020. Property tax increased approximately \$51,000. Tax increment financing increased approximately \$311,000, sale of property increased \$725,000, and loan proceeds increased approximately \$222,000.

Disbursements of the City's governmental activities increased 69%, or approximately \$874,000, in fiscal year 2020 from fiscal year 2019. Capital projects increased approximately \$628,000. Debt service and general government increased approximately \$155,000 and \$4,000, respectively.

The City's total cash basis net position increased 9%, or \$275,000, from June 30, 2019 to June 30, 2020. Of this amount, the assets of the governmental activities increased approximately \$48,000 and the assets of the business type activities increased approximately \$227,000.

USING THIS ANNUAL REPORT

This 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 Position. 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

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 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

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

Business Type Activities include the waterworks, the sanitary sewer system and the electric utility. 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, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City’s Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Electric 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 position may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased slightly from a year ago, increasing from approximately \$1,403,000 to approximately \$1,450,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	Year Ended June 30,
	2020	2019
Receipts:		
Program receipts:		
Charges for services	\$ 106,381	\$ 142,559
Operating grants, contributions and restricted interest	135,857	122,988
Capital grants, contributions and restricted interest	7,472	2,875
General receipts:		
Property tax	435,774	384,853
Tax increment financing	311,169	-0-
Local option sales tax	60,344	-0-
Unrestricted investment earnings	6,594	5,488
Miscellaneous	8,560	12,120
Sale of property	724,927	-0-
Loan proceeds	222,153	-0-
Total receipts	2,019,231	670,883
Disbursements:		
Public safety	91,233	115,315
Public works	399,482	331,024
Culture and recreation	49,867	23,963
Community and economic development	19,370	2,406
General government	164,469	160,177
Debt service	203,601	49,100
Capital projects	1,216,881	589,159
Total disbursements	2,144,903	1,271,144
Change in cash basis net position before transfers	(125,672)	(600,261)
Transfers	173,599	310,218
Change in cash basis net position	47,927	(290,043)
Cash basis net position, beginning of year	1,402,564	1,112,521
Cash basis net position, end of year	\$ 1,450,491	\$ 1,402,564

The City’s total receipts for governmental activities increased 201%, or approximately \$1,348,000. The total cost of all programs and services increased approximately \$874,000, or 69%, with no new programs added this year. The significant increase in receipts and disbursements was due to capital projects financing and disbursements in the current year.

The cost of all governmental activities this year was approximately \$2.1 million compared to approximately \$1.3 million last year. However, as shown in the Statement of Activities and Net Position on pages 14 -15, the amount taxpayers ultimately financed for these activities was approximately \$1.9 million because some of the cost was paid by those directly benefited from the programs (approximately \$106,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$143,000). Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2020 from approximately \$268,000 to approximately \$249,000.

Total business type activities receipts for the fiscal year were approximately \$965,000 compared to approximately \$951,000 last year. This increase was due primarily to increased sewer charges. The cash balance increased approximately \$227,000, or 15%, from the prior year. Total disbursements for the fiscal year increased 2% to approximately \$564,000.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	Year Ended June 30,
	2020	2019
Receipts:		
Program receipts:		
Charges for services:		
Water	\$ 198,008	\$ 196,166
Sewer	98,895	71,563
Electric	657,491	667,399
Operating grants, contributions and restricted interest	7,439	11,996
General receipts		
Unrestricted interest on investments	2,740	3,902
Taxes	82	-0-
Total receipts	<u>964,655</u>	<u>951,026</u>
Disbursements:		
Water	105,842	94,779
Sewer	13,525	8,551
Electric	444,486	448,181
Total disbursements	<u>563,853</u>	<u>551,511</u>
Change in cash basis net position before transfers	400,802	399,515
Transfers	(173,599)	(310,218)
Change in cash basis net position	227,203	89,297
Cash basis net position, beginning of year	<u>1,552,051</u>	<u>1,462,754</u>
Cash basis net position, end of year	<u>\$ 1,779,254</u>	<u>\$ 1,552,051</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shelby completed the year, its governmental funds reported a combined fund balance of \$1,450,491, an increase of \$47,927 above last year's total of \$1,402,564. The following are the principal reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$52,114 from the prior year to \$1,075,195. Internal transfers and increased property tax receipts account for the majority of the increase.

The Special Revenue, Local Option Tax Fund cash balance increased \$31,653 from the prior year to \$43,797. City Council has flexibility on the uses of local option tax and directed its use for general government and capital projects purposes.

The Special Revenue, Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$9,986, which was no change from the previous year.

The Capital Projects Fund was established to account for infrastructure projects such as the water and sewer improvements and renovations, street and other projects related to economic development such as housing grants to homebuyers, and small business startup and façade improvement grants.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased by \$54,528 to \$258,284.

The Enterprise, Sewer Fund cash balance increased by \$47,684 to \$310,530.

The Enterprise, Electric Fund cash balance increased by \$124,990 to \$1,210,440.

BUDGETARY HIGHLIGHTS

The City adopted the budget on March 5, 2019 and did not amend in the fiscal year.

The City's actual receipts were approximately \$888,915 less than budgeted. The City's disbursements were approximately \$3.6 million less than budgeted.

Budgeted amounts exceeded actual disbursements in all functions.

DEBT ADMINISTRATION

At June 30, 2020, the City had \$1,959,688 of bonds, notes and other long-term debt outstanding, compared to \$1,445,085 last year, as shown below.

Outstanding Debt			
		Year Ended June 30, 2020	Year Ended June 30, 2019
General obligation notes	\$	1,280,761	\$ 1,338,085
Revenue notes		678,927	107,000
Total	\$	1,959,688	\$ 1,445,085

The City retired principal of \$210,323, and paid interest of \$48,150. The City issued \$724,927 of new debt. The Debt Service Fund ended the fiscal year with a cash balance of \$1,077.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$1,280,761 is significantly below its constitutional debt limit of approximately \$3.5 million. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Shelby’s elected, and appointed officials and citizens considered many factors when setting the fiscal year 2021 budget, tax rates and fees charged for various City activities. One of those factors is completion of various City projects and the availability of federal, state and local grants, debt and tax increment financing.

These factors were taken into account when adopting the budget for fiscal year 2021. Amounts available for appropriation in the operating budget are approximately \$5.9 million, a decrease of 13.5% over the fiscal year 2020 budget. Budgeted disbursements are expected to decrease approximately \$1,100,000. If these amounts are realized, budgeted cash balances are expected to increase by approximately \$28,000 by the close of fiscal year 2021. Projects include both sewer and water work system improvements.

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 Chris Martin, City Clerk, 419 East Street, Shelby, Iowa 51570.

BASIC FINANCIAL STATEMENTS

CITY OF SHELBY

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 91,233	\$ 96,348	\$ 26,701	\$ -0-
Public works	399,482	-0-	82,393	-0-
Cultures and recreation	49,867	1,000	26,649	-0-
Community and economic development	19,370	-0-	57	-0-
General government	164,469	9,032	57	6,985
Debt service	203,601	-0-	-0-	-0-
Capital projects	1,216,881	-0-	-0-	487
Total governmental activities	2,144,903	106,380	135,857	7,472
Business type activities:				
Water	105,842	198,008	-0-	-0-
Sewer	13,525	98,895	1,988	-0-
Electric	444,486	657,491	5,451	-0-
Total business type activities	563,853	954,394	7,439	-0-
Total	\$ 2,708,756	\$ 1,060,774	\$ 143,296	\$ 7,472
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Loan proceeds				
Sale of property				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position, beginning of year				
Cash basis net position, end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Other purposes				
Assigned				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

EXHIBIT A

Net (Disbursements), Receipts and Changes in Net Position					
Governmental Activities		Business Type Activities		Total	
\$	31,816	\$	-0-	\$	31,816
	(317,089)		-0-		(317,089)
	(22,218)		-0-		(22,218)
	(19,313)		-0-		(19,313)
	(148,395)		-0-		(148,395)
	(203,601)		-0-		(203,601)
	(1,216,394)		-0-		(1,216,394)
	(1,895,194)		-0-		(1,895,194)
	-0-		92,166		92,166
	-0-		87,358		87,358
	-0-		218,456		218,456
	-0-		397,980		397,980
	(1,895,194)		397,980		(1,497,214)
	435,774		82		435,856
	311,169		-0-		311,169
	60,344		-0-		60,344
	6,594		2,740		9,334
	8,561		-0-		8,561
	724,927		-0-		724,927
	222,153		-0-		222,153
	173,599		(173,599)		-0-
	1,943,121		(170,777)		1,772,344
	47,927		227,203		275,130
	1,402,564		1,552,051		2,954,615
\$	1,450,491	\$	1,779,254	\$	3,229,745
\$	56,904	\$	-0-	\$	56,904
	308,406		-0-		308,406
	209,403		-0-		209,403
	875,778		1,779,254		2,655,032
\$	1,450,491	\$	1,779,254	\$	3,229,745

CITY OF SHELBY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

		Special Revenue	
	General	Local Option	Tax Increment Financing
Receipts:			
Property tax	\$ 347,277	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	311,169
Other city taxes	113	60,343	-0-
Licenses and permits	3,171	-0-	-0-
Use of money and property	10,819	-0-	-0-
Intergovernmental	32,180	-0-	-0-
Charges for service	73,198	-0-	-0-
Special assessments	592	-0-	-0-
Miscellaneous	9,060	-0-	-0-
Total receipts	476,410	60,343	311,169
Disbursements:			
Public safety	69,633	-0-	-0-
Public works	399,482	-0-	-0-
Culture and recreation	37,577	-0-	-0-
Community and economic development	2,329	-0-	17,041
General government	164,469	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	673,490	-0-	17,041
Excess (deficiency) of receipts over (under) disbursements	(197,080)	60,343	294,128
Other financing sources (uses):			
Sale of property	-0-	-0-	-0-
Operating transfer in	249,462	-0-	-0-
Operating transfer out	(268)	(28,690)	(294,128)
Note proceeds	-0-	-0-	-0-
Total other financing sources (uses)	249,194	(28,690)	(294,128)
Net change in cash balances	52,114	31,653	-0-
Cash balances, beginning of year	1,023,081	12,144	9,986
Cash balances, end of year	\$ 1,075,195	\$ 43,797	\$ 9,986
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -0-	\$ -0-	\$ -0-
Other purposes	-0-	43,797	-0-
Assigned	209,403	-0-	-0-
Unassigned	865,792	-0-	9,986
Total cash basis fund balances	\$ 1,075,195	\$ 43,797	\$ 9,986

EXHIBIT B

Capital Projects	Other Non-major Governmental Funds	Total
\$ -0-	\$ 88,497	\$ 435,774
-0-	-0-	311,169
-0-	-0-	60,456
-0-	-0-	3,171
489	195	11,503
-0-	82,393	114,573
-0-	-0-	73,198
-0-	-0-	592
-0-	52,655	61,715
<u>489</u>	<u>223,740</u>	<u>1,072,151</u>
-0-	21,600	91,233
-0-	-0-	399,482
-0-	12,290	49,867
-0-	-0-	19,370
-0-	-0-	164,469
-0-	203,601	203,601
<u>1,216,881</u>	<u>-0-</u>	<u>1,216,881</u>
<u>1,216,881</u>	<u>237,491</u>	<u>2,144,903</u>
(1,216,392)	(13,751)	(1,072,752)
222,153	-0-	222,153
211,644	117,972	579,078
-0-	(82,393)	(405,479)
<u>724,927</u>	<u>-0-</u>	<u>724,927</u>
<u>1,158,724</u>	<u>35,579</u>	<u>1,120,679</u>
(57,668)	21,828	47,927
<u>212,560</u>	<u>144,793</u>	<u>1,402,564</u>
\$ <u>154,892</u>	\$ <u>166,621</u>	\$ <u>1,450,491</u>
\$ -0-	\$ 56,904	\$ 56,904
154,892	109,717	308,406
-0-	-0-	209,403
-0-	-0-	875,778
\$ <u>154,892</u>	\$ <u>166,621</u>	\$ <u>1,450,491</u>

See notes to financial statements.

CITY OF SHELBY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Funds			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for services	\$ 195,458	\$ 98,895	\$ 654,533	\$ 948,886
Operating disbursements:				
Business type activities	48,687	13,525	442,159	504,371
Excess (deficiency) of operating receipts over (under) operating disbursements	146,771	85,370	212,374	444,515
Non-operating receipts (disbursements)				
Customer deposits	2,550	-0-	2,959	5,509
Taxes	-0-	82	-0-	82
Deposit refunds	(1,950)	-0-	(2,327)	(4,277)
Debt service	(55,206)	-0-	-0-	(55,206)
Interest on investments	2,363	2,232	5,584	10,179
Net non-operating	(52,243)	2,314	6,216	(43,713)
Excess of receipts over disbursements	94,528	87,684	218,590	400,802
Other financing sources (uses):				
Operating transfer in	936	146,818	6,521	154,275
Operating transfer out	(40,936)	(186,818)	(100,120)	(327,874)
Total other financing sources (uses)	(40,000)	(40,000)	(93,599)	(173,599)
Change in cash balances	54,528	47,684	124,991	227,203
Cash balances, beginning of year	203,756	262,846	1,085,449	1,552,051
Cash balances, end of year	\$ 258,284	\$ 310,530	\$ 1,210,440	\$ 1,779,254
Cash Basis Fund Balances				
Restricted for debt service	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Unrestricted	258,284	310,530	1,210,440	1,779,254
Total cash basis fund balances	\$ 258,284	\$ 310,530	\$ 1,210,440	\$ 1,779,254

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(1) Summary of Significant Accounting Policies

The City of Shelby is a political subdivision of the State of Iowa located in Shelby and Pottawattamie Counties. It was first incorporated in 1872 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 administrative services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shelby has included all funds, organizations, account groups, 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 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: Shelby County Assessor's Conference Board, Shelby County Emergency Management Commission, Shelby County Landfill Commission and Shelby County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund 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 from services.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provision or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions 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 non-major 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.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

Special Revenue:

The Local Option Sales Tax Fund is used to account for the local option sales tax from the State of Iowa for special purposes as determined by City Council.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness and rebate agreements.

The Capital Projects fund is used to account for infrastructure projects.

The City reports the following major proprietary funds:

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

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

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric utility.

C. Measurement Focus and Basis of Accounting

The City of Shelby 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 position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued)

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

D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. As of June 30, 2020, budgeted amounts exceeded actual disbursements in all functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2020, 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 ensure 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 and the Treasurer of the State of Iowa; 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.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(2) Cash and Pooled Investments (Continued)

At June 30, 2020, the City’s deposits consisted of cash in bank and certificates of deposit as follows:

Cash in bank	\$	2,020,848
Certificates of deposit		<u>184,887</u>
Total	\$	<u>2,205,735</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,023,870 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

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

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation note and bonds and water revenue bonds are as follows:

Year Ending June 30,	General Obligation Debt Improvement Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 167,400	\$ 43,934	\$ 678,927	\$ 3,369	\$ 846,327	\$ 47,303
2022	180,775	38,049	-0-	-0-	180,775	38,049
2023	186,867	31,957	-0-	-0-	186,867	31,957
2024	193,114	25,710	-0-	-0-	193,114	25,710
2025	199,732	19,092	-0-	-0-	199,732	19,092
2026	176,301	12,299	-0-	-0-	176,301	12,299
2027	176,572	6,258	-0-	-0-	176,572	6,258
2028	-0-	-0-	-0-	-0-	-0-	-0-
2029	-0-	-0-	-0-	-0-	-0-	-0-
2030	-0-	-0-	-0-	-0-	-0-	-0-
Total	\$ <u>1,280,761</u>	\$ <u>177,299</u>	\$ <u>678,927</u>	\$ <u>3,369</u>	\$ <u>1,959,688</u>	\$ <u>180,668</u>

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(3) Bonds and Notes Payable (Continued)

Firetruck Note

On August 28, 2015, the Shelby Fire & Rescue Department issued a \$150,000 note to the Fire Service Training Bureau, Iowa Department of Public Safety, to finance the purchase of a new fire truck. The note required a 1% loan origination fee, bears interest at 0%, requires semi-annual principal payments of \$7,500 and matures September 1, 2025.

Essential Corporate Purpose Project Note

On October 21, 2014, the City issued a \$1,000,000 note to a local bank to finance several City projects. The note had an interest rate at 3.25%, required interest payments on June 1st and matured June 1, 2017. At any time within the period of the loan agreement, the City may elect to refund the obligation in exchange for a fixed-rate obligation at current interest rates for a term not to exceed 10 years. On March 1, 2016, the City passed a resolution to amend the agreement to increase the note to \$1,500,000. The note was issued for street improvements, street lighting, sewer, storm water and water improvements, and dilapidated building restoration. On June 1, 2017, when the principal balance was \$1,208,141, the note was rewritten with an interest rate of 3.53%, with annual principal and interest payments due on June 1 of \$181,101. The note matures on June 1, 2027.

Essential Corporate Purpose Equipment Note

On June 1, 2020, the City issued a \$100,000 note to a local bank, to finance the purchase of a new dump and snow-plow truck. The note bears interest at 4.35%, requires annual principal and interest payments of \$22,723 and matures June 1, 2025.

Interim Financing Project Note, Series 2020A

On April 20, 2020, the City issued a \$762,000 note to a local bank, to provide for interim financing for the purposes of paying expenses related to a sanitary sewer improvement project. The note bears interest at 4.35%, requires all unpaid principal and interest to be paid at maturity of September 30, 2020.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- b) Sufficient month transfers shall be made to a water revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(4) Pension and Retirement Benefits

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employers defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(4) Pension and Retirement Benefits (Continued)

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.61% of covered payroll and the City contributed 9.91% of covered payroll, for a total rate of 16.52%.

The City's contributions to IPERS for the year ended June 30, 2020 totaled \$21,976.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the City reported a liability of \$167,429 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the City's proportion was 0.002872%, which was a decrease of 0.000099% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City pension expense, deferred outflows of resources and deferred inflows of resources totaled \$30,799, \$26,313, and \$32,802, respectively.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(4) Pension and Retirement Benefits (Continued)

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100%</u>	

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(4) Pension and Retirement Benefits (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$297,300	\$167,429	\$58,495

IPERS' Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. For the year ended June 30, 2020, the City contributed \$54,707 and plan members eligible for benefits contributed \$8,583 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by the City of Shelby and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement.

There are 4 active and -0- retired members in the plan.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and 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. Sick leave hours accumulate but are not payable upon termination. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2020, primarily relating to the Enterprise Funds is as follows:

Type of Benefit	Amount
Vacation	\$ 8,294
Compensatory time	<u>-0-</u>
Total	\$ <u>8,294</u>

This liability has been computed based on rates of pay in effect at June 30, 2020.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2020 is as follows:

Transfer to	Transfer from	Amount
General	Road Use	\$ 82,393
General	Enterprise - Sewer	40,000
General	Enterprise - Water	40,000
General	Enterprise - Electric	75,000
Special Revenue - PSF	General	268*
Special Revenue - PSF	Enterprise - Electric	250*
Special Revenue - PSF	Enterprise - Electric	1,911*
Special Revenue - PSF	Enterprise - Electric	183*
Special Revenue - PSF	Enterprise - Electric	255*
Debt Service	Special Revenue - TIF	115,105
Capital Projects	Special Revenue - Local Option	16,621
Capital Projects	Enterprise - Electric	16,000
TIF Capital Project	Special Revenue - TIF	179,023
Sewer Sinking	Enterprise - Sewer	936*
Water Sinking	Enterprise - Water	146,818*
Electric Sinking	Enterprise - Electric	<u>6,521*</u>
Total		\$ <u>721,284</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. The asterisks indicate transfers that were not approved by council resolution.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$-0- during the year ended June 30, 2020.

(9) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at the level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2020 were \$15,854.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

(9) Risk Management (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from Iowa Municipal Workers Compensation Association (IMWCA) for coverage associated with workers compensation in the amount of \$8,952. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Subsequent Events

In July 2020, the City approved a \$912,000 sanitary sewer general obligation series 2020A note to provide interim financing to fund improvements to the City's sanitary sewer facility.

In July 2020, the City approved a \$2,724,000 water general obligation series 2020A note to provide interim financing to fund improvements to the City's waterworks infrastructure. The City anticipates receiving USDA Rural Development grant and loan funds to provide long term financing for both utility projects.

In October 2020, the City approved a real estate purchase contract to purchase land for the City for future expansion. The contract bears a -0-% interest rate and requires an annual principal payment of \$36,000 beginning in October 2020.

OTHER INFORMATION

CITY OF SHELBY

BUDGETARY COMPARISON SCHEDULE

OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -

BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

OTHER INFORMATION

YEAR ENDED JUNE 30, 2020

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 435,774	\$ 82
Tax increment financing	311,169	-0-
Other city tax	60,457	-0-
Licenses and permits	3,171	-0-
Use of money and permits	233,655	10,179
Intergovernmental	114,573	-0-
Charges for services	73,198	954,394
Special assessments	592	-0-
Miscellaneous	61,715	-0-
Total receipts	<u>1,294,304</u>	<u>964,655</u>
Disbursements:		
Public safety	91,233	-0-
Public works	399,482	-0-
Culture and recreation	49,867	-0-
Community and economic development	19,370	-0-
General government	164,469	-0-
Debt service	203,601	-0-
Capital projects	1,216,881	-0-
Business type activities	-0-	563,853
Total disbursements	<u>2,144,903</u>	<u>563,853</u>
Excess (deficiency) of receipts over (under) disbursements	(850,599)	400,802
Other financing sources, net	<u>898,526</u>	<u>(173,599)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	47,927	227,203
Balances beginning of year	<u>1,402,564</u>	<u>1,552,051</u>
Balances end of year	\$ <u><u>1,450,491</u></u>	\$ <u><u>1,779,254</u></u>

See Accompanying Independent Auditor's Report.

		Budgeted Amounts		Final to
Total		Original	Final	Total Variance
\$	435,856	\$ 428,760	\$ 428,760	\$ 7,096
	311,169	279,728	279,728	31,441
	60,457	63,980	63,980	(3,523)
	3,171	4,800	4,800	(1,629)
	243,834	7,700	7,700	236,134
	114,573	1,280,931	1,280,931	(1,166,358)
	1,027,592	1,060,960	1,060,960	(33,368)
	592	2,250	2,250	(1,658)
	61,715	18,765	18,765	42,950
	<u>2,258,959</u>	<u>3,147,874</u>	<u>3,147,874</u>	<u>(888,915)</u>
	91,233	160,570	160,570	69,337
	399,482	435,624	435,624	36,142
	49,867	86,646	86,646	36,779
	19,370	28,550	28,550	9,180
	164,469	186,848	186,848	22,379
	203,601	264,622	264,622	61,021
	1,216,881	4,386,000	4,386,000	3,169,119
	563,853	749,350	749,350	185,497
	<u>2,708,756</u>	<u>6,298,210</u>	<u>6,298,210</u>	<u>3,589,454</u>
	(449,797)	(3,150,336)	(3,150,336)	2,700,539
	<u>724,927</u>	<u>697,978</u>	<u>697,978</u>	<u>26,949</u>
	275,130	(2,452,358)	(2,452,358)	2,727,488
	<u>2,954,615</u>	<u>2,954,615</u>	<u>2,954,615</u>	<u>-0-</u>
\$	<u><u>3,229,745</u></u>	\$ <u><u>502,257</u></u>	\$ <u><u>502,257</u></u>	\$ <u><u>2,727,488</u></u>

CITY OF SHELBY

NOTES TO OTHER INFORMATION - BUDGETARY REPORTING

JUNE 30, 2020

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service 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, Special Revenue Funds, Debt Service Fund, 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. The budget was not amended in the fiscal year 2020.

For the year ended June 30, 2020, the amounts budgeted exceeded the disbursements in all functions.

CITY OF SHELBY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST SIX YEARS *
OTHER INFORMATION

	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.002872%	0.002773%	0.002661%	0.002619%	0.002582%	0.001914%
City's proportionate share of the net pension liability	\$ 167,429	\$ 175,449	\$ 175,676	\$ 163,327	\$ 128,368	\$ 77,444
City's covered-employee payroll	\$ 232,800	\$ 220,043	\$ 208,377	\$ 196,160	\$ 186,244	\$ 178,600
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.92%	79.73%	84.31%	83.26%	68.92%	43.36%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

- In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

CITY OF SHELBY

SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FOR THE LAST SEVEN YEARS

OTHER INFORMATION

	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 21,976	\$ 20,772	\$ 18,608	\$ 17,580	\$ 16,632	\$ 15,896	\$ 11,383
Contributions in relation to the statutorily required contribution	<u>21,976</u>	<u>20,772</u>	<u>18,608</u>	<u>17,580</u>	<u>16,632</u>	<u>15,896</u>	<u>11,383</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
City's covered-employee payroll	232,800	220,043	208,377	196,160	186,244	178,006	127,469
Contributions as a percentage of covered-employee payroll	9.44%	9.44%	8.93%	8.96%	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

CITY OF SHELBY

NOTES TO OTHER INFORMATION - PENSION LIABILITY

YEAR ENDED JUNE 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018.

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

SUPPLEMENTARY INFORMATION

CITY OF SHELBY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue				
	Park Fund Raising	Fire Fund Raising	Road Use Tax	Youth Council	150 th Celebration
Receipts:					
Use of money and property	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Property tax	-0-	-0-	-0-	-0-	-0-
Intergovernmental	-0-	-0-	82,393	-0-	-0-
Miscellaneous	-0-	26,701	-0-	-0-	25,954
Total receipts	-0-	26,701	82,393	-0-	25,954
Disbursements:					
Operations:					
Public safety	-0-	21,600	-0-	-0-	-0-
Culture and recreation	590	-0-	-0-	132	11,568
Community and economic development	-0-	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-	-0-
Debt service	-0-	-0-	-0-	-0-	-0-
Total disbursements	590	21,600	-0-	132	11,568
Excess (deficiency) of receipts over (under) disbursements	(590)	5,101	82,393	(132)	14,386
Other financing sources (uses)					
Operating transfer in	-0-	-0-	-0-	-0-	-0-
Operating transfer out	-0-	-0-	(82,393)	-0-	-0-
Total other financing sources (uses)	-0-	-0-	(82,393)	-0-	-0-
Net change in cash balances	(590)	5,101	-0-	(132)	14,386
Cash balances beginning of year	10,460	68,356	56,904	696	1,946
Cash balances end year	\$ 9,870	\$ 73,457	\$ 56,904	\$ 564	\$ 16,332
Cash Basis Fund Balances					
Restricted	\$ -0-	\$ -0-	\$ 56,904	\$ -0-	\$ -0-
Assigned	9,870	73,457	-0-	564	16,332
Unassigned	-0-	-0-	-0-	-0-	-0-
Total cash basis fund balances	\$ 9,870	\$ 73,457	\$ 56,904	\$ 564	\$ 16,332

SCHEDULE 1 (Continued)

Special Revenue							
Emergency	PSF	Economic Development	Ed Nelson Scholarship Fund	Nielsen Memorial Fund	Debt Service	Total	
\$ -0-	\$ -0-	\$ -0-	\$ 27	\$ 168	\$ -0-	\$ 195	
1	-0-	-0-	-0-	-0-	88,496	88,497	
-0-	-0-	-0-	-0-	-0-	-0-	82,393	
-0-	-0-	-0-	-0-	-0-	-0-	52,655	
1	-0-	-0-	27	168	88,496	223,740	
-0-	-0-	-0-	-0-	-0-	-0-	21,600	
-0-	-0-	-0-	-0-	-0-	-0-	12,290	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	203,601	203,601	
-0-	-0-	-0-	-0-	-0-	203,601	237,491	
1	-0-	-0-	27	168	(115,105)	(13,571)	
-0-	2,867	-0-	-0-	-0-	115,105	117,972	
-0-	-0-	-0-	-0-	-0-	-0-	(82,393)	
-0-	2,867	-0-	-0-	-0-	115,105	35,579	
1	2,867	-0-	27	168	-0-	21,828	
-0-	585	-0-	3,242	1,527	1,077	144,793	
\$ 1	\$ 3,452	\$ -0-	\$ 3,269	\$ 1,695	\$ 1,077	\$ 166,621	
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 56,904	
1	3,452	-0-	3,269	1,695	1,077	109,717	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	
\$ 1	\$ 3,452	\$ -0-	\$ 3,269	\$ 1,695	\$ 1,077	\$ 166,621	

See Accompanying Independent Auditor’s Report.

CITY OF SHELBY
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2020

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<u>Obligation</u>			
General Obligation:			
Essential Corporate Purpose Project Note	June 1, 2017	3.53%	\$ 1,500,000
Firefighting Equipment Loan	Aug 28, 2015	-0-	\$ 150,000
Essential Corporate Purpose Equipment Note	June 1, 2020	4.35%	\$ 100,000
Revenue Bonds:			
Water Revenue Bond	Apr 1, 2001	1.75%	\$ 600,000
Water Improvement Bond	Oct 19, 2001	1.75%	\$ 200,000
Interim Financing Project Note, Series 2020A	Apr 20, 2020	4.35%	\$ 762,000

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 1,240,585	\$ -0-	\$ 134,823	\$ 1,105,761	\$ 46,277	\$ 3,208
97,500	-0-	22,500	75,000	-0-	-0-
<u>-0-</u>	<u>100,000</u>	<u>-0-</u>	<u>100,000</u>	<u>-0-</u>	<u>363</u>
\$ <u>1,338,085</u>	\$ <u>100,000</u>	\$ <u>157,323</u>	\$ <u>1,280,761</u>	\$ <u>46,277</u>	\$ <u>3,571</u>
\$ 81,000	\$ -0-	\$ 40,000	\$ 41,000	\$ 1,418	\$ 60
26,000	-0-	13,000	13,000	455	19
<u>-0-</u>	<u>624,927</u>	<u>-0-</u>	<u>624,927</u>	<u>-0-</u>	<u>2,424</u>
\$ <u>107,000</u>	\$ <u>624,927</u>	\$ <u>53,000</u>	\$ <u>678,927</u>	\$ <u>1,873</u>	\$ <u>2,503</u>

See Accompanying Independent Auditor’s Report.

CITY OF SHELBY
BOND AND NOTE MATURITIES
JUNE 30, 2020

General Obligation Notes

Year Ended June 30,	Corporate Purpose Note		Firefighting Equipment Note		Corporate Purpose Note		Total
	Issued June 1, 2017		Issued Aug 28, 25015		Issued June 1, 2020		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2021	3.25%	\$ 141,587	0%	\$ 7,500	4.35%	\$ 18,313	167,400
2022	3.25%	146,654	0%	15,000	4.35%	19,121	180,775
2023	3.25%	151,903	0%	15,000	4.35%	19,964	186,867
2024	3.25%	157,275	0%	15,000	4.35%	20,839	193,114
2025	3.25%	162,969	0%	15,000	4.35%	21,763	199,732
2026	3.25%	168,801	0%	7,500	--	-0-	176,301
2027	3.25%	176,572	0%	-0-	--	-0-	176,572
2028	--	-0-	0%	-0-	--	-0-	-0-
2029	--	-0-	0%	-0-	--	-0-	-0-
2030	--	-0-	0%	-0-	--	-0-	-0-
Total		\$ 1,105,761		\$ 75,000		\$ 100,000	\$ 1,280,761

Revenue Bonds

Year Ended June 30,	Water Revenue Bond		Water Improvement Bond		Interim Financing Project Note		
	Issued Apr 1, 2001		Issued Oct 19, 2001		Issued Apr 20, 2020		
	Interest		Interest		Interest		
	Rate	Amount	Rate	Amount	Rate	Amount	Total
2021	1.75%	\$ 41,000	1.75%	\$ 13,000	4.35%	\$ 624,927	678,927
2022	--	-0-	--	-0-	--	-0-	-0-
2023	--	-0-	--	-0-	--	-0-	-0-
2024	--	-0-	--	-0-	--	-0-	-0-
2025	--	-0-	--	-0-	--	-0-	-0-
Total		\$ 41,000		\$ 13,000	\$	\$ 624,927	678,927

See Accompanying Independent Auditors’ Report.

CITY OF SHELBY

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -

ALL GOVERNMENTAL FUNDS

FOR THE LAST TEN YEARS

	<u>2020</u>	<u>2019*</u>	<u>2018*</u>	<u>2017*</u>
Receipts:				
Property tax	\$ 435,773	\$ 384,853	\$ 393,765	\$ 362,368
Tax Increment Financing	311,169	-0-	267,091	262,031
Other city taxes	60,457	7,121	55,114	61,149
Licenses and permits	3,171	3,190	6,580	5,769
Use of money and property	233,655	410,766	10,963	6,366
Intergovernmental	114,573	144,767	134,335	116,546
Charges for services	73,198	73,559	260,087	60,879
Special assessments	592	2,173	-0-	2,043
Miscellaneous	<u>61,715</u>	<u>42,245</u>	<u>20,494</u>	<u>42,749</u>
Total	\$ <u>1,294,303</u>	\$ <u>1,068,674</u>	\$ <u>1,148,429</u>	\$ <u>919,900</u>
Disbursements:				
Operating:				
Public safety	\$ 91,233	\$ 115,315	\$ 114,301	\$ 224,497
Public works	399,482	331,024	311,036	320,441
Culture and recreation	49,868	23,963	104,696	24,156
Economic development	19,369	2,406	30,029	2,185
General government	164,469	160,177	159,257	150,537
Debt service	203,601	49,100	196,101	49,243
Capital projects	<u>1,216,881</u>	<u>589,159</u>	<u>670,201</u>	<u>1,185,499</u>
Total	\$ <u>2,144,903</u>	\$ <u>1,271,144</u>	\$ <u>1,585,621</u>	\$ <u>1,956,558</u>

*Unaudited

See Accompanying Independent Auditor's Report.

SCHEDULE 4

	<u>2016</u>	<u>2015*</u>	<u>2014*</u>	<u>2013*</u>	<u>2012</u>	<u>2011*</u>
\$	354,452	\$ 262,516	\$ 135,870	\$ 213,093	158,829	141,160
	200,658	450,588	399,160	312,152	128,133	129,851
	51,545	63,272	54,005	59,864	51,373	53,099
	2,656	2,697	5,310	2,051	2,812	2,793
	5,464	2,406	2,604	3,507	7,061	7,430
	136,808	124,869	80,323	113,675	102,452	98,615
	74,335	76,803	94,253	56,995	82,773	50,451
	7,989	8,306	3,967	2,708	1,810	595
	<u>79,247</u>	<u>40,317</u>	<u>3,083</u>	<u>34,148</u>	<u>14,738</u>	<u>24,976</u>
\$	<u>913,154</u>	\$ <u>1,031,774</u>	\$ <u>778,575</u>	\$ <u>798,193</u>	<u>549,981</u>	\$ <u>508,970</u>
\$	233,969	\$ 93,178	\$ 95,057	\$ 132,781	91,854	\$ 59,869
	275,252	278,139	192,020	173,943	104,520	199,148
	30,771	54,731	27,796	38,149	37,311	38,058
	33,636	1,795	2,838	12,161	168,411	168,354
	156,759	126,528	130,409	273,839	72,263	53,828
	19,225	10,329	-0-	20,390	83,870	81,738
	<u>242,812</u>	<u>1,202,113</u>	<u>459,432</u>	<u>511,576</u>	<u>-0-</u>	<u>18,865</u>
\$	<u>992,424</u>	\$ <u>1,766,813</u>	\$ <u>907,552</u>	\$ <u>1,162,839</u>	<u>558,229</u>	\$ <u>619,860</u>

See Accompanying Independent Auditor’s Report.

**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**



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

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Kansas

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated September 30, 2019. My report expressed unqualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Shelby's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Shelby's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Shelby's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Shelby's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Honorable Mayor and
Members of the City Council:

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that I consider to be significant deficiencies: 1-A-20

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Shelby's Responses to the Findings

The City of Shelby's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Responses. The City of Shelby's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

To the Honorable Mayor and
Members of the City Council

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brackman & Associate, P.C.

March 31, 2021
Harlan, Iowa 51537

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

PART I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES;

I-A-20 Segregation of Duties

Criteria - Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so that authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition - A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause - The City has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect - Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, error or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation - The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - The Mayor and City Council are aware of this lack of segregation of duties, but it is not economically feasible for the City to employ additional personnel for this reason. The Mayor and City Council will continue to act as an oversight group.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

PART II Other Findings Related to Statutory Reporting

II-A-20 Certified Budget – Disbursements during the year ended June 30, 2020 did not exceed amounts that were budgeted.

II-B-20 Questionable Disbursements - I noted no disbursements for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-20 Travel Expense - No disbursements of City money for travel expenses for spouses of City officials or employees were noted.

II-D-20 Business Transactions – I noted no business transactions between the City and City officials or employees for the year ended June 30, 2020 other than for expense reimbursements, and Fire and EMT runs.

II-E-20 Restricted Donor Activity - No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

II-F-20 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-G-20 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

I noted the January 21, 2020 council minutes were not published within the 15-day window per Iowa Code 372.13(6). This appears to be an isolated case.

Recommendation – I recommend the City continue to timely submit the city council meeting minutes to ensure proper publication as outlined in the Iowa code.

Response - We will revise our current practices to make sure the minutes are timely published per Iowa Code 372.13(6)

Conclusion - Response accepted.

II-H-20 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.

II-I-20 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

PART II: Other Findings Related to Statutory Reporting (Continued)

- II-J-20 Annual Urban Renewal Report - The annual urban renewal report was approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.
- II-K-20 Tax Increment Financing - Chapter 403.19 of the Code of Iowa provides that a municipality may certify loans, advances, indebtedness, and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Urban Renewal Area TIF Indebtedness was certified to the County Auditor before December 1, and no exceptions were noted.