
CITY OF SHELBY

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

JUNE 30, 2007

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**CITY OF SHELBY
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Kroll	Mayor	January 2008
Rod Robinson	Mayor Pro-tem/Council Member	January 2008
Craig Davis	Council Member	January 2008
Lucy Schlensig	Council Member	January 2010
Rick Kiesel	Council Member	January 2008
Lisa Juhl	Council Member	January 2008
Chris Martin	City Clerk	Indefinite
Katie Goshorn	City Attorney	Indefinite
Patricia Morris	City Treasurer	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 17, 2008

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

231 W. Lyon
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com

firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa as of June 30, 2007, 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.

Continued

January 17, 2008

To the Honorable Mayor and
Members of the City Council:
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated January 17, 2008 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 grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. Other 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. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 M. W. Wampler Associates, CPA, P.C.

CITY OF SHELBY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

As management of the City of Shelby, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

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

Fund financial statements: The financial statement for governmental funds is the statement of cash receipts, disbursements and changes in cash balances. It is organized by funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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, Local Option Tax, and Urban Renewal Tax Increment Financing, 3) 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.
- 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 utilities funds.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of significant changes in financial position and fund balances: The cash balances of the City's governmental activities increased 22% from June 30, 2006, increasing from \$1.02 million to \$1.25 million for a net change of \$228,967 during the year ended June 30, 2007.

The following are the changes in the cash balances of the City's governmental activities:

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2007
Receipts:	
Program receipts:	
Charges for services	\$ 50,800
Operating grants, contributions and restricted interest	135,657
Capital grants, contributions and restricted interest	341,780
General receipts:	
Property tax	150,234
Local option sales tax	35,700
Unrestricted investment earnings	4,855
Miscellaneous	20,342
Loan proceeds	500,000
Total receipts	<u>1,239,368</u>
Disbursements:	
Public safety	67,563
Public works	86,349
Culture and recreation	44,990
Community and economic development	151,450
General government	87,726
Debt service	6,773
Capital projects	575,550
Total disbursements	<u>1,020,401</u>
Change in cash basis net assets before transfers	218,967
Transfers, net	<u>10,000</u>
Change in cash basis net assets	228,967
Cash basis net assets, beginning of year	<u>1,029,078</u>
Cash basis net assets, end of year	<u>\$ 1,258,045</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cash balances of the City's business type activities increased 14% from June 30, 2006, increasing from \$329,235 to \$374,771 for a net change of \$45,536 during the year ended June 30, 2007.

The following are the changes in the cash basis of the net assets of the City's business type activities:

Changes in Cash Basis Net Assets of Business Type Activities	
	Year Ended June 30, 2007
Receipts:	
Program receipts:	
Charges for services and sales:	
Water	\$ 127,360
Sewer	48,226
Electric	369,782
Total receipts	545,368
Disbursements:	
Water	101,800
Sewer	20,827
Electric	367,205
Total disbursements	489,832
Change in cash basis net assets before transfers	55,536
Transfers, net	(10,000)
Change in cash basis net assets	45,536
Cash basis net assets, beginning of year	329,235
Cash basis net assets, end of year	\$ 374,771

Analysis between actual and budget amounts: The City amended its budget on May 1, 2007, increasing both receipts and disbursements by \$725,000 to reflect the issuance of urban renewal tax increment financing notes and the activity of the Interstate Project capital projects fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2007, the City had \$1,084,793 in bonds and other long-term debt compared to \$696,873 as of June 30, 2006, as shown below.

Outstanding Debt		
	Year Ended June 30, 2007	Year Ended June 30, 2006
General obligation notes	\$ 168,500	\$ 182,000
Urban renewal TIF notes	440,000	-0-
Revenue notes	476,293	514,873
Total	\$ 1,084,793	\$ 696,873

Scheduled principal and interest payments for the year ended June 30, 2007 were \$112,080 and \$39,005, respectively. Proceeds on the tax increment financing notes were \$500,000.

Future financial statement impact: Budgeted receipts for FY 2008 are \$884,889. Budgeted disbursements are \$1,185,967. The budgeted net decrease to cash balances is \$301,078.

Requests for information: Requests for additional information can be made to the Shelby City Clerk, Chris Martin at City Hall, 419 East Street, Shelby, Iowa 51570.

BASIC FINANCIAL STATEMENTS

CITY OF SHELBY

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Disbursements	Program Receipts		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 67,563	\$ 6,715	\$ 22,992	\$ 31,440
Public works	86,349	34,991	58,008	-0-
Cultures and recreation	44,990	-0-	7,955	-0-
Community and economic development	151,450	-0-	21,236	-0-
General government	87,726	9,094	25,466	85,895
Debt service	6,773	-0-	-0-	-0-
Capital projects	575,550	-0-	-0-	224,445
Total governmental activities	1,020,401	50,800	135,657	341,780
Business type activities:				
Water	101,800	119,509	7,851	-0-
Sewer	20,827	34,412	13,814	0-
Electric	367,205	355,720	12,482	-0-
Total business type activities	489,832	509,641	34,147	-0-
Total	\$ 1,510,233	\$ 560,441	\$ 169,804	\$ 341,780
General receipts:				
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Sale of assets				
Loan proceeds				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
\$ (6,416)	\$ -0-	\$ (6,416)
6,650	-0-	6,650
(37,035)	-0-	(37,035)
(130,214)	-0-	(130,214)
32,729	-0-	32,729
(6,773)	-0-	(6,773)
(351,105)	-0-	(351,105)
<u>(492,164)</u>	<u>-0-</u>	<u>(492,164)</u>
-0-	25,560	25,560
-0-	27,399	27,399
-0-	997	997
<u>-0-</u>	<u>53,956</u>	<u>53,956</u>
(492,164)	53,956	(438,208)
71,810	-0-	71,810
6,648	-0-	6,648
71,776	-0-	71,776
35,700	-0-	35,700
4,855	1,580	6,435
19,763	-0-	19,763
579	-0-	579
500,000	-0-	500,000
10,000	(10,000)	-0-
<u>721,131</u>	<u>(8,420)</u>	<u>712,711</u>
228,967	45,536	274,503
<u>1,029,078</u>	<u>329,235</u>	<u>1,358,313</u>
\$ <u>1,258,045</u>	\$ <u>374,771</u>	\$ <u>1,632,816</u>
\$ 203,809	\$ -0-	\$ 203,809
(4,310)	-0-	(4,310)
<u>1,058,546</u>	<u>374,771</u>	<u>1,433,317</u>
\$ <u>1,258,045</u>	\$ <u>374,771</u>	\$ <u>1,632,816</u>

CITY OF SHELBY

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue			
	General	Road Use Tax	Local Option	TIF
Receipts:				
Property tax	\$ 71,810	\$ -0-	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-	71,776
Other city taxes	-0-	-0-	35,700	-0-
Licenses and permits	993	-0-	-0-	-0-
Use of money and property	30,322	-0-	-0-	-0-
Intergovernmental	117,335	58,008	-0-	21,236
Charges for service	42,882	-0-	-0-	-0-
Special assessments	4,050	-0-	-0-	-0-
Miscellaneous	30,538	-0-	-0-	-0-
Total receipts	297,930	58,008	35,700	93,012
Disbursements:				
Public safety	67,563	-0-	-0-	-0-
Public works	76,029	10,320	-0-	-0-
Culture and recreation	44,890	-0-	-0-	-0-
Community and economic development	-0-	-0-	-0-	151,450
General government	87,726	-0-	-0-	-0-
Debt service	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-
Total disbursements	276,208	10,320	-0-	151,450
Excess (deficiency) of receipts over (under) disbursements	21,722	47,688	35,700	(58,438)
Other financing sources (uses):				
Sale of assets	579	-0-	-0-	-0-
Note proceeds	500,000	-0-	-0-	-0-
Operating transfer in	10,000	-0-	-0-	-0-
Operating transfers out	(550,000)	-0-	-0-	-0-
Total other financing sources (uses)	(39,421)	-0-	-0-	-0-
Net change in cash balances	(17,699)	47,688	35,700	(58,438)
Cash balances, beginning of year	582,918	156,121	192,824	54,128
Cash balances, end of year	\$ 565,219	\$ 203,809	\$ 228,524	\$ (4,310)

See notes to financial statements.

EXHIBIT A

Capital Project Interstate	Non-major	Total
\$ -0-	\$ 6,648	\$ 78,458
-0-	-0-	71,776
-0-	-0-	35,700
-0-	-0-	993
6,587	4,309	41,218
211,858	18,737	427,174
-0-	-0-	42,882
-0-	-0-	4,050
6,000	-0-	36,538
224,445	29,694	738,789
-0-	-0-	67,563
-0-	-0-	86,349
-0-	100	44,990
-0-	-0-	151,450
-0-	-0-	87,726
-0-	6,773	6,773
575,550	-0-	575,550
575,550	6,873	1,020,401
(351,105)	22,821	(281,612)
-0-	-0-	579
-0-	-0-	500,000
550,000	-0-	560,000
-0-	-0-	(550,000)
550,000	-0-	510,579
198,895	22,821	228,967
-0-	43,087	1,029,078
\$ 198,895	\$ 65,908	\$ 1,258,045

CITY OF SHELBY

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for services	\$ 118,344	\$ 34,412	\$ 354,470	\$ 507,226
Operating disbursements:				
Business type activities	<u>101,800</u>	<u>5,784</u>	<u>367,205</u>	<u>474,789</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	16,544	28,628	(12,735)	32,437
Non-operating receipts (disbursements)				
Customer deposits	1,165	-0-	1,250	2,415
Debt service	-0-	(15,043)	-0-	(15,043)
Interest on investments	<u>7,851</u>	<u>13,814</u>	<u>14,062</u>	<u>35,727</u>
Net non-operating	<u>9,016</u>	<u>(1,229)</u>	<u>15,312</u>	<u>23,099</u>
Excess (deficiency) of receipts over (under) disbursements	25,560	27,399	2,577	55,536
Other financing sources (uses):				
Operating transfers in	-0-	500,000	-0-	500,000
Operating transfers out	<u>-0-</u>	<u>(500,000)</u>	<u>(10,000)</u>	<u>(510,000)</u>
Total other financing sources (uses)	-0-	-0-	(10,000)	(10,000)
Net change in cash balances	25,560	27,399	(7,423)	45,536
Cash balances, beginning of year	<u>44,995</u>	<u>33,995</u>	<u>250,245</u>	<u>329,235</u>
Cash balances, end of year	<u>\$ 70,555</u>	<u>\$ 61,394</u>	<u>\$ 242,822</u>	<u>\$ 374,771</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 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, culture and recreation, community and economic development, and general government 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, 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 Government Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets 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 for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary 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 not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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 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 capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for street maintenance.

The Local Option Sales Tax Fund is used to account for special purposes as determined by City Council.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

The Capital Projects Fund is used to account for capital projects such as the Interstate project.

The City reports the following major proprietary funds:

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

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

The 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.

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. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, general government and capital projects functions.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2007, the City's deposits consisted of cash in bank and certificates of deposit as follows:

Cash in bank	\$	140,224
Certificates of deposit		<u>155,311</u>
Total	\$	<u>295,535</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,337,281 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 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 Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 84,793	\$ 18,561	\$ 35,000	\$ 21,822
2009	70,500	15,061	36,000	20,582
2010	75,500	12,292	37,000	19,307
2011	75,000	9,298	39,000	17,996
2012	80,000	6,411	40,000	16,615
2013	85,000	3,315	41,000	15,198
2014	-0-	-0-	43,000	13,745
2015	-0-	-0-	44,000	12,222
2016	-0-	-0-	45,000	10,663
2017	-0-	-0-	48,000	10,069
2018	-0-	-0-	49,000	7,369
2019	-0-	-0-	51,000	5,633
2020	-0-	-0-	53,000	3,825
2021	-0-	-0-	53,000	1,948
Total	\$ <u>470,793</u>	\$ <u>64,938</u>	<u>614,000</u>	<u>176,994</u>

Year Ending June 30,	Total	
	Principal	Interest
2008	\$ 119,793	\$ 40,383
2009	106,500	35,643
2010	112,500	31,599
2011	114,000	27,294
2012	120,000	23,026
2013	126,000	18,513
2014	43,000	13,745
2015	44,000	12,222
2016	45,000	10,663
2017	48,000	10,069
2018	49,000	7,369
2019	51,000	5,633
2020	53,000	3,825
2021	53,000	1,948
Total	\$ <u>1,084,793</u>	\$ <u>241,932</u>

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 BONDS AND NOTES PAYABLE (Continued)

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year ended June 30, 2007, \$45,011 of general obligation bond principal and interest was paid from the capital projects fund and \$15,043 of general obligation sewer improvement note principal and interest was paid from the sewer fund.

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 separate water and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

NOTE 4 PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2007 were \$5,373 equal to the required contribution for the year.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 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, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 4,867
Compensatory time	<u>149</u>
Total	\$ <u>5,016</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

NOTE 6 RELATED PARTY TRANSACTIONS

There were no business transactions between the City and City officials during the year ended June 30, 2007.

NOTE 7 RISK MANAGEMENT

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

NOTE 8 BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2007, disbursements in the public safety, general government and capital projects functions exceeded amounts budgeted.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 9 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Electric Sinking	\$ 10,000
Capital Projects	General	500,000
Capital Projects	General	<u>50,000</u>
Total		<u>\$ 560,000</u>

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

NOTE 10 DEFICIT BALANCES

The detail of the deficit balances for the year ended June 30, 2007 is as follows:

Fund	Amount
Debt Service	\$ 45,910
Urban Renewal Tax Increment Financing	<u>4,310</u>
Total	<u>\$ 50,220</u>

The special revenue, urban renewal tax increment financing fund had a deficit balance at June 30, 2007 as a result of interstate project costs within the urban renewal area. The deficit will be eliminated upon receipt of tax increment financing taxes.

The debt service deficit balance has not been monitored since its inception less than four years ago and will be eliminated by transfer from another fund with available resources.

REQUIRED SUPPLEMENTARY 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

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 78,458	\$ -0-
Tax increment financing	71,776	-0-
Other city tax	35,700	-0-
Licenses and permits	993	-0-
Use of money and permits	41,218	35,727
Intergovernmental	427,174	-0-
Charges for services	42,882	509,641
Special assessments	4,050	-0-
Miscellaneous	36,538	-0-
Total receipts	<u>738,789</u>	<u>545,368</u>
Disbursements:		
Public safety	67,563	-0-
Public works	86,349	-0-
Culture and recreation	44,990	-0-
Community and economic development	151,450	-0-
General government	87,726	-0-
Debt service	6,773	-0-
Capital projects	575,550	-0-
Business type activities	-0-	489,832
Total disbursements	<u>1,020,401</u>	<u>489,832</u>
Excess (deficiency) of receipts over (under) disbursements	(281,612)	55,536
Other financing sources, net	<u>510,579</u>	<u>(10,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	228,967	45,536
Balances beginning of year	<u>1,029,078</u>	<u>329,235</u>
Balances end of year	\$ <u><u>1,258,045</u></u>	\$ <u><u>374,771</u></u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 78,458	\$ 77,696	\$ 77,696	\$ 762
71,776	54,600	54,600	17,176
35,700	35,755	35,755	(55)
993	1,000	1,000	(7)
76,945	24,000	24,000	52,945
427,174	74,800	74,800	352,374
552,523	578,800	578,800	(26,277)
4,050	2,000	2,000	2,050
36,538	22,878	22,878	13,660
<u>1,284,157</u>	<u>871,529</u>	<u>871,529</u>	<u>412,628</u>
67,563	39,000	39,000	(28,563)
86,349	154,500	154,500	68,151
44,990	21,650	46,650	1,660
151,450	123,750	323,750	172,300
87,726	53,850	53,850	(33,876)
6,773	6,800	6,800	27
575,550	-0-	500,000	(75,550)
489,832	590,693	590,693	100,861
<u>1,510,233</u>	<u>990,243</u>	<u>1,715,243</u>	<u>205,010</u>
(226,076)	(118,714)	(843,714)	617,638
<u>500,579</u>	<u>-0-</u>	<u>725,000</u>	<u>(224,421)</u>
274,503	(118,714)	(118,714)	393,217
<u>1,358,313</u>	<u>1,358,313</u>	<u>1,358,313</u>	<u>-0-</u>
\$ <u>1,632,816</u>	\$ <u>1,239,599</u>	\$ <u>1,239,599</u>	\$ <u>393,217</u>

CITY OF SHELBY

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2007

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for Internal Service Funds and Fiduciary 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 or fund type. 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, 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, one budget amendment increased budgeted receipts and disbursements by \$725,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, general government and capital projects functions.

OTHER 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, 2007

	Special Revenue				Total
	Ed Nelson Scholarship Fund	Nielsen Memorial Fund	Fire Fund	Debt Service	
Receipts:					
Property taxes	\$ -0-	\$ -0-	\$ -0-	\$ 6,648	\$ 6,648
Use of money and property	99	55	4,155	-0-	4,309
Intergovernmental	-0-	-0-	18,737	-0-	18,737
Total receipts	<u>99</u>	<u>55</u>	<u>22,892</u>	<u>6,648</u>	<u>29,694</u>
Disbursements:					
Operations:					
Culture and recreation	100	-0-	-0-	-0-	100
Debt service	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,773</u>	<u>6,773</u>
Total disbursements	<u>100</u>	<u>-0-</u>	<u>-0-</u>	<u>6,773</u>	<u>6,873</u>
Net change in cash balances	(1)	55	22,892	(125)	22,821
Cash balances beginning of year	<u>3,068</u>	<u>1,310</u>	<u>84,494</u>	<u>(45,785)</u>	<u>43,087</u>
Cash balances end year	<u>\$ 3,067</u>	<u>\$ 1,365</u>	<u>\$ 107,386</u>	<u>\$ (45,910)</u>	<u>\$ 65,908</u>

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007**

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<u>Obligation</u>			
General Obligation:			
Fire Truck Bond	Apr 1, 2000	5.80%	\$ 55,000
Sewer Improvement Note	Jun 16, 1998	5.25%	\$ 115,000
Interstate Project Sewer Bond	Sep 14, 2006	3.74% - 3.90%	\$ 500,000
Revenue Bonds:			
Water Revenue Bond	Apr 1, 2001	3.53%	\$ 600,000
Water Improvement Bond	Oct 19, 2001	3.53%	\$ 200,000

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>
\$ 22,000	\$ -0-	\$ 5,500	\$ 16,500	\$ 1,273	\$ 79
27,873	-0-	13,580	14,293	1,463	63
-0-	500,000	60,000	440,000	13,278	1,405
487,000	-0-	25,000	462,000	17,191	1,359
160,000	-0-	8,000	152,000	5,800	441
<u>\$ 696,873</u>	<u>\$ 500,000</u>	<u>\$ 112,080</u>	<u>\$ 1,084,793</u>	<u>\$ 39,005</u>	<u>\$ 3,347</u>

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
BOND AND NOTE MATURITIES
JUNE 30, 2007**

General Obligation Bonds and Note

Year Ended June 30,	Sewer Improvement Note		Fire Truck Bond	
	Issued Jun 16, 1998		Issued Apr 1, 2000	
	Interest Rate	Amount	Interest Rate	Amount
2008	5.25%	\$ 14,293	5.80%	\$ 5,500
2009	--	-0-	5.80%	5,500
2010	--	-0-	5.80%	5,500
2011	--	-0-	--	-0-
2012	--	-0-	--	-0-
2013	--	-0-	--	-0-
Total		\$ <u>14,293</u>		\$ <u>16,500</u>

Year Ended June 30,	Interstate Project Sewer Bond			Total
	Issued Sep 14, 2006			
	Interest Rates	Amount		
2008	3.74% - 3.90%	\$ 65,000	\$	84,793
2009	3.74% - 3.90%	65,000		70,500
2010	3.74% - 3.90%	70,000		75,500
2011	3.74% - 3.90%	75,000		75,000
2012	3.74% - 3.90%	80,000		80,000
2013	3.74% - 3.90%	85,000		85,000
Total		\$ <u>440,000</u>	\$	<u>470,793</u>

Revenue Bonds

Year Ended June 30,	Water Revenue Bond Issued Apr 1, 2001		Water Improvement Bond Issued Oct 19, 2001		Total
	Interest Rate	Amount	Interest Rate	Amount	
2008	3.53%	\$ 26,000	3.53%	\$ 9,000	\$ 35,000
2009	3.53%	27,000	3.53%	9,000	36,000
2010	3.53%	28,000	3.53%	9,000	37,000
2011	3.53%	29,000	3.53%	10,000	39,000
2012	3.53%	30,000	3.53%	10,000	40,000
2013	3.53%	31,000	3.53%	10,000	41,000
2014	3.53%	32,000	3.53%	11,000	43,000
2015	3.53%	33,000	3.53%	11,000	44,000
2016	3.53%	34,000	3.53%	11,000	45,000
2017	3.53%	36,000	3.53%	12,000	48,000
2018	3.53%	37,000	3.53%	12,000	49,000
2019	3.53%	38,000	3.53%	13,000	51,000
2020	3.53%	40,000	3.53%	13,000	53,000
2021	3.53%	41,000	3.53%	12,000	53,000
Total		\$ <u>462,000</u>		\$ <u>152,000</u>	\$ <u>614,000</u>

See Accompanying Independent Auditors' Report

CITY OF SHELBY

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>2007</u>
Receipts:	
Property tax	\$ 78,458
Tax Increment Financing	71,776
Other city taxes	35,700
Licenses and permits	993
Use of money and property	41,218
Intergovernmental	427,174
Charges for services	42,882
Special assessments	4,050
Miscellaneous	<u>36,538</u>
Total	\$ <u>738,789</u>
Disbursements:	
Public safety	\$ 67,563
Public works	86,349
Culture and recreation	44,990
Economic development	151,450
General government	87,726
Debt service	6,773
Capital projects	<u>575,550</u>
Total	\$ <u>1,020,401</u>

See Accompanying Independent Auditor's Report.

INDEPENDENT AUDITORS' 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

MUXFELDT

ASSOCIATES, CPA, P.C.

January 17, 2008

Certified Public Accountant

INDEPENDENT AUDITORS' 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

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

231 W. Lyon
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated January 17, 2008. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Continued...

January 17, 2008

To the Honorable Mayor and
Members of the City Council:

Page Two

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

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items II-A-07 through II-I-07 are all material weaknesses.

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 or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Continued . . .

January 17, 2008

To the Honorable Mayor and
Members of the City Council:

Page Three

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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 interpretation of those statutes.

The City of Shelby's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Shelby's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shelby and other parties to whom the City of Shelby 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.

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

Murphy Associates, CPA, P.C.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- b. The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that with only one full-time clerk and a part-time office employee, segregation of duties among employees is impossible. The City should review its control procedures to obtain the maximum internal control possible under the circumstances. For example, the part-time employee also serves as the City Treasurer and could easily review the receipts listings, bank deposits and postings to ensure procedures are being followed. On the disbursement side, the City Treasurer could review the claims list for completeness and City Council could sign the claims list as an indication of its supervision and approval.

Response - The recommended procedures are easily implemented without additional personnel. We will review our control procedures to incorporate the City Treasurer and City Council in a supervisory role.

Conclusion - Response accepted.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

II-B-07 Accounting Records

Comment - The City's financial records were incomplete both as recorded on the clerk's reports and in the general ledger software package. It was noted that beginning checking, savings, certificate of deposit, and IPAIT account balances were never entered into the Banyon general ledger which resulted in net activity without any articulation with asset and equity accounts. To complicate matters, the clerk's reports also were found to be incomplete with some activity simply not recorded, which understated savings and certificate of deposit balances.

Recommendation - End of the year balances should be entered into the Banyon general ledger, clerk's reports should be formatted and generated from Banyon, and the reliance on Excel generated clerk's reports should be phased out. In addition, all financial transactions of the City should be recorded in the software general ledger and the manual journals should be phased out.

Response - End of year balances will be entered, clerk's reports will be generated by the City's accounting software, and the reliance on the Excel clerk's reports will be phased out.

Conclusion - Response accepted.

II-C-07 Misposting of Community Development Block Grant Funds

Comment - CDBG funds of \$21,236 were posted to the tax increment financing fund instead of the capital projects fund, which resulted in a material misstatement of tax increment financing receipts and capital projects receipts.

Recommendation - The clerk should review procedures to ensure that only tax increment financing revenue gets posted to the urban renewal tax increment financing fund.

Response - Procedures will be reviewed and revised as necessary.

Conclusion - Response accepted.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

II-D-07 General Obligation Principal and Interest Payments

Comment - It was noted that \$45,011 of principal and interest on general obligation debt was paid from the capital projects fund and \$15,043 of principal and interest on the general obligation sewer improvement note was paid from the sewer fund instead of the debt service fund.

Recommendation - The Code of Iowa requires that principal and interest on general obligation bonds be paid from the debt service fund. In similar cases, cities ordinarily transfer the principal and interest amounts from other funds.

Response - Transfers to the debt service fund to cover principal and interest payments general obligation bonds is easily implemented and will be executed in future.

Conclusion - Response accepted.

II-E-07 Unrecorded Receipts Fire Fund

Comment - It was noted that \$18,793 of township fire protection and interest were not posted to the general ledger or recorded on the clerk's reports. The last quarterly bank statement was also missing from the fire fund file.

Recommendation - The clerk should review procedures to ensure that the activity of all savings accounts is recorded timely and consistently. Bank statements should all be retained on file.

Response - Procedures will be reviewed and revised as necessary.

Conclusion - Response accepted.

II-F-07 Overstatement of Fund Balance on Clerk's Report

Comment - It was noted that the general fund balance was overstated by \$90,000 on the clerk's report dated June 30, 2006, appearing both in the checking account balance and the IPAIT account.

Recommendation - As discussed in both II-B-07 and II-H-07, the City needs to phase out reliance on Excel clerk's reports and generate those reports from the accounting software package. The results will be better and consistent financial information that City Council can rely on to make better decisions and to serve the interests of the public.

Response - Procedures will be reviewed and revised as necessary.

Conclusion - Response accepted.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

II-G-07 IPAIT Dividends

Comment - It was noted that \$78,298 of IPAIT dividends were not recorded in the general ledger and were not identifiable on the Annual Financial Report as investment income.

Recommendation - As discussed in II-B-07, the IPAIT funds need to be incorporated into the general ledger and all dividend activity as well as transfers to and from the IPAIT accounts recorded.

Response - After the beginning balances are recorded in the general ledger software, procedures for the recording of dividends and transfers will be implemented.

Conclusion - Response accepted.

II-H-07 Discrepancies in the Monthly Clerk's Reports

Comment - It was noted that there were \$490,776 of discrepancies between the ending fund balances of one month and beginning fund balances of the following month. All discrepancies were resolved to satisfaction. However, discrepancies of this material magnitude highlight the pressing need to abandon reliance on Excel based clerk's reports.

Recommendation - As discussed in II-B-07 and II-F-07, the Excel based clerk's reports should be phased out after a clerk's report from the accounting software is designed and implemented.

Response - This procedure, once implemented, will facilitate month end clerk's reports.

Conclusion - Response accepted.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

II-I-07 Disbursements not supported by invoices

Comment - It was noted during disbursement testing that procedures for authorization of payment and evidence to support disbursements are perilously lax. \$243,500 of disbursements tested lacked invoices or other supporting evidence. \$361,003 of disbursements tested did not appear on claims listing or in the council minutes. These figures represent 12% and 18% of total disbursements and transfers, respectively

Recommendation - A complete listing of all claims should be prepared before every regular city council meeting, including all payroll and payroll liabilities paid since the last meeting as well as contract payments previously approved. In other words, all disbursements should be listed as claims as is the case in most cities. In addition, the city council members should initial or sign the claims listing to indicate their approval and supervision. Finally, every effort should be made to retain evidence that supports the disbursement.

Response - Disbursement procedures will be reviewed and revised as necessary to provide greater assurance that all claims are listed, approved by City Council, and evidence supporting disbursements is retained.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING

III-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the public safety, general government and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The City should incorporate the adopted and amended budget figures into the general ledger and monitor the budget by function more closely. A functional budget report should be formatted and utilized to monitor over-expenditure by function. Given current accounting software, there is little excuse for any City to have budget over-expenditures.

Response - The City will implement your recommendations.

Conclusion - Response accepted.

III-B-07 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.

III-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-07 Business Transactions - There were no business transactions between the City and City officials or employees.

III-E-07 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 that the coverage is adequate for current operations.

III-F-07 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

III-G-07 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the city's investment policy were noted.

III-H-07 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

III-I-07 Financial Condition - At June 30, 2007, the Urban Renewal Tax Increment Financing Fund had a deficit balance of \$4,310. The Debt Service Fund had a deficit balance of \$45,910.

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

Response - The Urban Renewal deficit will be eliminated through the collection of tax increment financing receipts. The City will investigate the reason for the Debt Service deficit and probably eliminate it by a transfer from a fund with available resources.

Conclusion - Response accepted.

CITY OF SHELBY
SHELBY, IOWA 51570

NEWS RELEASE

Muxfeldt Associates, CPA-P.C., 2309 B Chatburn Avenue, Harlan, Iowa, today released an audit report on the City of Shelby, Iowa.

The City's receipts totaled \$1,784,736 for the year ended June 30, 2007, an 83 percent increase from 2006. The receipts included \$78,458 in property tax, \$71,776 from tax increment financing, \$560,441 from charges for services, \$169,804 from operating grants, contributions and restricted interest, \$341,780 from capital grants, contributions and restricted interest, \$35,700 for local option sales tax, \$6,435 from unrestricted interest on investments, \$500,000 from note proceeds, and \$20,342 from miscellaneous receipts.

Disbursements for the year totaled \$1,510,233, a 101 per cent increase from the prior year, and included \$575,550 for capital projects, \$151,450 for community and economic development, and \$87,726 for general government services. Also, disbursements for business type activities totaled \$489,832.

The significant increase in receipts and disbursements is due primarily to the financing and construction of the Interstate Project.

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

