

**SHELBY COUNTY, IOWA**  
**Independent Auditors' Report**  
**Basic Financial Statements**  
**and**  
**Supplementary Information**  
**Schedule of Findings**  
**June 30, 2006**

**SHELBY COUNTY, IOWA  
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**SHELBY COUNTY, IOWA**

**COUNTY OFFICIALS**

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>(Before January 2006)</b>		
Roger Schmitz	Board of Supervisors	January 2007
LaVon Christensen	Board of Supervisors	January 2009
Richard Ferry	Board of Supervisors	January 2009
Marsha Carter	County Auditor	January 2009
Kathy Stinn	County Treasurer	January 2007
Linda Fahn	County Recorder	January 2007
Gene Cavanaugh	County Sheriff	January 2009
Marcus Gross	County Attorney	January 2009
Robert J. Heyderhoff	County Assessor	Resigned August 2005
<b>(After January 2006)</b>		
Roger Schmitz	Board of Supervisors	January 2007
LaVon Christensen	Board of Supervisors	January 2009
Richard Ferry	Board of Supervisors	January 2009
Marsha Carter	County Auditor	January 2009
Kathy Stinn	County Treasurer	January 2007
Linda Fahn	County Recorder	January 2007
Gene Cavanaugh	County Sheriff	January 2009
Marcus Gross	County Attorney	January 2009
Tony Buman	County Assessor	January 2010



1009 Iowa Avenue  
P.O. Box 238  
Onawa, IA 51040  
Phone (712) 423-2616  
Fax (712) 423-2626

## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors  
Shelby County, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of SHELBY COUNTY, IOWA, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Shelby County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County at June 30, 2006, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2006 on our consideration of Shelby County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis, pages 4 through 11, and budgetary comparison information on pages 34 through 36 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Shelby County's basic financial statements. The financial statements for the four years ended June 30, 2005 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report, and they expressed unqualified opinions on them in their report dated December 15, 2005. The supplementary information including the combining nonmajor financial statements and supplemental data as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Williams & Company P.C.*  
Certified Public Accountants

Onawa, Iowa  
November 10, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Shelby County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 12%, or approximately \$1,447,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$312,000, operating grants and contributions decreased approximately \$1,228,000, state tax credits increased approximately \$480,000, and capital grants and contributions increased approximately \$1,619,000.
- Program expenses were 7% less, or approximately \$728,000, in fiscal 2006 than in fiscal 2005. Roads and transportation expenses decreased approximately \$148,000, and non-program expenses decreased approximately \$882,000.
- The County's net assets increased 33%, or approximately \$3,924,000, from June 30, 2005 to June 30, 2006.

### USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Shelby County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Shelby County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Shelby County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the County.

## REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The County has two kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental 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 County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911 surcharge, emergency management services, empowerment and the County Assessor, to name a few.

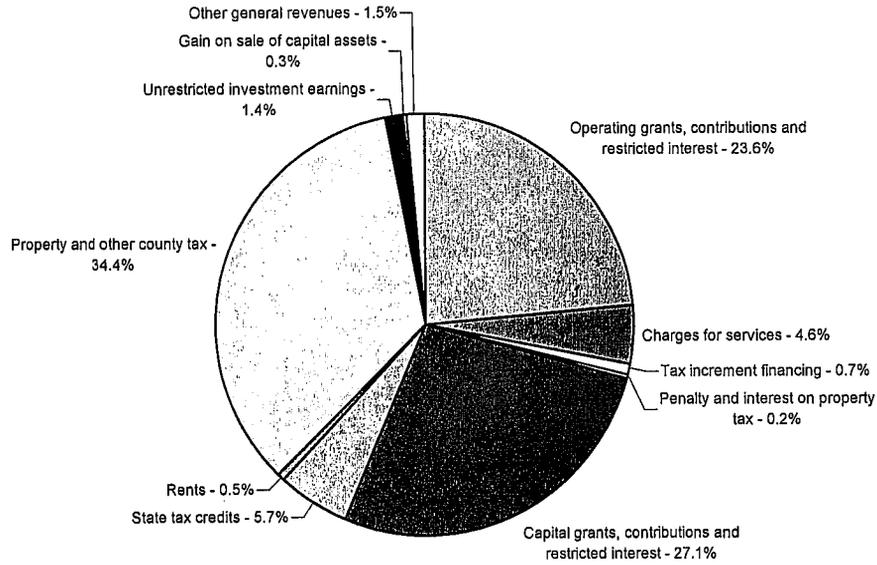
The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

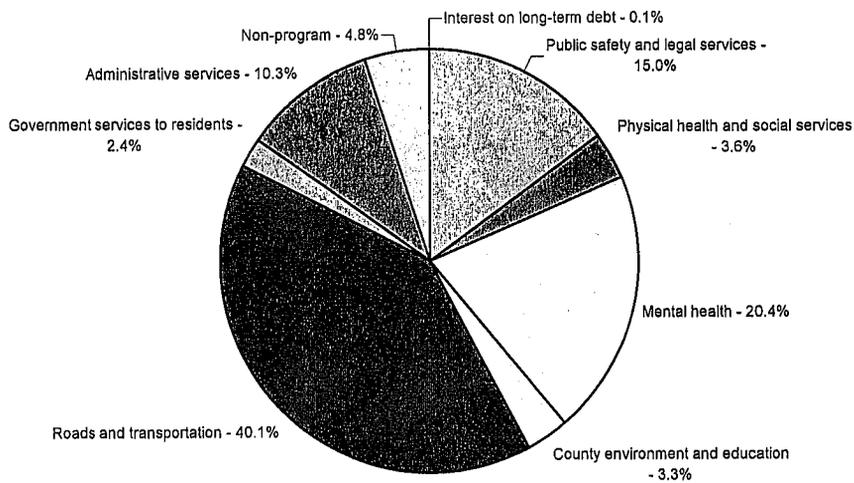
## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the County's total net assets at June 30, 2006.

### Revenues by Source



### Expenses by Program



Changes in Net Assets of Governmental Activities  
(Expressed in Thousands)

	Year Ended June 30,	
	2006	2005
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 635	\$ 553
Operating Grants, Contributions, and Restricted Interest	3,302	4,530
Capital Grants, Contributions, and Restricted Interest	3,786	2,167
General Revenues:		
Property and Other County Tax	4,802	4,490
Tax Increment Financing	104	80
Penalty and Interest on Property Tax	28	39
State Tax Credits	802	322
Rents	72	62
Unrestricted Investment Earnings	191	116
Gain on Sale of Capital Assets	37	60
Other General Revenues	205	98
<b>Total Revenues</b>	<b>13,964</b>	<b>12,517</b>
<b>Program Expenses</b>		
Public Safety and Legal Services	1,518	1,203
Physical Health and Social Services	359	368
Mental Health	2,065	1,863
County Environment and Education	332	367
Roads and Transportation	4,057	4,205
Governmental Services to Residents	238	377
Administration	1,046	1,062
Non-Program	490	1,372
Interest on Long-Term Debt	9	25
<b>Total Expenses</b>	<b>10,114</b>	<b>10,842</b>
<b>Change in Net Assets</b>	<b>3,850</b>	<b>1,675</b>
<b>Net Assets, Beginning of Year as Previously Stated</b>	<b>11,867</b>	<b>10,192</b>
<b>Prior Period Adjustment</b>	<b>74</b>	<b>-</b>
<b>Net Assets, End of Year</b>	<b>\$ 15,791</b>	<b>\$ 11,867</b>

Net Assets of Governmental Activities  
(Expressed in Thousands)

	June 30	
	2006	2005
<b>Current and Other Assets</b>		
Capital Assets	\$ 9,979	\$ 9,861
Total Assets	12,222	7,995
	22,201	17,856
<b>Long-Term Liabilities</b>		
Other Liabilities	1,106	1,175
Total Liabilities	5,304	4,814
	6,410	5,989
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	12,062	7,785
Restricted	2,159	3,882
Unrestricted	1,570	200
<b>Total Net Assets</b>	<b>\$ 15,791</b>	<b>\$ 11,867</b>

Net assets of Shelby County's governmental activities increased by \$3.9 million or 33%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased from approximately \$200,000 at June 30, 2005 to approximately \$1,570,000 at the end of this year. This increase of approximately \$1,370,000 in unrestricted net assets was mostly a result of the increase in inventory value. The County increased its investment in capital assets, net of related debt by approximately \$4,277,000 over the prior year, primarily due to the completion of several Roads and Transportation construction projects.

Revenues for governmental activities increased by approximately \$1,447,000 over the prior year. Property tax increased approximately \$312,000, operating grants and contributions decreased approximately \$1,228,000, state tax credits increased approximately \$480,000, and capital grants and contributions increased approximately \$1,619,000.

Shelby County is still trying to recover from the fiscal 2005 25% decrease in agricultural property value. Our total taxable valuation dropped approximately \$88,000,000. This forced the County to increase property tax rates for fiscal 2005. For fiscal 2006 we lost another \$2 million valuation county-wide, but the County was able to lower tax rates for the rural area by \$0.38 per \$1,000 of valuation with an increase to county-wide by \$0.69 of \$1,000 of valuation. The total tax asking actually decreased from fiscal 2005 to fiscal 2006 by approximately \$44,000.

The cost of all governmental activities this year was \$10.1 million compared to \$10.8 million last year. However, as shown in the Statement of Activities on page 13, the amount taxpayers ultimately financed for these activities was only \$2.4 million because some of the cost was paid by those directly benefited from the programs (\$635,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,088,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2006 from approximately \$7,250,000 in 2005 to \$7,723,000, principally due to receiving grant proceeds from the Iowa Department of Transportation for the completion of road projects. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$4,802,000 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Shelby County completed the year, its governmental funds reported a combined fund balance of \$4.6 million, a decrease of more than \$391,000 under last year's total of \$5 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund, the operating fund for Shelby County, ended fiscal year 2006 with a fund balance totaling \$1,312,187. This was an increase from fiscal year 2005 of \$319,541.
- The Mental Health Fund balance at year end decreased by \$323,332 from the prior year. This was due to the increased cost for programs like the MR Waiver Program.
- The Rural Services Fund ended fiscal year 2006 with a fund balance of \$243,636. This was a decrease from fiscal year 2005 of only \$5,813.
- The Secondary Roads Fund ended fiscal year 2006 with a fund balance of \$2,660,460, down \$347,551 when compared to the ending balance for fiscal year 2005. The Secondary Roads Department maintains 960 miles of secondary roads within the County. It also has 250 bridges that exceed 20 feet in length on this system. Many of these bridges are older and have a

reduced load limit. The County is on an extensive program to upgrade these bridges in order to eliminate the problems caused by less than legal loads. The useful life of the bridges is approximately 60 years. In order to break even, the County has to replace a minimum of 4 bridges per year. Currently, we are replacing them at the rate of about 5 per year in order to make the road systems legal for modern loads. The County is actively pursuing the closing of bridges and roads, where possible, to save tax dollars in maintenance.

- The Debt Service Fund ended fiscal year 2006 with a fund balance of \$3,465, holding level when compared to the ending balance for fiscal year 2005.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on a cash basis. Shelby County amended its budget May 23, 2006. This was due to an \$81,176 increase in secondary roads expenditures, a \$200,000 increase in mental health expenditures, a \$253,389 increase in Capital expenditures, and unanticipated expenditures in various other county departments, for a total fiscal year 2006 budget amendment of \$732,860. These expenditures were offset by \$209,112 from other revenue sources, \$413,000 from designated reserves, leaving only \$110,748 to be paid from unbudgeted reserves.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, Shelby County had approximately \$12 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$4.2 million over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30	
	2006	2005
Land	\$ 331	\$ 331
Construction in Progress	3,556	1,214
Buildings and Improvements	2,303	2,273
Equipment and Vehicles	2,653	2,216
Infrastructure	3,379	1,961
Total	<u>\$ 12,222</u>	<u>\$ 7,995</u>

The County had depreciation expense of \$515,403 in fiscal year 2006 and total accumulated depreciation of \$5,111,969 at June 30, 2006. The County's fiscal year 2006 capital budget included \$1,194,268 for capital projects, principally for road construction. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

During fiscal year 2006, secondary roads construction completed included two major bridge replacements--a 30' X 253' pretensioned, prestressed concrete beam bridge one mile north of Irwin on M-47 at a cost of \$715,867 and a 24' X 226' pretensioned, prestressed concrete bridge south of F-58 on 450<sup>th</sup> Street at a cost of \$537,863. Projects started after year-end included a major 1.8 miles grade and drain on M36 north of Harlan at a cost of \$346,816.

## Long-Term Debt

At June 30, 2006, Shelby County had \$850,000 in general obligation capital loan notes outstanding, compared to approximately \$900,000 of long-term debt at June 30, 2005, as shown below.

Outstanding Debt of Governmental Activities at Year End (Expressed in Thousands)			
	June 30		
	2006	2005	
General Obligation Capital Loan Notes	\$ 690	\$ 690	
Capital Loan Notes	160	210	
Total	\$ 850	\$ 900	

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property in the County. Shelby County's outstanding general obligation debt is significantly below its constitutional debt limit of \$32.7 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

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

Shelby County's officials considered many factors when setting the fiscal year 2007 budget, tax rates and the fees charged for various County activities. One of those factors is the economy. Unemployment in the County in June 2006 was 3.4%. This compares with the State's unemployment rate of 3.5% and the national rate of 4.6% for the same period.

Always a major concern in budgeting is the unknown, but anticipated, increases in health insurance costs for employees. Since the union contracts are in effect until June 30, 2007, we were able to budget accurately for payroll, with some estimates for overtime.

All the different variables were taken into account when adopting the fiscal year 2007 budget. Budgeted revenues for the General and Rural Services Funds stayed fairly level from fiscal year 2006. Budgeted expenditures in the General and Rural Services Funds actually decreased by approximately \$31,000, and our General and Rural Services Funds budgeted reserves actually increased by approximately \$300,000. Existing fund balances may be necessary to cover increases in health insurance costs for employees if they are higher than anticipated and to cover any unforeseen expenditures throughout fiscal year 2006. The final fiscal year 2007 budget was adopted with a total tax rate decrease of \$1.04925 per \$1,000 of taxable valuation and a total tax asking decrease of \$122,896.

Shelby County was awarded a RISE Grant of \$165,000 to be used towards the cost of installing a turning lane off State Highway 59 into Western Ventures Business Park. The cost of the project will be approximately \$215,000 and was scheduled to be completed during the summer of 2006. Due to lack of funds, the project is still waiting to be completed.

The citizens of Panama and Westphalia have approached the County and the Iowa Department of Transportation concerning the possible installation of an east turning lane from Highway 59 onto Street F32. The IDOT is investigating funding options for this approximate \$175,000 project.

During fiscal 2007, a 6,000-head hog confinement and a 6,000-head dairy are in the process of being constructed, with plans to build another 8,000-head dairy in the works. A third dairy is being discussed. A possible community digester and ethanol plant may also be a future project for the company. Funding options are being investigated because of the increased need for services for these new facilities.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Shelby County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marsha J. Carter, Shelby County Auditor, 612 Court St., Harlan, Iowa 51537-0650.

**SHELBY COUNTY**  
**Statement of Net Assets**  
**June 30, 2006**

	Governmental Activities
<b>ASSETS</b>	
Cash and Pooled Investments	\$ 3,756,119
Receivables	
Property Tax	
Delinquent	34,435
Succeeding Year	4,647,662
Accounts	9,433
Accrued Interest	20,450
Due from Other Governments	334,843
Prepaid Insurance	46,072
Inventories	1,129,428
Land (Note 5)	330,775
Construction in Progress (Note 5)	3,556,188
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 5)	8,335,317
<b>Total Assets</b>	<b>22,200,722</b>
 <b>LIABILITIES</b>	
Accounts Payable	344,143
Accrued Interest Payable	2,556
Salaries and Benefits Payable	124,962
Due to Other Governments (Note 6)	184,518
Deferred Revenue	
Succeeding Year Property Tax	4,647,662
Long-Term Liabilities (Note 7)	
Portion Due or Payable Within One Year	
General Obligation Bonds	190,000
Compensated Absences	34,217
Portion Due or Payable After One Year	
General Obligation Bonds	660,000
Compensated Absences	221,848
<b>Total Liabilities</b>	<b>6,409,906</b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	12,062,280
Restricted for	
Supplemental Levy Purposes	516,590
Mental Health Purposes	256,859
Secondary Roads Purposes	1,365,078
Debt Service	1,345
Capital Projects	18,323
Unrestricted	1,570,341
<b>Total Net Assets</b>	<b>\$ 15,790,816</b>

See Accompanying Notes to Financial Statements

**SHELBY COUNTY**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
<b>Functions/Programs</b>					
<b>Governmental Activities</b>					
Public Safety and Legal Services	\$ 1,518,393	\$ 215,537	\$ 88,843	\$ -	\$ (1,214,013)
Physical Health and Social Services	358,517	8,561	30,250	-	(319,706)
Mental Health	2,064,784	-	348,032	-	(1,716,752)
County Environment and Education	332,390	33,836	68,574	-	(229,980)
Roads and Transportation	4,057,142	133,659	2,733,263	3,786,190	2,595,970
Government Services to Residents	238,431	223,495	22,540	-	7,604
Administrative Services	1,046,036	19,562	10,453	-	(1,016,021)
Non-Program	490,347	-	-	-	(490,347)
Interest on Long-Term Debt	9,297	-	-	-	(9,297)
Total	<u>\$ 10,115,337</u>	<u>\$ 634,650</u>	<u>\$ 3,301,955</u>	<u>\$ 3,786,190</u>	<u>(2,392,542)</u>
<b>General Revenues</b>					
Property and Other County Tax Levied for					
General Purpose					4,746,153
Debt Service					55,994
Penalty and Interest on Property Tax					27,516
Tax Increment Financing					104,412
State Tax Credits					801,888
Rents					72,328
Unrestricted Investment Earnings					190,959
Gain on Sale of Capital Assets					36,882
Miscellaneous					205,332
Total General Revenues					<u>6,241,464</u>
Change in Net Assets					3,848,922
Net Assets - Beginning of Year, as Previously Stated					11,867,400
Prior Period Adjustment					<u>74,494</u>
Net Assets - End of Year					<u>\$ 15,790,816</u>

**SHELBY COUNTY**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	General	Special Revenue	
		Rural Services	Secondary Roads
<b>Assets</b>			
Cash and Pooled Investments	\$ 1,387,369	\$ 228,292	\$ 1,554,408
Receivables			
Property Tax			
Delinquent	20,190	7,394	
Succeeding Year	2,503,610	1,060,727	
Accounts			980
Accrued Interest	20,450		
Interfund Receivables	23,964		3,317
Due from Other Governments	36,419	18,205	229,550
Inventories			1,129,428
Prepaid Insurance	46,072		
<b>Total Assets</b>	<u>4,038,074</u>	<u>1,314,618</u>	<u>2,917,683</u>
<b>Liabilities and Fund Balances</b>			
Liabilities			
Accounts Payable	110,554		201,353
Salaries and Benefits Payable	52,186	2,861	55,870
Compensated Absences	29,936		
Interfund Payables	3,155		
Due to Other Governments	6,256		
Succeeding Year Property Tax	2,503,610	1,060,727	
Deferred Revenue	20,190	7,394	
<b>Total Liabilities</b>	<u>2,725,887</u>	<u>1,070,982</u>	<u>257,223</u>
Fund Balances			
Reserved for			
Inventories			1,129,428
Prepaid Insurance	46,072		
Debt Service			
Supplemental Levy Purposes	432,592	81,288	
Unreserved, Reported In			
General Fund	833,523		
Special Revenue Funds		162,348	1,531,032
Capital Project Fund			
<b>Total Fund Balances</b>	<u>1,312,187</u>	<u>243,636</u>	<u>2,660,460</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,038,074</u>	<u>\$ 1,314,618</u>	<u>\$ 2,917,683</u>

See Accompanying Notes to Financial Statements

Special Revenue		Other Governmental Funds		Total
Mental Health	Debt Service			
\$ 445,607	\$ 3,465	\$ 136,978		\$ 3,756,119
6,415	436			34,435
857,351	55,974	170,000		4,647,662
		8,453		9,433
				20,450
				27,281
48,396		2,273		334,843
				1,129,428
				46,072
<u>1,357,769</u>	<u>59,875</u>	<u>317,704</u>		<u>10,005,723</u>
28,536		3,700		344,143
9,690		4,355		124,962
2,945		1,336		34,217
24,126				27,281
178,262				184,518
857,351	55,974	170,000		4,647,662
6,415	436			34,435
<u>1,107,325</u>	<u>56,410</u>	<u>179,391</u>		<u>5,397,218</u>
				1,129,428
				46,072
	3,465			3,465
				513,880
				833,523
250,444		119,990		2,063,814
		18,323		18,323
<u>250,444</u>	<u>3,465</u>	<u>138,313</u>		<u>4,608,505</u>
<u>\$ 1,357,769</u>	<u>\$ 59,875</u>	<u>\$ 317,704</u>		<u>\$ 10,005,723</u>

See Accompanying Notes to Financial Statements

**SHELBY COUNTY**  
**Reconciliation of The Balance Sheet of Governmental Funds**  
**To The Statement of Net Assets**  
**For the Year Ended June 30, 2006**

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Total Governmental Fund Balances (page 15) \$ 4,608,505

Amounts reported for governmental activities in the statement of net assets are different because:

Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets are \$17,334,249 and the accumulated depreciation is \$5,064,430. 12,222,280

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 34,435

Long-term liabilities, including bonds payable, accrued interest payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,074,404)

Total Net Assets - Governmental Activities (page 12) \$ 15,790,816

**SHELBY COUNTY**  
**Statement of Revenues, Expenditures, And Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	Special Revenue		
	General	Rural Services	Secondary Roads
Revenue			
Property and Other County Tax	\$ 2,736,797	\$ 1,077,909	\$ 118,030
Tax Increment Financing			
Penalty and Interest on Property Tax	27,516		
Intergovernmental Revenue	360,667	63,237	2,935,763
Licenses and Permits	162,051		345
Charges for Services	315,010		133,314
Use of Money and Property	256,099	3,842	
Miscellaneous	92,567	27,239	
Total Revenue	3,950,707	1,172,227	3,187,452
Expenditures			
Operating			
Public Safety and Legal Services	1,459,475	29,000	
Physical Health and Social Services	355,800		
Mental Health			
County Environment and Education Services	13,325	68,153	
Roads and Transportation	9,402	173,274	3,896,936
Governmental Services to Residents	352,023	85	
Administrative Services	999,583	1,589	
Non-program	100,827		
Debt Service			
Principal			
Interest			
Capital Projects	15,903		529,179
Total Expenditures	3,306,338	272,101	4,426,115
Excess (Deficiency) of Revenues Over Expenditures	644,369	900,126	(1,238,663)
Other Financing Sources (Uses)			
Transfers In	52,318	10,751	896,863
Transfers Out	(377,146)	(916,690)	(5,751)
Total Other Financing Sources (Uses)	(324,828)	(905,939)	891,112
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	319,541	(5,813)	(347,551)
Fund Balances - Beginning of Year	992,646	249,449	3,008,011
Fund Balances - End of Year	\$ 1,312,187	\$ 243,636	\$ 2,660,460

See Accompanying Notes to Financial Statements

Special Revenue		Other Governmental Funds		Total
Mental Health	Debt Service			
\$ 829,988	\$ 56,106			\$ 4,818,830
		\$ 104,412		104,412
905,051	3,743	27,334		27,516
		12,862		4,295,795
		3,012		175,258
	102	3,244		451,336
16,435		142,345		263,287
<u>1,751,474</u>	<u>59,951</u>	<u>293,209</u>		<u>10,415,020</u>
		35,917		1,524,392
				355,800
2,078,486				2,078,486
		234,884		316,362
				4,079,612
		10,000		362,108
		8,933		1,010,105
		26,072		126,899
	50,000			50,000
	9,481			9,481
		347,545		892,627
<u>2,078,486</u>	<u>59,481</u>	<u>663,351</u>		<u>10,805,872</u>
<u>(327,012)</u>	<u>470</u>	<u>(370,142)</u>		<u>(390,852)</u>
3,680		367,043		1,330,655
		(31,068)		(1,330,655)
<u>3,680</u>	<u>-</u>	<u>335,975</u>		<u>-</u>
(323,332)	470	(34,167)		(390,852)
573,776	2,995	172,480		4,999,357
<u>\$ 250,444</u>	<u>\$ 3,465</u>	<u>\$ 138,313</u>		<u>\$ 4,608,505</u>

See Accompanying Notes to Financial Statements

**SHELBY COUNTY**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds (page 18) \$ (390,852)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays, including infrastructure, as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful life of the asset. Capital outlays exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	4,896,690	
Depreciation expense	(515,403)	4,381,287

Governmental funds do not report disposals of governmental assets. The assets disposed during the year, and the accumulated depreciation on the disposed assets, are as follows:

Cost of disposed assets	(617,068)	
Accumulated depreciation on the disposed assets	388,753	(228,315)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds.

Property Tax		(16,683)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Current year debt repayments:

Principal Payments		50,000
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Payment of certain expenditures are recorded in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Compensated Absences		53,301
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Some expenses are an expenditure in the governmental funds, but the payment reduces liabilities in the Statement of Net Assets.

Interest on long-term debt		184
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Change in Net Assets of Governmental Activities (page 13)	\$ 3,848,922
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**SHELBY COUNTY**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2006**

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**Assets**

Cash and Pooled Investments:		
County Treasurer	\$	1,453,527
Other County Officials		16,345
Shelby County Solid Waste Agency		333,000
Receivables:		
Property Tax:		
Delinquent		77,753
Succeeding Year		9,823,921
Accounts		17,846
Due from Other Governments		8,953
		<hr/>
<b>Total Assets</b>		<b>11,731,345</b>

**Liabilities**

Accounts Payable		114,941
Salaries and Benefits Payable		18,689
Due to Other Governments		11,593,461
Trusts Payable		4,254
		<hr/>
<b>Total Liabilities</b>	<b>\$</b>	<b>11,731,345</b>

**Net Assets**

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**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 1 - Summary of Significant Accounting Policies**

Shelby County, Iowa is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Shelby County has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The County 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 County are such that exclusion would cause the County'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 County 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 County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, County Emergency Management Commission, County Joint E-911 Service Board, Monona/Harrison/Shelby County Empowerment Area and Shelby County Area Solid Waste Agency. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organizations and, as such, are reported in Agency Funds of the County.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: West Central Iowa Sheltered Workshop (WESCO), Southwest Iowa Planning Council (SWIPCO), Southwest Iowa Juvenile Detention Center and Shelby County Ambulance Commission.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation**

Government-Wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues, and other nonexchange transactions.

The statement of net assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The County reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the County. All general tax revenues and other receipts that are 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 expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

Special Revenue

1. The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.
2. The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the County outside of incorporated city areas.
3. The Secondary Roads Fund is used to account for secondary road construction and maintenance.

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

Fiduciary Funds - Agency Funds are used to account for assets received and held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after the year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursements grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

**D. Assets, Liabilities, and Fund Equity**

Cash and Pooled Investments - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

Property Tax Receivable - Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

Due From and Due to Other Funds - During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received by June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Infrastructure	\$ 50,000
Land, Buildings and Improvements	25,000
Equipment and Vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Improvements	25 – 50
Land Improvements	10 – 50
Infrastructure	10 – 65
Equipment and Vehicles	3 – 20

Due To Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized since the assets are not collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable, as well as delinquent property tax receivables, and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services, and Secondary Roads Funds.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the mental health and governmental services to residents functions and disbursements in certain departments exceeded the amounts appropriated.

**Note 2 - Cash and Pooled Investments**

The County's deposits at June 30, 2006 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 County 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 Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 3 - Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Mental Health	\$ 23,964
Secondary Roads	General Fund	3,155
	Mental Health	162
		<hr/>
Total		\$ 27,281
		<hr/>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

**Note 4 - Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfers To	Transfer From	Amount
General Fund	Rural Services	\$ 21,250
	Capital Projects	31,068
Rural Services	General Fund	5,000
	Secondary Roads	5,751
Secondary Roads	General Fund	21,250
	Rural Services	875,613
Mental Health	General Fund	3,680
Flood and Erosion	General Fund	10,000
Conservation	General Fund	127,510
Capital Projects	Rural Services	19,827
	General Fund	209,706
		<hr/>
Total Transfers		\$ 1,330,655
		<hr/>

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

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 5 - Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year Restated	Increases	Decreases	Balance End of Year
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 330,775			\$ 330,775
Construction in Progress	1,214,228	\$ 3,387,718	\$ (1,045,758)	3,556,188
Total capital assets not being depreciated	<u>1,545,003</u>	<u>3,387,718</u>	<u>(1,045,758)</u>	<u>3,886,963</u>
Capital assets being depreciated:				
Buildings	3,532,690	63,195		3,595,885
Equipment and Vehicles	6,010,054	996,363	(617,068)	6,389,349
Infrastructure, Road Network	1,966,880	1,495,172		3,462,052
Total capital assets not being depreciated	<u>11,509,624</u>	<u>2,554,730</u>	<u>(617,068)</u>	<u>13,447,286</u>
Less accumulated depreciation for:				
Buildings	1,220,309	71,940		1,292,249
Equipment and Vehicles	3,759,283	366,066	(388,753)	3,736,596
Infrastructure, Road Network	5,727	77,397		83,124
Total accumulated depreciation	<u>4,985,319</u>	<u>515,403</u>	<u>(388,753)</u>	<u>5,111,969</u>
Total capital assets not being depreciated, net	<u>6,524,305</u>	<u>2,039,327</u>	<u>(228,315)</u>	<u>8,335,317</u>
Governmental activities capital assets, net	<u>\$ 8,069,308</u>	<u>\$ 5,427,045</u>	<u>\$ (1,274,073)</u>	<u>\$ 12,222,280</u>

Depreciation expense was charged to the following functions:

<b>Governmental Activities:</b>	
Public Safety and Legal Services	\$ 73,642
Physical Health and Social Services	4,759
Mental Health	3,690
County Environment and Education Services	31,213
Roads and Transportation	338,282
Governmental Services to Residents	12,976
Administrative Services	<u>50,841</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 515,403</u>

The County's Net Investment in Capital Assets is as follows:

Net capital assets	\$ 12,222,280
Less outstanding principal of Series 1999 Bonds	<u>(160,000)</u>
Net Investment in Capital Assets	<u>\$ 12,062,280</u>

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 6 - Due to Other Governments**

The County purchases services from other governmental units and also acts as fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
Mental Health	Services	\$ 178,262
General Fund	Services	6,256
Total for governmental funds		<u>\$ 184,518</u>
Agency Funds:		
County Assessor	Collections	\$ 288,848
Schools		6,452,420
Community Colleges		299,706
Corporations		1,913,169
Auto License and Use Tax		250,591
All Others		2,388,727
Total for Agency Funds		<u>\$ 11,593,461</u>

**Note 7 - Changes in Long-Term Debt**

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	General Obligation Capital Loan Notes			Compensated Absences	Total
	Series 1999	Series 2004A	Series 2004B		
Balance beginning of year	\$ 210,000	\$ 620,000	\$ 70,000	\$ 275,149	\$ 1,175,149
Increases	-	-	-	131,837	131,837
Decreases	50,000	-	-	152,378	202,378
Balance end of year	<u>\$ 160,000</u>	<u>\$ 620,000</u>	<u>\$ 70,000</u>	<u>\$ 254,608</u>	<u>\$ 1,104,608</u>
Due within one year	<u>\$ 50,000</u>	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>\$ 32,881</u>	<u>\$ 222,881</u>

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 7 - Changes in Long-Term Debt (Continued)**

Capital Loan Notes

In June 1999, the County issued \$465,000 in general obligation essential corporate purpose capital loan notes to fund improvements to the courthouse and annex buildings. The notes are payable from a continuing annual levy of taxes against all taxable property of the county.

A summary of the County's June 30, 2006 general obligation essential corporate purpose capital loan notes is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.50%	\$ 50,000	\$ 7,282	\$ 57,282
2008	4.55%	55,000	5,032	60,032
2009	4.60%	55,000	2,530	57,530
Total		\$ 160,000	\$ 14,844	\$ 174,844

In November 2004, the County issued \$620,000 in general obligation capital loan notes, Series 2004A and \$70,000 in general obligation capital loan notes, Series 2004 B to fund the costs of aiding in planning, undertaking and carrying out an urban renewal project, including improvements to sewer services to the Business Park and a forgivable loan to Shelby County Cookers, LLC. A Special Revenue, TIF Fund has been established for collection of tax increment financing revenues which will be used to pay off the capital loan notes. A summary of the County's June 30, 2006 general obligation capital loan notes, 2004A is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	2.80%	\$ 70,000	\$ 20,135	\$ 90,135
2008	3.00%	150,000	18,175	168,175
2009	3.20%	150,000	13,675	163,675
2010	3.40%	125,000	8,875	133,875
2011	3.70%	125,000	4,625	129,625
Total		\$ 620,000	\$ 65,485	\$ 685,485

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 7 - Changes in Long-Term Debt (Continued)**

A summary of the County's June 30, 2006 general obligation capital loan notes, 2004B is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.65%	<u>\$ 70,000</u>	<u>\$ 3,255</u>	<u>\$ 73,255</u>

During the year ended June 30, 2006 interest payments under the Series 1999, Series 2004A and 2004B general obligation capital loan notes totaled \$9,483, \$20,136 and \$2,255, respectively.

**Note 8 - Hospital Revenue Capital Loan Notes**

The County has issued \$2,200,000 of hospital revenue capital loan notes pursuant to chapters 331.402(3) and 331.461(1) (d) of the Code of Iowa. The notes and related interest are payable solely from the net earnings of the hospital and do not constitute liabilities of the County. Accordingly, the County does not record any transactions related to the notes.

**Note 9 - Pension and Retirement**

The County 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 plan members are required to contribute 3.70% of their annual salary and the County is required to contribute 5.75% of annual covered payroll. Law enforcement employees are required to contribute 8.20% of their annual salary and the County is required to contribute 8.20% as well. Conservation employees are required to contribute 6.16% of their annual salary and the County is required to contribute 9.23% of the same. Contribution requirements are established by State statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$189,513, \$195,383, and \$186,542, respectively, equal to each year's required contributions.

**Note 10 - Risk Management**

Shelby County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members that include various entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 10 - Risk Management (Continued)**

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contribution to the Pool for the year ended June 30, 2006 was \$220,138.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public official's liability risk up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. All property risks including automobile physical damage are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event of casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

**SHELBY COUNTY, IOWA**  
**Notes to Financial Statements**  
**June 30, 2006**

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**Note 10 - Risk Management (Continued)**

The County also carries commercial insurance purchased from other insurers for coverage associated with the employee blanket bond. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The County also participates in the Iowa Municipalities Workers' Compensation Association (IMWCA) for Workman's Compensation insurance.

**Note 11 - Construction Commitment**

During the year ended June 30, 2006, the County entered into an agreement for construction of an emergency vehicle shed for \$84,635. As of June 30, 2006, only \$12,000 in costs had been incurred against the project. The remainder will be paid as work on the project progresses.

In prior years, the County entered into agreements for a bridge replacement and highway resurfacing totaling \$3,686,694. As of June 30, 2006, \$3,544,188 in costs had been incurred against the projects. The remainder will be paid as work on the projects progresses.

**Note 12 - Litigation**

The County is a defendant in a lawsuit, filed by a law firm that defended a county deputy in criminal proceedings. The law firm billed the County for its costs, totaling \$63,000. In July 2006, a district court ruled for the plaintiff, and consequently \$63,000 was charged to operations in the accompanying financial statements. The County appealed the ruling, and as of the date of this report the state court of appeals has not proceeded with appeal hearings.

**Note 13 - Prior Period Adjustment**

In the prior period, governmental activity capital assets were understated by \$40,172, and accumulated depreciation was overstated by \$34,322. As a result, government-wide net assets were understated by \$74,494 as of June 30, 2005.

**SHELBY COUNTY**  
**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in**  
**Balances - Budget and Actual (Cash Basis) - All Governmental Funds**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2006**

	Governmental Funds Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
		Original	Final	
<b>Receipts</b>				
Property and Other County Tax	\$ 4,868,627	\$ 4,729,792	\$ 4,729,792	\$ 138,835
Interest and Penalty on Property Tax	27,516	20,000	20,000	7,516
Intergovernmental	4,320,450	4,539,287	4,680,437	(359,987)
Licenses and Permits	173,144	157,170	157,170	15,974
Charges for Service	383,105	256,114	256,114	126,991
Use of Money and Property	271,528	66,035	66,035	205,493
Miscellaneous	338,510	88,726	156,688	181,822
Total Receipts	<u>10,382,880</u>	<u>9,857,124</u>	<u>10,066,236</u>	<u>316,644</u>
<b>Disbursements</b>				
Public Safety and Legal Services	1,519,871	1,489,634	1,525,634	5,763
Physical Health and Social Services	354,895	375,425	416,425	61,530
Mental Health	2,037,714	1,825,208	2,025,208	(12,506)
County Environment and Education	317,640	312,496	366,191	48,551
Roads and Transportation	4,333,864	4,214,516	4,295,692	(38,172)
Government Services to Residents	355,966	362,766	374,116	18,150
Administrative Services	1,004,418	975,950	1,012,600	8,182
Non-program	62,021	25,100	44,700	(17,321)
Debt Service	59,481	83,674	83,674	24,193
Capital Projects	888,022	940,879	1,194,268	306,246
Total Disbursements	<u>10,933,892</u>	<u>10,605,648</u>	<u>11,338,508</u>	<u>404,616</u>
Excess (Deficiency) of Receipts Over Disbursements	<u>(551,012)</u>	<u>(748,524)</u>	<u>(1,272,272)</u>	<u>721,260</u>
Balance Beginning of Year	<u>4,307,131</u>	<u>3,297,580</u>	<u>3,297,580</u>	<u>1,009,551</u>
Balance End of Year	<u>\$ 3,756,119</u>	<u>\$ 2,549,056</u>	<u>\$ 2,025,308</u>	<u>\$ 1,730,811</u>

**SHELBY COUNTY**  
**Budgetary Comparison Schedule - Budget to GAAP Reconciliation**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2006**

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 10,382,880	\$ 32,140	\$ 10,415,020
Expenditures	10,933,892	(128,020)	10,805,872
Net	(551,012)	160,160	(390,852)
Beginning Fund Balances	4,307,131	692,226	4,999,357
Ending Fund Balances	\$ 3,756,119	\$ 852,386	\$ 4,608,505

**SHELBY COUNTY, IOWA**  
**Notes to Required Supplementary Information – Budgetary Reporting**  
**June 30, 2006**

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This 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 comparison for the General Fund and each major Special Revenue fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administrative services, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and expendable trust funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$732,860. This budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 system by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the Mental Health, Roads & Transportation, and Non-Program functions and disbursements in certain departments exceeded the amounts appropriated.

**SHELBY COUNTY**  
**Combining Balance Sheet**  
**Governmental Nonmajor Funds**  
**June 30, 2006**

	Resource Enhancement and Protection	County Recorder's Electronic Transaction Fee	Conservation Land Acquisition	K-9	Special Flood and Erosion
<b>Assets</b>					
Cash and Pooled Investments	\$ 160	\$ 2,802	\$ 63	\$ 2,013	\$ 9,756
Receivables					
Property Tax					
Succeeding Year					
Accounts					
Due from Other Governments					
Total Assets	<u>160</u>	<u>2,802</u>	<u>63</u>	<u>2,013</u>	<u>9,756</u>
<b>Liabilities and Fund Balances</b>					
Liabilities					
Accounts Payable				19	
Salaries and Benefits Payable					
Compensated Absences					
Due to Other Governments					
Succeeding Year Property Tax					
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>19</u>	<u>-</u>
Fund Equity					
Unreserved fund balances	160	2,802	63	1,994	9,756
Total Liabilities and Fund Equity	<u>\$ 160</u>	<u>\$ 2,802</u>	<u>\$ 63</u>	<u>\$ 2,013</u>	<u>\$ 9,756</u>

Revenue							
Insurance Reimbursement	County Recorder's Records Management	Drug Forfeiture	Commissary	Conservation	Tax Increment Financing	Capital Projects	Total
\$ 32,364	\$ 2,301	\$ 20,176	\$ 9,217	\$ 27,994	\$ 20,367	\$ 9,765	\$ 136,978
			54	2,114	170,000	6,285	170,000
						2,273	8,453
<u>32,364</u>	<u>2,301</u>	<u>20,176</u>	<u>9,271</u>	<u>30,108</u>	<u>190,367</u>	<u>18,323</u>	<u>317,704</u>
3,593			88	4,355			3,700
				1,336			4,355
					170,000		170,000
<u>3,593</u>	<u>-</u>	<u>-</u>	<u>88</u>	<u>5,691</u>	<u>170,000</u>	<u>-</u>	<u>179,391</u>
28,771	2,301	20,176	9,183	24,417	20,367	18,323	138,313
<u>\$ 32,364</u>	<u>\$ 2,301</u>	<u>\$ 20,176</u>	<u>\$ 9,271</u>	<u>\$ 30,108</u>	<u>\$ 190,367</u>	<u>\$ 18,323</u>	<u>\$ 317,704</u>

**SHELBY COUNTY**  
**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Nonmajor Funds**  
**Year Ended June 30, 2006**

	Resource Enhancement and Protection	County Recorder's Electronic Transaction Fee	Conservation Land Acquisition	K-9	Special Flood and Erosion
<b>Revenues</b>					
Tax Increment Financing					
Intergovernmental Revenue	\$ 4,889				
Licenses and Permits					
Charges for Services					
Use of Money and Property	7	\$ 66	\$ 7	\$ 18	
Miscellaneous			58	1,575	
Total Revenues	<u>4,896</u>	<u>66</u>	<u>65</u>	<u>1,593</u>	<u>-</u>
<b>Expenditures</b>					
<b>Operating</b>					
Public Safety and Legal Services			4,674	5,978	
County Environment and Education Services	9,591				\$ 2,196
Governmental Services to Residents					
Administrative Services		8,179			
Non-program					
Capital Projects					
Total Expenditures	<u>9,591</u>	<u>8,179</u>	<u>4,674</u>	<u>5,978</u>	<u>2,196</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,695)</u>	<u>(8,113)</u>	<u>(4,609)</u>	<u>(4,385)</u>	<u>(2,196)</u>
<b>Other Financing Sources (uses)</b>					
Operating Transfers In					10,000
Operating Transfers Out					
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources	<u>(4,695)</u>	<u>(8,113)</u>	<u>(4,609)</u>	<u>(4,385)</u>	<u>7,804</u>
Fund Balances (Deficit) - Beginning of Year	4,855	10,915	4,672	6,379	1,952
Fund Balances (Deficit) - End of Year	<u>\$ 160</u>	<u>\$ 2,802</u>	<u>\$ 63</u>	<u>\$ 1,994</u>	<u>\$ 9,756</u>

Revenue							
Insurance Reimbursement	County Recorder's Records Management	Drug Forfeiture	Commissary	Conservation	Tax Increment Financing	Capital Projects	Total
					\$ 104,412		\$ 104,412
				\$ 22,445			27,334
				12,862			12,862
	\$ 3,012						3,012
	20	\$ 101		3,025			3,244
		7,063	\$ 8,056	9,104		\$ 116,489	142,345
	3,032	7,164	8,056	47,436	104,412	116,489	293,209
		7,275	5,230		12,760		35,917
				151,812	71,285		234,884
	10,000						10,000
				754			8,933
\$ 26,072							26,072
				17,790		329,755	347,545
26,072	10,000	7,275	5,230	170,356	84,045	329,755	663,351
(26,072)	(6,968)	(111)	2,826	(122,920)	20,367	(213,266)	(370,142)
				147,337		209,706	367,043
						(31,068)	(31,068)
				147,337		178,638	335,975
(26,072)	(6,968)	(111)	2,826	24,417	20,367	(34,628)	(34,167)
54,843	9,269	20,287	6,357			52,951	172,480
\$ 28,771	\$ 2,301	\$ 20,176	\$ 9,183	\$ 24,417	\$ 20,367	\$ 18,323	\$ 138,313

**SHELBY COUNTY**  
**Combining Schedule of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2006**

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets</b>				
Cash and pooled investments:				
County Treasurer		\$ 2,194	\$ 52,492	\$ 111,969
Other County Officials	\$ 16,345			
Shelby County Solid Waste Agency				
Receivables:				
Property Tax:				
Delinquent		869	1,168	44,736
Succeeding Year		116,158	237,413	6,295,715
Accounts			266	
Due from Other Governments				
<b>Total Assets</b>	<b>16,345</b>	<b>119,221</b>	<b>291,339</b>	<b>6,452,420</b>
<b>Liabilities</b>				
Accounts Payable			45	
Salaries and Benefits Payable			2,446	
Due to Other Governments	12,091	119,221	288,848	6,452,420
Payable to Trusts	4,254			
<b>Total Liabilities</b>	<b>\$ 16,345</b>	<b>\$ 119,221</b>	<b>\$ 291,339</b>	<b>\$ 6,452,420</b>

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
\$ 6,016	\$ 36,345	\$ 3,445	\$ 250,591	\$ 990,475	\$ 1,453,527
				333,000	16,345
					333,000
2,422	24,147	1,355		3,056	77,753
291,268	1,852,677	185,056		845,634	9,823,921
				17,580	17,846
				8,953	8,953
299,706	1,913,169	189,856	250,591	2,198,698	11,731,345
				114,896	114,941
				16,243	18,689
299,706	1,913,169	189,856	250,591	2,067,559	11,593,461
					4,254
\$ 299,706	\$ 1,913,169	\$ 189,856	\$ 250,591	\$ 2,198,698	\$ 11,731,345

**SHELBY COUNTY**  
**Combining Schedule of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2006**

<b>Assets and Liabilities</b>	<b>County Offices</b>	<b>Agricultural Extension Education</b>	<b>County Assessor</b>	<b>Schools</b>
Balances Beginning of Year	\$ 12,050	\$ 115,301	\$ 179,784	\$ 5,934,860
Additions:				
Property and Other County Tax		116,370	237,698	6,301,881
E911 Surcharge				
State Tax Credits		7,964	10,698	407,094
Office Fees and Collections	266,675			
Auto Licenses, Use Tax and Postage Assessments				
Trusts	158,463			
Miscellaneous			4,792	
Total Additions	425,138	124,334	253,188	6,708,975
Deductions:				
Agency Remittances:				
To Other Funds	142,038			
To Other Governments	121,105	120,414	141,633	6,191,415
Trusts Paid Out	157,700			
Total Deductions	420,843	120,414	141,633	6,191,415
Balances End of Year	\$ 16,345	\$ 119,221	\$ 291,339	\$ 6,452,420

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
\$ 321,078	\$ 3,179,509	\$ 199,820	\$ 262,540	\$ 1,627,180	\$ 11,832,122
291,594	1,783,757	165,499		846,380	9,743,179
				114,340	114,340
21,913	159,629	11,489		28,001	646,788
					266,675
			2,932,294		2,932,294
				7,096	7,096
					158,463
				1,793,246	1,798,038
313,507	1,943,386	176,988	2,932,294	2,789,063	15,666,873
			120,241		262,279
334,879	3,209,726	186,952	2,824,002	2,217,545	15,347,671
					157,700
334,879	3,209,726	186,952	2,944,243	2,217,545	15,767,650
\$ 299,706	\$ 1,913,169	\$ 189,856	\$ 250,591	\$ 2,198,698	\$ 11,731,345

**SHELBY COUNTY**  
**Schedule of Revenues By Source and Expenditures By Function -**  
**All Governmental Fund Types**  
**For The Last Five Years**

	Modified Accrual Basis				
	2006	2005	2004	2003	2002
<b>Revenues</b>					
Property and Other County Tax	\$ 4,818,830	\$ 4,502,899	\$ 5,067,769	\$ 5,148,294	\$ 5,054,419
Tax Increment Financing	104,412	80,486	76,791	13,467	10,834
Interest and Penalty on Property Tax	27,516	39,534	33,092	31,318	30,593
Intergovernmental	4,295,795	5,156,147	5,262,810	4,597,199	4,685,112
Licenses and Permits	175,258	155,961	146,386	155,428	167,189
Charges for Service	451,336	360,563	309,773	259,749	207,932
Use of Money and Property	263,287	178,185	103,765	107,014	146,027
Miscellaneous	278,586	196,995	148,858	157,358	178,701
<b>Total Revenues</b>	<b><u>10,415,020</u></b>	<b><u>10,670,770</u></b>	<b><u>11,149,244</u></b>	<b><u>10,469,827</u></b>	<b><u>10,480,807</u></b>
<b>Expenditures</b>					
<b>Current</b>					
Public Safety and Legal Services	1,524,392	1,433,248	1,414,193	1,412,643	1,320,652
Physical Health and Social Services	355,800	348,471	327,235	309,525	313,999
Mental Health	2,078,486	1,863,309	1,708,411	1,722,413	1,693,340
County Environment and Education Services	316,362	358,298	434,326	474,704	456,852
Roads and Transportation	4,079,612	3,709,770	3,346,330	3,369,496	3,450,517
Government Services to Residents	362,108	333,628	292,064	298,686	307,206
Administrative Services	1,010,105	964,039	929,941	948,414	928,139
Non-Program	126,899	654,913	394,390	172,125	91,118
Debt Service	59,481	69,528	566,504	172,834	169,554
Capital Projects	892,627	1,250,941	1,201,839	447,566	862,900
<b>Total Expenditures</b>	<b><u>\$ 10,805,872</u></b>	<b><u>\$ 10,986,145</u></b>	<b><u>\$ 10,615,233</u></b>	<b><u>\$ 9,328,406</u></b>	<b><u>\$ 9,594,277</u></b>



1009 Iowa Avenue  
P.O. Box 238  
Onawa, IA 51040  
Phone (712) 423-2616  
Fax (712) 423-2626

**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 Officials of Shelby County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County, Iowa of and for the year ended June 30, 2006, and have issued our report thereon dated November 10, 2006. We conducted our 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 our audit, we considered Shelby County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Shelby County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Compliance:

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the board of education, management, employees and citizens of Shelby County and other parties to whom Shelby County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Shelby County during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

*Williams & Company P.C.*  
Certified Public Accountants

Onawa, Iowa  
November 10, 2006

**SHELBY COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2006**

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

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

No material weaknesses in internal control over financial reporting were noted.

**SHELBY COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2006**

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

- III-A-06      Official Depositories – A resolution naming official depositories has been approved by the County. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.
- III-B-06      Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the mental health, roads and transportation, and non-program functions and disbursements in certain departments exceeded the amounts appropriated.
- Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.
- Response – Budgets are monitored every year, but sometimes last minute expenditures cause functions to exceed the budgeted amounts. The County will continue to monitor budgets very closely.
- Conclusion – Response accepted.
- III-C-06      Questionable Disbursements – No expenditures were noted that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-06      Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- III-E-06      Business Transactions – There were no business transactions between the County and County officials or employees during the year ended June 30, 2006.
- III-F-06      Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-06      Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- III-H-06      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County's investment policy were noted.

**SHELBY COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2006**

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III-I-06      Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

III-J-06      County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations

Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.