

CITY OF SHELBY

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

JUNE 30, 2009

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**CITY OF SHELBY
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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, 2009

Lonnie G. Muxfeldt

Certified Public
Accountant

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Independent Auditor's Report

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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City'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, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

Member of American Institute of Certified Public Accountants,
Iowa Society of CPA's and AICPA Private Companies Practice Section

August 13, 2009

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, 2009 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 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. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2008 and 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 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.

Murphy Associates, CPA, P.C.

CITY OF SHELBY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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, 2009.

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 2% from June 30, 2008, for a net change of \$30,228 during the year ended June 30, 2009.

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, 2009	Year Ended June 30, 2008
Receipts:		
Program receipts:		
Charges for services	\$ 89,096	\$ 81,008
Operating grants, contributions and restricted interest	78,837	102,858
Capital grants, contributions and restricted interest	71,667	1,187,670
General receipts:		
Property tax	111,973	93,862
Tax increment financing	280,309	27,855
Local option sales tax	44,991	46,200
Unrestricted investment earnings	4,356	4,501
Miscellaneous	-0-	13,983
Sale of property	-0-	827
Loan proceeds	-0-	120,000
Total receipts	681,229	1,678,764
Disbursements:		
Public safety	79,611	55,512
Public works	171,170	185,612
Culture and recreation	27,035	12,008
Community and economic development	101,711	148,769
General government	50,507	118,648
Debt service	150,281	87,916
Capital projects	70,686	1,118,127
Total disbursements	651,001	1,726,592
Change in cash basis net assets	30,228	(47,828)
Cash basis net assets, beginning of year	1,210,217	1,258,045
Cash basis net assets, end of year	\$ 1,240,445	\$ 1,210,217

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cash balances of the City's business type activities increased 1.6% from June 30, 2008, for a net change of \$6,376 during the year ended June 30, 2009.

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, 2009	Year Ended June 30, 2008
Receipts:		
Program receipts:		
Charges for services and sales:		
Water	\$ 129,995	\$ 149,968
Sewer	58,675	60,995
Electric	476,615	441,003
Total receipts	<u>665,285</u>	<u>651,966</u>
Disbursements:		
Water	173,338	176,485
Sewer	20,598	31,178
Electric	464,973	416,866
Total disbursements	<u>658,909</u>	<u>624,529</u>
Change in cash basis net assets	6,376	27,437
Cash basis net assets, beginning of year	<u>402,208</u>	<u>374,771</u>
Cash basis net assets, end of year	<u>\$ 408,584</u>	<u>\$ 402,208</u>

Analysis between actual and budget amounts: The City amended its budget on May 5, 2009, increasing both receipts and disbursements by \$277,869 to reflect primarily increases in tax increment financing receipts and CDBG Housing Grants and increases in debt service and general government expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2009, the City had \$913,500 in bonds and other long-term debt compared to \$1,085,000 as of June 30, 2008, as shown below.

<u>Outstanding Debt</u>			
	<u>Year Ended</u>		<u>Year Ended</u>
	<u>June 30,</u>		<u>June 30,</u>
	<u>2009</u>		<u>2008</u>
General obligation notes	\$	370,500	\$ 506,000
Revenue notes		<u>543,000</u>	<u>579,000</u>
Total	\$	<u>913,500</u>	\$ <u>1,085,000</u>

Scheduled principal and interest payments for the year ended June 30, 2009 were \$171,500 and \$35,037, respectively.

Future financial statement impact: Budgeted receipts for FY 2010 are \$1.26 million. Budgeted disbursements are \$1.52 million. The budgeted net decrease to cash balances is \$260,000.

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, 2009

	Disbursements	Program Receipts		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 79,611	\$ 35,635	\$ 970	\$ -0-
Public works	171,170	34,966	57,749	-0-
Cultures and recreation	27,035	-0-	9,826	-0-
Community and economic development	101,711	-0-	-0-	67,199
General government	50,507	18,495	10,292	-0-
Debt service	150,281	-0-	-0-	-0-
Capital projects	70,686	-0-	-0-	4,468
Total governmental activities	651,001	89,096	78,837	71,667
Business type activities:				
Water	173,338	127,806	-0-	-0-
Sewer	20,598	56,644	2,031	0-
Electric	464,973	471,858	3,458	-0-
Total business type activities	658,909	656,308	5,489	-0-
Total	\$ 1,309,910	\$ 745,404	\$ 84,326	\$ 71,667
General receipts:				
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
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.

EXHIBIT A

Net (Disbursements), Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (43,006)	\$ -0-	\$ (43,006)
(78,455)	-0-	(78,455)
(17,209)	-0-	(17,209)
(34,512)	-0-	(34,512)
(21,720)	-0-	(21,720)
(150,281)	-0-	(150,281)
(66,218)	-0-	(66,218)
<u>(411,401)</u>	<u>-0-</u>	<u>(411,401)</u>
-0-	(45,532)	(45,532)
-0-	38,077	38,077
-0-	10,343	10,343
<u>-0-</u>	<u>2,888</u>	<u>2,888</u>
(411,401)	2,888	(408,513)
105,976	-0-	105,976
5,997	-0-	5,997
280,309	-0-	280,309
44,991	-0-	44,991
4,356	3,488	7,844
<u>441,629</u>	<u>3,488</u>	<u>445,117</u>
30,228	6,376	36,604
<u>1,210,217</u>	<u>402,208</u>	<u>1,612,425</u>
\$ <u>1,240,445</u>	\$ <u>408,584</u>	\$ <u>1,649,029</u>
\$ 152,041	\$ -0-	\$ 152,041
101,974	-0-	101,974
-0-	45,500	45,500
986,430	363,084	1,349,514
\$ <u>1,240,445</u>	\$ <u>408,584</u>	\$ <u>1,649,029</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, 2009

	Special Revenue			
	General	Road Use Tax	Local Option	TIF Urban Renewal
Receipts:				
Property tax	\$ 105,976	\$ -0-	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-	280,309
Other city taxes	3,855	-0-	44,991	-0-
Licenses and permits	1,206	-0-	-0-	-0-
Use of money and property	12,639	-0-	-0-	-0-
Intergovernmental	67,199	57,747	-0-	-0-
Charges for service	44,246	-0-	-0-	-0-
Special assessments	3,000	-0-	-0-	-0-
Miscellaneous	14,456	-0-	-0-	-0-
Total receipts	<u>252,577</u>	<u>57,747</u>	<u>44,991</u>	<u>280,309</u>
Disbursements:				
Public safety	79,611	-0-	-0-	-0-
Public works	67,559	103,611	-0-	-0-
Culture and recreation	26,935	-0-	-0-	-0-
Community and economic development	87,202	-0-	5,000	8,762
General government	50,507	-0-	-0-	-0-
Debt service	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-
Total disbursements	<u>311,814</u>	<u>103,611</u>	<u>5,000</u>	<u>8,762</u>
Excess (deficiency) of receipts over (under) disbursements	(59,237)	(45,864)	39,991	271,547
Other financing sources (uses):				
Operating transfer in	50,749	-0-	-0-	-0-
Operating transfer out	-0-	-0-	-0-	(146,118)
Total other financing sources (uses)	<u>50,749</u>	<u>-0-</u>	<u>-0-</u>	<u>(146,118)</u>
Net change in cash balances	(8,488)	(45,864)	39,991	125,429
Cash balances, beginning of year	<u>568,210</u>	<u>197,905</u>	<u>229,052</u>	<u>(23,455)</u>
Cash balances, end of year	\$ <u>559,722</u>	\$ <u>152,041</u>	\$ <u>269,043</u>	\$ <u>101,974</u>

See notes to financial statements.

EXHIBIT A

Fire Fund	Debt Service	Capital Project Interstate	Non-major	Total
\$ -0-	\$ 5,997	\$ -0-	\$ -0-	\$ 111,973
-0-	-0-	-0-	-0-	280,309
-0-	-0-	-0-	-0-	48,846
-0-	-0-	-0-	-0-	1,206
956	-0-	1,125	106	14,826
20,257	-0-	3,344	-0-	148,547
-0-	-0-	-0-	13,820	58,066
-0-	-0-	-0-	-0-	3,000
-0-	-0-	-0-	-0-	14,456
21,213	5,997	4,469	13,926	681,229
-0-	-0-	-0-	-0-	79,611
-0-	-0-	-0-	-0-	171,170
-0-	-0-	-0-	100	27,035
-0-	-0-	-0-	747	101,711
-0-	-0-	-0-	-0-	50,507
-0-	150,281	-0-	-0-	150,281
-0-	-0-	70,686	-0-	70,686
-0-	150,281	70,686	847	651,001
21,213	(144,284)	(66,217)	13,079	30,228
-0-	146,118	140,000	-0-	336,867
(50,749)	-0-	(140,000)	-0-	(336,867)
(50,749)	146,118	-0-	-0-	-0-
(29,536)	1,834	(66,217)	13,079	30,228
124,547	(1,834)	111,187	4,605	1,210,217
\$ 95,011	\$ -0-	\$ 44,970	\$ 17,684	\$ 1,240,445

CITY OF SHELBY

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for services	\$ 126,289	\$ 56,644	\$ 470,360	\$ 653,293
Operating disbursements:				
Business type activities	<u>117,082</u>	<u>20,598</u>	<u>464,973</u>	<u>602,653</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	9,207	36,046	5,387	50,640
Non-operating receipts (disbursements)				
Customer deposits	1,517	-0-	1,498	3,015
Debt service	(56,256)	-0-	-0-	(56,256)
Interest on investments	2,189	2,031	4,757	8,977
Net non-operating	<u>(52,550)</u>	<u>2,031</u>	<u>6,255</u>	<u>(44,264)</u>
Net change in cash balances	(43,343)	38,077	11,642	6,376
Cash balances, beginning of year	<u>44,038</u>	<u>91,211</u>	<u>266,959</u>	<u>402,208</u>
Cash balances, end of year	\$ <u><u>695</u></u>	\$ <u><u>129,288</u></u>	\$ <u><u>278,601</u></u>	\$ <u><u>408,584</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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, 2009

(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 Fund is used to account for tax increment financing receipts.

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

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

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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, 2009, disbursements exceeded the amounts budgeted in the community and economic development function.

CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(2) Cash and Pooled Investments

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

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

At June 30, 2009, the City's deposits consisted of cash in bank and certificates of deposit as follows:

Cash in bank	\$	137,758
Certificates of deposit		<u>155,393</u>
Total	\$	<u>293,151</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,355,878 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, 2009

(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
2010	\$ 10,500	\$ 9,809	\$ 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>370,500</u>	\$ <u>55,233</u>	\$ <u>543,000</u>	\$ <u>134,590</u>

Year Ending June 30,	Total	
	Principal	Interest
2010	\$ 47,500	\$ 29,116
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>913,500</u>	\$ <u>189,823</u>

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(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.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.1% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2009, 2008 and 2007 were \$6,629, \$6,007 and \$5,373, respectively, equal to the required contribution for each year.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(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, 2009, primarily relating to the Water Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 5,981
Compensatory time	<u>345</u>
Total	<u>\$ 6,326</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,632 during the year ended June 30, 2009.

(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.

(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, 2009, disbursements in the community and economic development function exceeded amounts budgeted.

**CITY OF SHELBY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(9) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue - Fire Fund	\$ 50,749
Capital Projects	Special Revenue - TIF	140,000
Debt Service	Capital Projects	140,000
Debt Service	Special Revenue - TIF	<u>6,118</u>
Total		<u>\$ 336,867</u>

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

(10) Statistical Information

	For the year ended June 30, 2009	
Gallons of water billed	19,981,964	81%
Gallons of water unaccounted for	<u>4,766,036</u>	<u>19%</u>
Gallons of water pumped	<u>24,748,000</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, 2009

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 111,973	\$ -0-
Tax increment financing	280,309	-0-
Other city tax	48,846	-0-
Licenses and permits	1,206	-0-
Use of money and permits	14,826	8,977
Intergovernmental	148,547	-0-
Charges for services	58,066	656,308
Special assessments	3,000	-0-
Miscellaneous	14,456	-0-
Total receipts	<u>681,229</u>	<u>665,285</u>
Disbursements:		
Public safety	79,611	-0-
Public works	171,170	-0-
Culture and recreation	27,035	-0-
Community and economic development	101,711	-0-
General government	50,507	-0-
Debt service	150,281	-0-
Capital projects	70,686	-0-
Business type activities	-0-	658,909
Total disbursements	<u>651,001</u>	<u>658,909</u>
Excess (deficiency) of receipts over (under) disbursements	30,228	6,376
Other financing sources, net	<u>-0-</u>	<u>-0-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	30,228	6,376
Balances beginning of year	<u>1,210,217</u>	<u>402,208</u>
Balances end of year	\$ <u>1,240,445</u>	\$ <u>408,584</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final	Final to Total Variance
	Original			
\$ 111,973	\$ 111,592	\$ 111,592	\$ 381	
280,309	-0-	160,000	120,309	
48,846	45,729	85,729	(36,883)	
1,206	400	400	806	
23,803	37,000	37,000	(13,197)	
148,547	76,440	146,983	1,564	
714,374	617,000	617,000	97,374	
3,000	2,000	2,000	1,000	
14,456	3,000	3,000	11,456	
<u>1,346,514</u>	<u>893,161</u>	<u>1,163,704</u>	<u>182,810</u>	
79,611	110,200	110,200	30,589	
171,170	237,000	237,000	65,830	
27,035	50,650	90,650	63,615	
101,711	2,000	30,000	(71,711)	
50,507	63,200	63,200	12,693	
150,281	86,144	158,213	7,932	
70,686	-0-	137,800	67,114	
658,909	716,650	716,650	57,741	
<u>1,309,910</u>	<u>1,265,844</u>	<u>1,543,713</u>	<u>233,803</u>	
36,604	(372,683)	(380,009)	416,613	
<u>-0-</u>	<u>-0-</u>	<u>7,326</u>	<u>(7,326)</u>	
36,604	(372,683)	(372,683)	409,287	
<u>1,612,425</u>	<u>1,612,425</u>	<u>1,612,425</u>	<u>-0-</u>	
\$ <u>1,649,029</u>	\$ <u>1,239,742</u>	\$ <u>1,239,742</u>	\$ <u>409,287</u>	

CITY OF SHELBY

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

JUNE 30, 2009

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds 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 \$277,869. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development function.

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, 2009

	Special Revenue				Total
	Ed Nelson Scholarship Fund	Nielsen Memorial Fund	Economic Development	Ambulance Fund	
Receipts:					
Use of money and property	\$ 59	\$ 33	\$ -0-	\$ 14	\$ 106
Charges for services	-0-	-0-	-0-	13,820	13,820
Total receipts	<u>59</u>	<u>33</u>	<u>-0-</u>	<u>13,834</u>	<u>13,926</u>
Disbursements:					
Operations:					
Culture and recreation	(100)	-0-	-0-	-0-	(100)
Community and economic dev	-0-	-0-	(747)	-0-	(747)
Total disbursements	<u>(100)</u>	<u>-0-</u>	<u>(747)</u>	<u>-0-</u>	<u>(847)</u>
Excess (deficiency) of receipts over (under) disbursements	(41)	33	(747)	13,834	13,079
Other financing sources					
Operating transfer in	-0-	-0-	-0-	-0-	-0-
Net change in cash balances	(41)	33	(747)	13,834	13,079
Cash balances beginning of year	<u>3,191</u>	<u>1,414</u>	<u>-0-</u>	<u>-0-</u>	<u>4,605</u>
Cash balances end year	<u>\$ 3,150</u>	<u>\$ 1,447</u>	<u>\$ (747)</u>	<u>\$ 13,834</u>	<u>\$ 17,684</u>

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2009**

	<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
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>
\$ 11,000	\$ -0-	\$ 5,500	\$ 5,500	\$ 643	\$ 27
375,000		130,000	245,000	14,138	998
120,000	-0-	-0-	120,000	-0-	-0-
436,000	-0-	27,000	409,000	15,192	1,203
<u>143,000</u>	<u>-0-</u>	<u>9,000</u>	<u>134,000</u>	<u>5,064</u>	<u>335</u>
<u>\$ 1,085,000</u>	<u>\$ -0-</u>	<u>\$ 171,500</u>	<u>\$ 913,500</u>	<u>\$ 35,037</u>	<u>\$ 2,563</u>

See Accompanying Independent Auditor's Report.

**CITY OF SHELBY
BOND AND NOTE MATURITIES
JUNE 30, 2009**

General Obligation Bonds and Note

Year Ended June 30,	Rural Economic Development Loan		Fire Truck Bond	
	Issued Sep 10, 2007		Issued Apr 1, 2000	
	Interest Rate	Amount	Interest Rate	Amount
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>5,500</u>

Year Ended June 30,	Interstate Project Sewer Bond		Total
	Interest Rates	Amount	
2010	3.74% - 3.90%	\$ 5,000	\$ 10,500
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>245,000</u>	\$ <u>370,500</u>

Revenue Bonds

Year Ended June 30,	Water Revenue Bond		Water Improvement Bond		Total
	Issued Apr 1, 2001		Issued Oct 19, 2001		
	Interest Rate	Amount	Interest Rate	Amount	
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>409,000</u>		\$ <u>134,000</u>	\$ <u>543,000</u>

See Accompanying Independent Auditors' Report.

CITY OF SHELBY

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

FOR THE LAST THREE YEARS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:			
Property tax	\$ 111,973	\$ 93,862	\$ 78,458
Tax Increment Financing	280,309	27,855	71,776
Other city taxes	48,846	46,200	35,700
Licenses and permits	1,206	2,728	993
Use of money and property	14,826	32,893	41,218
Intergovernmental	148,547	1,260,960	427,174
Charges for services	58,066	58,697	42,882
Special assessments	3,000	7,100	4,050
Miscellaneous	14,456	27,642	36,538
Total	\$ <u>681,229</u>	\$ <u>1,557,937</u>	\$ <u>738,789</u>
Disbursements:			
Public safety	\$ 79,611	\$ 55,512	\$ 67,563
Public works	171,170	185,612	86,349
Culture and recreation	27,035	12,008	44,990
Economic development	101,711	148,769	151,450
General government	50,507	118,648	87,726
Debt service	150,281	87,916	6,773
Capital projects	70,686	1,118,127	575,550
Total	\$ <u>651,001</u>	\$ <u>1,726,592</u>	\$ <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.

Certified Public Accountant

August 13, 2009

Lonnie G. Muxfeldt
Certified Public
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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

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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated August 13, 2009. 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 . . .

Member of American Institute of Certified Public Accountants,
Iowa Society of CPA's and AICPA's Private Companies Practice Section

August 13, 2009

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-09 and II-C-09 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, 2009

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, 2009 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.

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

CITY OF SHELBY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

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.

PART II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

II-A-09 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, 2009**

PART II: Findings Related to the Financial Statements (Continued)

II-B-09 Incomplete Accounting Records

Comment - The City's financial records understated interest, fees and savings account balances by \$30,433. The understatement was identified and corrected.

Recommendation - Transactions affecting savings and IPAIT accounts should be recorded as statements are received. General ledger balances should be compared to statements before filing them away.

Response - Procedures will be adopted as recommended.

Conclusion - Response accepted.

II-C-09 Unrecorded Transfer

Comment - It was noted that a \$144,138 transfer from the urban renewal fund to the debt service fund was not recorded for the year ended June 30, 2009. The oversight resulted in a potential deficit balance in the debt service fund. Adjustments were subsequently made to correctly report transfers and fund balances in the City's financial statements.

Recommendation - Tax increment financing funds the payments of principal and interest on the general obligation sewer bonds of the Interstate Project. Amounts equivalent to the principal and interest payments should be transferred to the debt service fund each year. Transfers should always be approved by Council resolution.

Response - The appropriate transfer will be authorized and recorded 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, 2009**

PART III Other Findings Related to Statutory Reporting

III-A-09 Certified Budget - Disbursements during the year ended June 30, 2009, exceeded the amounts budgeted in the community and economic function. 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 budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City will be amended in the future, if applicable.

Conclusion - Response accepted.

III-B-09 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-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-09 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ron Kroll, Mayor, Owner Kroll Construction	Equipment rental	\$ 2,265
Lucy Schlensig, Councilor, Spouse of owner of Larry's Autocraft & Repair	Repairs	\$ 367

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor and the Councilor do not appear to represent a conflict of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

III-E-09 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, 2009

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

III-F-09 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 claims were not always totaled for Council approval or publication.

Recommendation - Section 372.13(6) of the Code of Iowa requires that “The publication shall include a list of all claims allowed ... and shall show the gross amount of the claims.”

Response - The claims will be totaled in future for Council approval and publication.

Conclusion - Response accepted.

III-G-09 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted. It was noted, however, that the City of Shelby has not adopted an investment policy.

Recommendation - An example of an investment policy adopted by other Cities has been provided to City officials for its perusal, adaption and adoption.

Response - The City of Shelby’s unwritten investment policy has served the City well over the years. The City will formalize its unwritten investment policy by adopting a written investment policy.

Conclusion - Response accepted.

III-H-09 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

