

CITY OF SHELBY

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

JUNE 30, 2008

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**CITY OF SHELBY
OFFICIALS**

(Before January 2008)

<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
Christie Martin	City Clerk	Indefinite
Katie Goshorn	City Attorney	Indefinite
Patricia Morris	City Treasurer	Indefinite

(After January 2008)

Ron Kroll	Mayor	January 2012
Rod Robinson	Mayor Pro-tem/Council Member	January 2012
Craig Davis	Council Member	January 2012
Lucy Schlensig	Council Member	January 2010
Lisa Juhl	Council Member	January 2012
Bob Seitz	Council Member	January 2012
Christie Martin	City Clerk	Indefinite
Katie Goshorn	City Attorney	Indefinite
Patricia Morris	City Treasurer	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 13, 2008

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
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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, 2008, 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, 2008, 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 . . .

August 13, 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 August 13, 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 grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 27 through 29 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. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information 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. Mufflet Associates, CPA, P.C.

CITY OF SHELBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

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, 2008.

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 decreased 4% from June 30, 2007, for a net change of \$47,828 during the year ended June 30, 2008.

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, 2008		Year Ended June 30, 2007
Receipts:			
Program receipts:			
Charges for services	\$ 81,008	\$	50,800
Operating grants, contributions and restricted interest	102,858		135,657
Capital grants, contributions and restricted interest	1,187,670		341,780
General receipts:			
Property tax	121,717		150,234
Local option sales tax	46,200		35,700
Unrestricted investment earnings	4,501		4,855
Miscellaneous	13,983		19,763
Sale of property	827		579
Loan proceeds	120,000		500,000
Total receipts	<u>1,678,764</u>		<u>1,239,368</u>
Disbursements:			
Public safety	55,512		67,563
Public works	185,612		86,349
Culture and recreation	12,008		44,990
Community and economic development	148,769		151,450
General government	118,648		87,726
Debt service	87,916		6,773
Capital projects	1,118,127		575,550
Total disbursements	<u>1,726,592</u>		<u>1,020,401</u>
Change in cash basis net assets before transfers	(47,828)		218,967
Transfers, net	-0-		10,000
Change in cash basis net assets	(47,828)		228,967
Cash basis net assets, beginning of year	<u>1,258,045</u>		<u>1,029,078</u>
Cash basis net assets, end of year	<u>\$ 1,210,217</u>	\$	<u>1,258,045</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cash balances of the City's business type activities increased 7% from June 30, 2007, for a net change of \$27,437 during the year ended June 30, 2008.

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, 2008	Year Ended June 30, 2007
Receipts:		
Program receipts:		
Charges for services and sales:		
Water	\$ 149,968	\$ 127,360
Sewer	60,995	48,226
Electric	441,003	369,782
Total receipts	<u>651,966</u>	<u>545,368</u>
Disbursements:		
Water	176,485	101,800
Sewer	31,178	20,827
Electric	416,866	367,205
Total disbursements	<u>624,529</u>	<u>489,832</u>
Change in cash basis net assets before transfers	27,437	55,536
Transfers, net	-0-	(10,000)
Change in cash basis net assets	<u>27,437</u>	<u>45,536</u>
Cash basis net assets, beginning of year	<u>374,771</u>	<u>329,235</u>
Cash basis net assets, end of year	<u>\$ 402,208</u>	<u>\$ 374,771</u>

Analysis between actual and budget amounts: The City amended its budget on May 6, 2008, increasing both receipts and disbursements by \$291,000 to reflect the activity of the Interstate Project capital projects fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2008, the City had \$1,085,000 in bonds and other long-term debt compared to \$1,084,793 as of June 30, 2007, as shown below.

Outstanding Debt			
	Year Ended June 30, 2008		Year Ended June 30, 2007
General obligation notes	\$ 506,000	\$	470,793
Revenue notes	579,000		614,000
Total	\$ 1,085,000	\$	1,084,793

Scheduled principal and interest payments for the year ended June 30, 2008 were \$119,793 and \$39,415, respectively.

Future financial statement impact: Budgeted receipts for FY 2009 are \$893,161. Budgeted disbursements are \$1,265,844. The budgeted net decrease to cash balances is \$372,683.

Requests for information: Requests for additional information can be made to the Shelby City Clerk, Christie 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, 2008

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 55,512	\$ 24,263	\$ 19,237	\$ -0-
Public works	185,612	39,139	64,628	-0-
Cultures and recreation	12,008	63	473	-0-
Community and economic development	148,769	-0-	-0-	84,023
General government	118,648	17,543	18,520	-0-
Debt service	87,916	-0-	-0-	-0-
Capital projects	1,118,127	-0-	-0-	1,103,647
Total governmental activities	<u>1,726,592</u>	<u>81,008</u>	<u>102,858</u>	<u>1,187,670</u>
Business type activities:				
Water	176,485	143,320	6,532	-0-
Sewer	31,178	48,612	12,383	0-
Electric	416,866	422,979	10,317	-0-
Total business type activities	<u>624,529</u>	<u>614,911</u>	<u>29,232</u>	<u>-0-</u>
Total	\$ <u>2,351,121</u>	\$ <u>695,919</u>	\$ <u>132,090</u>	\$ <u>1,187,670</u>
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				
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				
Debt service				
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
\$ (12,012)	\$ -0-	\$ (12,012)
(81,845)	-0-	(81,845)
(11,472)	-0-	(11,472)
(64,746)	-0-	(64,746)
(82,585)	-0-	(82,585)
(87,916)	-0-	(87,916)
(14,480)	-0-	(14,480)
<u>(355,056)</u>	<u>-0-</u>	<u>(355,056)</u>
-0-	(26,633)	(26,633)
-0-	29,817	29,817
-0-	16,430	16,430
<u>-0-</u>	<u>19,614</u>	<u>19,614</u>
(355,056)	19,614	(335,442)
87,229	-0-	87,229
6,633	-0-	6,633
27,855	-0-	27,855
46,200	-0-	46,200
4,501	2,921	7,422
13,983	-0-	13,983
827	4,902	5,729
<u>120,000</u>	<u>-0-</u>	<u>120,000</u>
<u>307,228</u>	<u>7,823</u>	<u>315,051</u>
(47,828)	27,437	(20,391)
<u>1,258,045</u>	<u>374,771</u>	<u>1,632,816</u>
\$ <u>1,210,217</u>	\$ <u>402,208</u>	\$ <u>1,612,425</u>
\$ 197,905	\$ -0-	\$ 197,905
(23,455)	-0-	(23,455)
(1,834)	45,500	43,666
<u>1,037,601</u>	<u>356,708</u>	<u>1,394,309</u>
\$ <u>1,210,217</u>	\$ <u>402,208</u>	\$ <u>1,612,425</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, 2008

	Special Revenue			
	General	Road Use Tax	Local Option	Fire Fund
Receipts:				
Property tax	\$ 87,229	\$ -0-	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-	-0-
Other city taxes	-0-	-0-	46,200	-0-
Licenses and permits	2,728	-0-	-0-	-0-
Use of money and property	24,221	-0-	-0-	4,148
Intergovernmental	89,023	59,628	-0-	13,013
Charges for service	58,697	-0-	-0-	-0-
Special assessments	7,100	-0-	-0-	-0-
Miscellaneous	27,642	-0-	-0-	-0-
Total receipts	296,640	59,628	46,200	17,161
Disbursements:				
Public safety	55,512	-0-	-0-	-0-
Public works	120,080	65,532	-0-	-0-
Culture and recreation	12,008	-0-	-0-	-0-
Community and economic development	101,769	-0-	-0-	-0-
General government	118,648	-0-	-0-	-0-
Debt service	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-
Total disbursements	408,017	65,532	-0-	-0-
Excess (deficiency) of receipts over (under) disbursements	(111,377)	(5,904)	46,200	17,161
Other financing sources (uses):				
Sale of assets	827	-0-	-0-	-0-
Loan proceeds	120,000	-0-	-0-	-0-
Operating transfer in	-0-	-0-	-0-	-0-
Operating transfer out	(6,459)	-0-	(45,672)	-0-
Total other financing sources (uses)	114,368	-0-	-0-	-0-
Net change in cash balances	2,991	(5,904)	528	17,161
Cash balances, beginning of year	565,219	203,809	228,524	107,386
Cash balances, end of year	\$ 568,210	\$ 197,905	\$ 229,052	\$ 124,547

See notes to financial statements.

EXHIBIT A

Capital Project Interstate	Non-major	Total
\$ -0-	\$ 6,633	\$ 93,862
-0-	27,855	27,855
-0-	-0-	46,200
-0-	-0-	2,728
4,351	173	32,893
1,099,296	-0-	1,260,960
-0-	-0-	58,697
-0-	-0-	7,100
-0-	-0-	27,642
1,103,647	34,661	1,557,937
-0-	-0-	55,512
-0-	-0-	185,612
-0-	-0-	12,008
-0-	47,000	148,769
-0-	-0-	118,648
-0-	87,916	87,916
1,118,127	-0-	1,118,127
1,118,127	134,916	1,726,592
(14,480)	(100,255)	(168,655)
-0-	-0-	827
-0-	-0-	120,000
-0-	125,359	125,359
(73,228)	-0-	(125,359)
(73,228)	125,359	120,827
(87,708)	25,104	(47,828)
198,895	(45,788)	1,258,045
\$ 111,187	\$ (20,684)	\$ 1,210,217

CITY OF SHELBY

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for services	\$ 141,820	\$ 48,612	\$ 421,369	\$ 611,801
Operating disbursements:				
Business type activities	120,236	31,178	416,866	568,280
Excess (deficiency) of operating receipts over (under) operating disbursements	21,584	17,434	4,503	43,521
Non-operating receipts (disbursements)				
Customer deposits	1,500	-0-	1,610	3,110
Debt service	(56,249)	-0-	-0-	(56,249)
Interest on investments	6,648	12,383	13,122	32,153
Net non-operating	(48,101)	12,383	14,732	(20,986)
Excess (deficiency) of receipts over (under) disbursements	(26,517)	29,817	19,235	22,535
Other financing sources:				
Sale of assets	-0-	-0-	4,902	4,902
Net change in cash balances	(26,517)	29,817	24,137	27,437
Cash balances, beginning of year	70,555	61,394	242,822	374,771
Cash balances, end of year	\$ 44,038	\$ 91,211	\$ 266,959	\$ 402,208

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008

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 Fire Fund is used to account for resources accumulated for use by the fire department.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008, disbursements exceeded the amounts budgeted in the public works, general government and capital projects functions.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008, 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, 2008, the City's deposits consisted of cash in bank and certificates of deposit as follows:

Cash in bank	\$	159,323
Certificates of deposit		<u>155,359</u>
Total	\$	<u>314,682</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,297,743 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, 2008

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
2009	\$ 70,500	15,061	\$ 36,000	20,582
2010	75,500	12,292	37,000	19,307
2011	87,000	14,098	39,000	17,996
2012	92,000	10,731	40,000	16,615
2013	97,000	7,155	41,000	15,198
2014	12,000	3,360	43,000	13,745
2015	12,000	2,880	44,000	12,222
2016	12,000	2,400	45,000	10,663
2017	12,000	1,920	48,000	10,069
2018	12,000	1,440	49,000	7,369
2019	12,000	960	51,000	5,633
2020	12,000	480	53,000	3,825
2021	-0-	-0-	53,000	1,948
Total	\$ <u>506,000</u>	\$ <u>72,777</u>	\$ <u>579,000</u>	<u>155,172</u>

Year Ending June 30,	Total	
	Principal	Interest
2009	\$ 106,500	\$ 35,643
2010	112,500	31,599
2011	126,000	32,094
2012	132,000	27,346
2013	138,000	22,353
2014	55,000	17,105
2015	56,000	15,102
2016	57,000	13,063
2017	60,000	11,989
2018	61,000	8,809
2019	63,000	6,593
2020	65,000	4,305
2021	53,000	1,948
Total	\$ <u>1,085,000</u>	\$ <u>227,949</u>

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008, \$8,228 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 water 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 a water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

Rural Economic Development Loan

The City of Shelby is the guarantor of a loan between the Shelby Economic Development Corporation and the Nishnabotna Valley Rural Development Corporation of Harlan, Iowa. The purpose of the loan was to finance dirt work, grading and further development of the Industrial Park site in Shelby, Iowa. The ten year loan has an interest rate ceiling of 4.00% and an optional repayment deferral period up to twenty-four months or until the first lot is sold whichever occurs first. The Nishnabotna Valley Rural Development Corporation holds the mortgage on the ten acre Industrial Park site.

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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008 and 2007 were \$6,007 and \$5,373, respectively, equal to the required contribution for each year.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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, 2008, primarily relating to the Water Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,420
Compensatory time	<u>177</u>
Total	<u>\$ 6,597</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

NOTE 6 RELATED PARTY TRANSACTIONS

There were no business transactions between the City and City officials during the year ended June 30, 2008.

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, 2008, disbursements in the public works, general government and capital projects functions exceeded amounts budgeted.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 6,459
Debt Service	Local Option Tax	45,672
Debt Service	Capital Projects	<u>73,228</u>
Total		<u>\$ 125,359</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, 2008 is as follows:

Fund	Amount
Debt Service	\$ 1,834
Urban Renewal Tax Increment Financing	<u>23,455</u>
Total	<u>\$ 25,289</u>

The special revenue, urban renewal tax increment financing fund had a deficit balance at June 30, 2008 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 will be eliminated by the receipt of taxes and transfers from other funds with available resources.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 STATISTICAL INFORMATION

	<u>For the year ended June 30, 2008</u>	
Gallons of water billed	19,302,668	73%
Gallons of water unaccounted for	<u>7,050,332</u>	<u>27%</u>
Gallons of water pumped	<u>26,353,000</u>	<u>100%</u>

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, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 93,862	\$ -0-
Tax increment financing	27,855	-0-
Other city tax	46,200	-0-
Licenses and permits	2,728	-0-
Use of money and permits	32,893	32,153
Intergovernmental	1,260,960	-0-
Charges for services	58,697	614,911
Special assessments	7,100	-0-
Miscellaneous	27,642	-0-
Total receipts	<u>1,557,937</u>	<u>647,064</u>
Disbursements:		
Public safety	55,512	-0-
Public works	185,612	-0-
Culture and recreation	12,008	-0-
Community and economic development	148,769	-0-
General government	118,648	-0-
Debt service	87,916	-0-
Capital projects	1,118,127	-0-
Business type activities	-0-	624,529
Total disbursements	<u>1,726,592</u>	<u>624,529</u>
Excess (deficiency) of receipts over (under) disbursements	(168,655)	22,535
Other financing sources, net	<u>120,827</u>	<u>4,902</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(47,828)	27,437
Balances beginning of year	<u>1,258,045</u>	<u>374,771</u>
Balances end of year	<u>\$ 1,210,217</u>	<u>\$ 402,208</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 93,862	\$ 92,065	\$ 92,065	\$ 1,797
27,855	27,000	27,000	855
46,200	45,724	45,724	476
2,728	400	400	2,328
65,046	34,000	34,000	31,046
1,260,960	82,800	171,800	1,089,160
673,608	602,900	602,900	70,708
7,100	-0-	-0-	7,100
27,642	-0-	20,000	7,642
<u>2,205,001</u>	<u>884,889</u>	<u>993,889</u>	<u>1,211,112</u>
55,512	43,200	63,200	7,688
185,612	180,000	180,000	(5,612)
12,008	22,650	22,650	10,642
148,769	97,750	280,750	131,981
118,648	79,700	99,700	(18,948)
87,916	88,774	88,774	858
1,118,127	-0-	68,000	(1,050,127)
624,529	673,893	673,893	49,364
<u>2,351,121</u>	<u>1,185,967</u>	<u>1,476,967</u>	<u>(874,154)</u>
(146,120)	(301,078)	(483,078)	336,958
<u>125,729</u>	<u>-0-</u>	<u>182,000</u>	<u>(56,271)</u>
(20,391)	(301,078)	(301,078)	280,687
<u>1,632,816</u>	<u>1,632,816</u>	<u>1,632,816</u>	<u>-0-</u>
\$ <u>1,612,425</u>	\$ <u>1,331,738</u>	\$ <u>1,331,738</u>	\$ <u>280,687</u>

CITY OF SHELBY

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

JUNE 30, 2008

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 \$291,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works, 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, 2008

	Special Revenue				Total
	Ed Nelson Scholarship Fund	Nielsen Memorial Fund	Tax Increment Financing	Debt Service	
Receipts:					
Property taxes	\$ -0-	\$ -0-	\$ -0-	\$ 6,633	\$ 6,633
Tax increment financing	-0-	-0-	27,855	-0-	27,855
Use of money and property	124	49	-0-	-0-	173
Total receipts	<u>124</u>	<u>49</u>	<u>27,855</u>	<u>6,633</u>	<u>34,661</u>
Disbursements:					
Operations:					
Community and economic dev	-0-	-0-	47,000	-0-	47,000
Debt service	-0-	-0-	-0-	87,916	87,916
Total disbursements	<u>-0-</u>	<u>-0-</u>	<u>47,000</u>	<u>87,916</u>	<u>134,916</u>
Excess (deficiency) of receipts over (under) disbursements	124	49	(19,145)	(81,283)	(100,255)
Other financing sources					
Operating transfer in	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>125,359</u>	<u>125,359</u>
Net change in cash balances	124	49	(19,145)	44,076	25,104
Cash balances beginning of year	<u>3,067</u>	<u>1,365</u>	<u>(4,310)</u>	<u>(45,910)</u>	<u>(45,788)</u>
Cash balances end year	<u>\$ 3,191</u>	<u>\$ 1,414</u>	<u>\$ (23,455)</u>	<u>\$ (1,834)</u>	<u>\$ (20,684)</u>

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2008**

	<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
Rural Economic Development Loan	Sep 10, 2007	4.00%	\$ 120,000
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>
\$ 16,500	\$ -0-	\$ 5,500	\$ 11,000	\$ 957	\$ 49
14,293	-0-	14,293	-0-	750	-0-
440,000		65,000	375,000	16,456	1,067
-0-	120,000	-0-	120,000	-0-	-0-
462,000	-0-	26,000	436,000	16,309	1,283
<u>152,000</u>	<u>-0-</u>	<u>9,000</u>	<u>143,000</u>	<u>4,943</u>	<u>414</u>
\$ <u>1,084,793</u>	\$ <u>120,000</u>	\$ <u>119,793</u>	\$ <u>1,085,000</u>	\$ <u>39,415</u>	\$ <u>2,813</u>

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
BOND AND NOTE MATURITIES
JUNE 30, 2008**

General Obligation Bonds and Note

Year Ended June 30,	Rural Economic Development Loan Issued Sep 10, 2007		Fire Truck Bond Issued Apr 1, 2000	
	Interest		Interest	
	Rate	Amount	Rate	Amount
2009	--	\$ -0-	5.80%	\$ 5,500
2010	--	-0-	5.80%	5,500
2011	4.00%	12,000	--	-0-
2012	4.00%	12,000	--	-0-
2013	4.00%	12,000	--	-0-
2014	4.00%	12,000	--	-0-
2015	4.00%	12,000	--	-0-
2016	4.00%	12,000	--	-0-
2017	4.00%	12,000	--	-0-
2018	4.00%	12,000	--	-0-
2019	4.00%	12,000	--	-0-
2020	4.00%	12,000	--	-0-
Total		\$ <u>120,000</u>		\$ <u>11,000</u>

Year Ended June 30,	Interstate Project Sewer Bond Issued Sep 14, 2006			Total
	Interest			
	Rates	Amount		
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		87,000
2012	3.74% - 3.90%	80,000		92,000
2013	3.74% - 3.90%	85,000		97,000
2014	--	-0-		12,000
2015	--	-0-		12,000
2016	--	-0-		12,000
2017	--	-0-		12,000
2018	--	-0-		12,000
2019	--	-0-		12,000
2020	--	-0-		12,000
Total		\$ <u>375,000</u>	\$	<u>506,000</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	
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>436,000</u>		\$ <u>143,000</u>	\$ <u>579,000</u>

See Accompanying Independent Auditors' Report.

CITY OF SHELBY
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE TWO YEARS

	<u>2008</u>	<u>2007</u>
Receipts:		
Property tax	\$ 93,862	\$ 78,458
Tax Increment Financing	27,855	71,776
Other city taxes	46,200	35,700
Licenses and permits	2,728	993
Use of money and property	32,893	41,218
Intergovernmental	1,260,960	427,174
Charges for services	58,697	42,882
Special assessments	7,100	4,050
Miscellaneous	27,642	36,538
	<u>1,557,937</u>	<u>738,789</u>
Total	\$ <u>1,557,937</u>	\$ <u>738,789</u>
Disbursements:		
Public safety	\$ 55,512	\$ 67,563
Public works	185,612	86,349
Culture and recreation	12,008	44,990
Economic development	148,769	151,450
General government	118,648	87,726
Debt service	87,916	6,773
Capital projects	1,118,127	575,550
	<u>1,726,592</u>	<u>1,020,401</u>
Total	\$ <u>1,726,592</u>	\$ <u>1,020,401</u>

See Accompanying Independent Auditor's Report.

CITY OF SHELBY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Grantor/Program	CFDA Number	Agency Pass-thorough Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Metropolitan Area Planning Agency:			
Community Development Block Grants/ States Program	14.228	05-PF-003	\$ 1,054,296
Iowa Department of Economic Development:			
Southwest Iowa Planning Council:			
Community Development Block Grants/ Home Investment Partnership Program	14.239	06-HM-125-69	\$ <u>38,438</u>
Total			\$ <u>1,092,734</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Shelby and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditor's Report.

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.

Certified Public Accountant

August 13, 2008

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

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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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated August 13, 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 . . .

August 13, 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-08 and II-B-8 are 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. . .

August 13, 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, 2008 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 13, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

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To the Honorable Mayor and
Members of the City Council:

Compliance

I have audited the compliance of the City of Shelby with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Shelby's major programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Shelby's management. My responsibility is to express an opinion on the City of Shelby's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shelby's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Shelby's compliance with those requirements.

Continued . . .

August 13, 2008
To the Honorable Mayor and
Members of the City Council:
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In my opinion, the City of Shelby complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Shelby is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Shelby's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Shelby's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Muxflat Associates, CPA, P.C.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. No significant deficiencies in internal control over major programs were disclosed in the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- f. The audit disclosed no findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Shelby did not qualify as a low-risk auditee.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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, 2008**

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

II-B-08 Accounting Records

Comment - The City's financial records understated sewer checking balance by \$54,311. In addition, the checking account per the general ledger was not reconciled to the bank statements during the year ended June 30, 2008. The clerk's report, however, was reconciled to the bank statements monthly. The understatement resulted from an omission when the beginning of the year balances were entered. The understatement was identified and corrected.

Recommendation - The checking account balances per the general ledger should be reconciled to the bank statements monthly.

Response - Reconciliations will be performed and documented in the future.

Conclusion - Response accepted.

II-C-08 General Obligation Principal and Interest Payments

Comment - It was noted that \$8,228 of 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 water 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.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

PART III FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES

No matters were noted.

PART IV OTHER FINDINGS RELATED TO STATUTORY REPORTING

- IV-A-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the public works, 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 - It was noted that the City monitors the budget by outdated programs instead of current functions. A budget report should be formatted and utilized to monitor over-expenditure by function instead of the old programs. 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.

- IV-B-08 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.
- IV-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-08 Business Transactions - There were no business transactions between the City and City officials or employees.
- IV-E-08 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.

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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

IV-F-08 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not. It was noted, however, that the November through June minutes were not signed by the City Clerk.

IV-G-08 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.

IV-H-08 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

IV-I-08 Financial Condition - At June 30, 2008, the Urban Renewal Tax Increment Financing Fund had a deficit balance of \$23,455. The Debt Service Fund had a deficit balance of \$1,834.

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 Debt Service deficit will be eliminated through the collection of property tax receipts.

Conclusion - Response accepted.

