

**SHELBY COUNTY, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2010**

Shelby County  
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Shelby County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Schmitz	Board of Supervisors	January, 2011
Delbert Hull	Board of Supervisors	January, 2013
James Burmeister	Board of Supervisors	January, 2013
Marsha Carter	County Auditor	January, 2013
Carolyn Blum	County Treasurer	January, 2011
Linda Fahn	County Recorder	January, 2011
Mark Hervey	County Sheriff	January, 2012
Marcus Gross	County Attorney	January, 2011
Tony Buman	County Assessor	January, 2016

# Gronewold, Bell, Kyhnn & Co. P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Officials of Shelby County

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, 2010, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 February 28, 2011 on our consideration of Shelby County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 3f and 29 through 31 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.

To the Officials of Shelby County

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby County's basic financial statements. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Garnett, Bell, Kohn & Co. P.C.

Atlantic, Iowa  
February 28, 2011

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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, 2010. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 19.0%, or approximately \$2,314,700, from Fiscal 2009 to Fiscal 2010. Property and other County Taxes decreased approximately \$251,900. Operating Grants and Contributions increased approximately \$1,627,300, and Capital Grants and Contributions increased by approximately \$1,948,500.
- Program expenses of the County's governmental activities were .5%, or approximately \$58,800, less in Fiscal 2010 than in Fiscal 2009. Roads and Transportation expenses increased approximately \$452,300 and Administration increased by approximately \$138,700. Every other service area recorded decreases: Public Safety and Legal Services - \$88,800; Physical Health and Social Services - \$176,300; Mental Health - \$141,200; Government Services to Residents - \$84,200; and County Environment and Education - \$148,900.
- The County's net assets increased 16.2%, or approximately \$2,758,000, from June 30, 2009 to June 30, 2010.

### 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 details 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, and interest on long-term debt. 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. Shelby County's combined net assets increased from \$17.00 million to \$19.77 million. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)			
		June 30,	
		2010	2009
Current and Other Assets		\$ 11,401	\$ 11,839
Capital Assets		16,042	13,288
Total Assets		27,443	25,127
Long-Term Liabilities		1,426	1,748
Other Liabilities		6,250	6,370
Total Liabilities		7,676	8,118
Net Assets			
Invested in Capital Assets, Net of Related Debt		15,160	12,043
Restricted		3,164	2,995
Unrestricted		1,443	1,971
Total Net Assets		\$ 19,767	\$ 17,009

Net assets of Shelby County's governmental activities increased approximately \$2,758,000, or 16.2% during the year. 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, decreased from approximately \$1,971,000 at June 30, 2009 to approximately \$1,443,000 at the end of this year, a decrease of 26.8%

This decrease of approximately \$528,000 in unrestricted net assets was a result of the decrease in the general fund balance. The County increased its investment in capital assets, net of related debt by approximately \$2,753,600 over the prior year, primarily due to the completion of several Roads and Transportation construction projects and the payment of \$345,000 of related debt.

Changes in Net Assets of Governmental Activities (Expressed in Thousands)			
		Year Ended June 30,	
		2010	2009
Revenues			
Program Revenues:			
Charges for Services	\$	468	\$ 770
Operating Grants, Contributions, and Restricted Interest		5,437	3,809
Capital Grants, Contributions, and Restricted Interest		2,612	663
General Revenues:			
Property and Other County Tax		5,190	5,591
Tax Increment Financing		399	335
Penalty and Interest on Property Tax		34	33
State Tax Credits		252	831
Unrestricted Investment Earnings		130	133
Other General Revenues		--	42
Total Revenues		14,522	12,207
Program Expenses			
Public Safety and Legal Services		1,770	1,858
Physical Health and Social Services		458	634
Mental Health		2,095	2,236
County Environment and Education		446	595
Roads and Transportation		5,322	4,870
Governmental Services to Residents		399	483
Administration		1,226	1,088
Non-Program		--	3
Interest on Long-Term Debt		48	56
Total Expenses		11,764	11,823
Change in Net Assets		2,758	384
Net Assets, Beginning of Year		17,009	16,625
Net Assets, End of Year	\$	19,767	\$ 17,009

Revenues of the County's governmental activities increased 19.0%, or approximately \$2,315,000, from Fiscal 2009 to Fiscal 2010. Property and other County Taxes decreased approximately \$401,000. Operating Grants and Contributions increased approximately \$1,628,000, and Capital Grants and Contributions increased by \$1,949,000.

Fiscal 2010 saw an increase in total taxable valuation of \$25,000,000, which is a 4.7% increase, but the total tax asking actually decreased \$129,000, or only 2.6%.

The cost of all governmental activities this year was \$11.8 million, a decrease of \$59,000 when compared to last year. However, as shown in the Statement of Activities on page 6, the amount taxpayers ultimately financed for these activities was \$3.25 million because some of the cost was paid by those directly benefited from the programs (\$468,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,049,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased from approximately \$5,242,000 in 2009 to \$8,517,000 in 2010, principally due to the increase in Capital Grants and Operating Grants, Contributions, and Restricted Interest. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$6,005,000 in property and local option taxes (some of which could only be used for certain programs) and 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 \$4.9 million, a decrease of approximately \$509,000 from last year's total of \$5.4 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 2010 with a fund balance totaling \$1,566,751. This was a decrease from Fiscal Year 2009 of \$449,629.
- The Mental Health Fund balance at year end increased by \$322,359 from the prior year due to additional Federal and State dollars. Shelby County had also applied for and received \$203,000 from the State Risk Pool, which had to be paid back in FY2011 because the ending balance was too high after receiving the Federal and State Stimulus Funds.
- The Rural Services Fund ended Fiscal Year 2010 with a fund balance of \$218,540. This was an decrease from Fiscal Year 2009 of \$64,155.
- The Secondary Roads Fund ended Fiscal Year 2010 with a fund balance of \$1,991,995, down \$469,657 when compared to the ending balance for Fiscal Year 2009. The County continues to work for Federal and State grants and shared funding projects, such as FEMA, EWP, etc., to help offset the maintenance costs to local taxpayers.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following a 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 18, 2010 by \$1,367,055. Only \$134,000 was taken from undesignated reserves for unplanned but necessary expenditures. Shelby County also amended its budget to spend \$190,000 for a new energy efficient boiler and computer servers, for which we will receive approximately \$95,000 from an Iowa Energy Grant. An amount of \$125,000 was also included in the amendment for an early pay off of the Sewer Project Bond at the Business Park. The major portion of the \$855,500 of the amendment taken from designated reserves was for Secondary Road maintenance, snow removal costs and additional construction costs.

The County's total receipts of \$12,522,420 were \$597,880 more than budgeted. \$511,148 of this was received in Intergovernmental Revenue, which includes all State and Federal Grants.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, Shelby County had approximately \$16 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is an approximate \$2.7 million increase (including additions and deletions) over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30	
	2010	2009
Land	\$ 331	\$ 331
Construction in Progress	46	--
Buildings and Improvements	2,248	2,263
Equipment and Vehicles	2,814	2,341
Infrastructure	10,603	8,353
<b>Total</b>	<b>\$ 16,042</b>	<b>\$ 13,288</b>

The County had depreciation expense of \$799,965 in Fiscal 2010 and total accumulated depreciation of \$7,424,489 at June 30, 2010. The County's Fiscal Year 2010 capital budget included \$1,653,696 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.

### Long-Term Debt

At June 30, 2010, Shelby County had \$905,000 in general obligation capital loan notes outstanding, compared to approximately \$1,246,000 of long-term debt at June 30, 2009, as shown below.

Outstanding Debt of Governmental Activities at Year End (Expressed in Thousands)		
	June 30	
	2010	2009
General Obligation Capital Loan Notes	\$ --	\$ 250
General Obligation Capital Loan Notes	905	996
<b>Total</b>	<b>\$ 905</b>	<b>\$ 1,246</b>

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the 1-1-2008 assessed value of all taxable property in the County. Shelby County's outstanding general obligation debt is significantly below its constitutional debt limit of \$29.1 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 elected and appointed officials and citizens considered many factors when setting the Fiscal Year 2011 budget, tax rates and the fees charged for various County activities. One of those factors is the economy. In December of 2009, the County's unemployment was at 4.7% versus 4.0% a year ago. This compared with the State's unemployment rate of 6.0% and the national rate of 9.9%.

The union contracts expired June 30, 2010. With unemployment increasing nationwide, the employees were willing to work with the County. The County was able to negotiate with all three unions for a 0% increase for FY2011 and a 2% increase for FY2012, with no decrease in benefits.

All the different variables were taken into account when adopting the Fiscal Year 2011 Budget. Budgeted revenues for the General and Rural Services Funds stayed fairly level from Fiscal Year 2010, not including property tax revenue. Expected revenues from Local Option Sales Tax, Licenses & Permits, Charges for Services and Use of Money and Property were estimated at the same level due to the slow economy. Budgeted expenditures in the General and Rural Services Funds decreased approximately \$249,000 as the County continues to try to hold the line on spending. Even though there was an increase in property valuation, the transfer Secondary Roads was frozen at FY2010 level. The other Service Areas had minimal change. The County is working to maintain the existing fund balances to cover any unforeseen expenditures throughout Fiscal Year 2011. The final Fiscal Year 2011 Budget was adopted with a total tax rate decrease of \$1.35 per \$1,000 of taxable valuation, due to the valuation increase and a total tax asking decrease of \$100,000.

At the end of Fiscal 2010, the County made an additional payment on the 2004 Bond issue of \$125,000 for the Western Ventures Business Park Sewer Project to retire that debt. This Bond was paid off using a Tax Increment Financing District. The valuation of this district will be made available to all other taxing entities by the end of FY2011, when the General Fund will be reimbursed for the extra bond payment.

In early 2008, the law was changed to add county roads to the list of essential purposes for which counties could bond. During Fiscal 2008, Shelby County was the first county in Iowa to use GO Bonds to fund a 1.5 mile granular surfaced road upgrade in Douglas Township. The construction of a 6,000-head dairy in the area and the increased traffic on that road was the reason for the \$1.1 million dollar bond. The taxes collected in that Tax Increment Financing District continue to fund the bond payments.

The 2009-2010 winter proved to be the worst in recent history, with Shelby County being named in two different disaster declarations for ice storms and blizzards. The County was then able to apply for FEMA funds in the amount of approximately \$98,000 to help defray Secondary Road costs for overtime and equipment rental.

## **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, 2010

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 4,829,673
Receivables:	
Property tax:	
Delinquent	14,084
Succeeding year	5,015,200
Accounts	58,566
Accrued interest	10,005
Due from other funds	33,210
Due from other governments	522,848
Prepaid insurance	44,102
Inventories	849,831
Unamortized bond issuance costs	23,436
Capital assets (net of accumulated depreciation)	<u>16,041,931</u>
Total assets	<u>27,442,886</u>
<b>Liabilities</b>	
Accounts payable	488,128
Accrued interest payable	2,677
Salaries and benefits payable	197,116
Due to other governments	490,469
Deferred revenue:	
Succeeding year property tax	5,015,200
Other	56,534
Long-term liabilities:	
Portion due or payable within one year:	
General obligation notes	95,000
Compensated absences	520,607
Portion due or payable after one year:	
General obligation notes	<u>810,000</u>
Total liabilities	<u>7,675,731</u>

(continued next page)

Shelby County  
Statement of Net Assets - continued  
June 30, 2010

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 15,160,367
Restricted for:	
Rural services	203,991
Mental health purposes	598,059
Secondary roads purposes	1,818,319
Other purposes	543,259
Unrestricted	<u>1,443,160</u>
Total net assets	<u>\$ 19,767,155</u>

See notes to financial statements.

Shelby County

Statement of Activities

Year ended June 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>
		<u>Charges for Service</u>
Functions/Programs:		
Governmental activities:		
Public safety and legal services	\$ 1,769,624	\$ 100,041
Physical health and social services	458,111	16,126
Mental health	2,094,843	--
County environment and education	446,529	58,062
Roads and transportation	5,322,177	--
Governmental services to residents	398,729	293,272
Administrative services	1,226,352	973
Interest on long-term debt	48,612	--
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 11,764,977</u>	<u>\$ 468,474</u>
General Revenues:		
Property and other county tax levied for:		
General purpose		
Penalty and interest on property tax		
Local option sales tax		
Tax increment financing		
State tax credits		
Unrestricted investment earnings		
Total general revenues		
Change in net assets		
Net assets beginning of year		
Net assets end of year		

See notes to financial statements.

<u>Program Revenues</u>		
<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
\$ 68,199	\$ --	\$( 1,601,384)
253,635	--	( 188,350)
1,535,162	--	( 559,681)
848,791	--	460,324
2,667,484	2,611,872	( 42,821)
31,770	--	( 73,687)
31,631	--	( 1,193,748)
<u>--</u>	<u>--</u>	<u>( 48,612)</u>
<u>\$ 5,436,672</u>	<u>\$ 2,611,872</u>	<u>( 3,247,959)</u>

4,858,724  
33,787  
331,579  
399,815  
251,852  
130,167  
6,005,924  
2,757,965  
17,009,190  
\$ 19,767,155

Shelby County  
Balance Sheet  
Governmental Funds  
June 30, 2010

	<u>General</u>	<u>Special Revenue</u>	
		<u>Rural Services</u>	<u>Secondary Roads</u>
<b>Assets</b>			
Cash and pooled investments	\$ 1,576,201	\$ 184,272	\$ 1,412,489
Receivables:			
Property tax:			
Delinquent	9,101	3,129	--
Succeeding year	2,761,800	1,188,200	--
Accounts	48,606	--	9,354
Accrued interest	10,005	--	--
Due from other funds	32,984	--	918
Due from other governments	7,437	31,196	371,930
Inventories	--	--	849,831
Prepaid insurance	<u>44,102</u>	<u>--</u>	<u>--</u>
<b>Total assets</b>	<b><u>\$ 4,490,236</u></b>	<b><u>\$ 1,406,797</u></b>	<b><u>\$ 2,644,522</u></b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 23,186	\$ --	\$ 385,718
Salaries and benefits payable	85,037	--	85,578
Due to other funds	698	--	--
Due to other governments	44	--	394
Deferred revenue:			
Succeeding year property tax	2,761,800	1,188,200	--
Other	4,202	57	56,534
Compensated absences	<u>48,518</u>	<u>--</u>	<u>124,303</u>
<b>Total liabilities</b>	<b><u>2,923,485</u></b>	<b><u>1,188,257</u></b>	<b><u>652,527</u></b>

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<u>Special Revenue Mental Health</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 1,100,761	\$ 555,950	\$ 4,829,673
1,854	--	14,084
857,400	207,800	5,015,200
20	586	58,566
--	--	10,005
--	226	34,128
81,453	30,832	522,848
--	--	849,831
--	--	44,102
<u>\$ 2,041,488</u>	<u>\$ 795,394</u>	<u>\$ 11,378,437</u>
\$ 54,487	\$ 24,737	\$ 488,128
19,281	7,220	197,116
220	--	918
490,031	--	490,469
857,400	207,800	5,015,200
295	--	61,088
6,930	9,701	189,452
<u>1,428,644</u>	<u>249,458</u>	<u>6,442,371</u>

Shelby County  
 Balance Sheet  
 Governmental Funds - continued

June 30, 2010

	<u>General</u>	<u>Special Revenue</u>	
		<u>Rural Services</u>	<u>Secondary Roads</u>
Fund balances:			
Reserved for:			
Debt service	\$       --	\$       --	\$       --
Resource enhancements and protection	--	--	--
Unreserved, reported in:			
General fund	1,566,751	--	--
Special revenue funds	--	218,540	1,991,995
Capital projects fund	--	--	--
Total fund balances	<u>1,566,751</u>	<u>218,540</u>	<u>1,991,995</u>
 Total liabilities and fund balances	 <u>\$ 4,490,236</u>	 <u>\$ 1,406,797</u>	 <u>\$ 2,644,522</u>

See notes to financial statements.

<u>Special Revenue Mental Health</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$       --	\$       320	\$       320
--	5,789	5,789
--	--	1,566,751
612,844	251,447	3,074,826
--	288,380	288,380
<u>612,844</u>	<u>545,936</u>	<u>4,936,066</u>
<u>\$ 2,041,488</u>	<u>\$ 795,394</u>	<u>\$ 11,378,437</u>

Shelby County

Reconciliation of the Balance Sheet -  
Governmental Funds to the Statement of Net Assets

June 30, 2010

Total governmental fund balances (page 8)	\$ 4,936,066
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$23,466,420 and the accumulated depreciation is \$7,424,489.	16,041,931
Unamortized debt issue costs are not a current use of financial resources and, therefore are not reported in the funds.	23,436
Certain assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	4,554
Accrued interest payable, long-term liabilities, including general obligation notes, compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>( 1,238,832)</u>
Net assets of governmental activities (page 5)	<u>\$ 19,767,155</u>

See notes to financial statements.

Shelby County

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2010

	General	Special Revenue	
		Rural Services	Secondary Roads
<b>Revenues:</b>			
Property and other County tax	\$ 2,770,454	\$ 1,417,729	\$ 165,790
Interest and penalty on property tax	33,851	--	--
Intergovernmental	248,517	122,362	3,580,362
Licenses and permits	233,968	--	870
Charges for service	357,357	--	--
Use of money and property	130,167	--	--
Miscellaneous	33,751	--	99,349
<b>Total revenues</b>	<u>3,808,065</u>	<u>1,540,091</u>	<u>3,846,371</u>
<b>Expenditures:</b>			
<b>Operating:</b>			
Public safety and legal services	1,778,557	--	--
Physical health and social services	461,919	--	--
Mental health	--	--	--
County environment and education	31,774	164,545	--
Roads and transportation	--	--	4,651,541
Governmental services to residents	403,798	387	--
Administration	1,010,335	--	--
Debt service	--	--	--
Capital projects	--	--	1,047,073
<b>Total expenditures</b>	<u>3,686,383</u>	<u>164,932</u>	<u>5,698,614</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>121,682</u>	<u>1,375,159</u>	<u>( 1,852,243)</u>

(continued next page)

<u>Special Revenue Mental Health</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 837,520	\$ 399,815	\$ 5,591,308
--	--	33,851
1,572,622	28,071	5,551,934
--	--	234,838
--	24,050	381,407
--	3,082	133,249
7,339	44,121	184,560
<u>2,417,481</u>	<u>499,139</u>	<u>12,111,147</u>
--	12,756	1,791,313
--	--	461,919
2,104,122	--	2,104,122
--	234,334	430,653
--	--	4,651,541
--	--	404,185
--	--	1,010,335
--	391,875	391,875
--	329,069	1,376,142
<u>2,104,122</u>	<u>968,034</u>	<u>12,622,085</u>
<u>313,359</u>	<u>( 468,895)</u>	<u>( 510,938)</u>

Shelby County

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds - continued

Year ended June 30, 2010

	<u>General</u>	<u>Special Revenue</u>	
		<u>Rural Services</u>	<u>Secondary Roads</u>
Other financing sources (uses):			
Sale of capital assets	\$ 2,000	\$ --	\$ --
Operating transfers in	200,000	--	1,382,586
Operating transfers out	<u>( 773,311)</u>	<u>( 1,439,314)</u>	<u>--</u>
Total other financing sources (uses)	<u>( 571,311)</u>	<u>( 1,439,314)</u>	<u>1,382,586</u>
Net change in fund balances	( 449,629)	( 64,155)	( 469,657)
Fund balances beginning of year	<u>2,016,380</u>	<u>282,695</u>	<u>2,461,652</u>
Fund balances end of year	<u>\$ 1,566,751</u>	<u>\$ 218,540</u>	<u>\$ 1,991,995</u>

See notes to financial statements.

<u>Special Revenue Mental Health</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$       --	\$       --	\$       2,000
9,000	621,039	2,212,625
<u>      --</u>	<u>      --</u>	<u>( 2,212,625)</u>
<u>     9,000</u>	<u>     621,039</u>	<u>          2,000</u>
322,359	152,144	(    508,938)
<u>     290,485</u>	<u>     393,792</u>	<u>     5,445,004</u>
<u>\$    612,844</u>	<u>\$    545,936</u>	<u>\$   4,936,066</u>

## Shelby County

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds to the Statement of Activities

Year ended June 30, 2010

Net change in fund balance - Total governmental funds (page 11)		\$( 508,938)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Capital outlays exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	\$ 1,142,509	
Capital assets contributed by the Iowa Department of Transportation	2,611,872	
Depreciation expense	<u>( 799,965)</u>	2,954,416
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:		
Principal paid		345,000
In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.		
Book value of disposed assets		( 200,823)
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.		
Change in deferred property tax revenues		( 1,254)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:		
Compensated absences	171,301	
Accrued interest on long-term debt	1,192	
Debt issue costs	<u>( 2,929)</u>	<u>169,564</u>
Change in net assets of governmental activities (page 6)		<u>\$ 2,757,965</u>

See notes to financial statements.

Shelby County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2010

## Assets

Cash and pooled investments:		
County Treasurer	\$	2,075,011
Other County Officials		53,900
Receivables:		
Property tax:		
Delinquent		26,760
Succeeding year		13,310,100
Accounts		41,283
Special assessments		3,177
Due from other governments		59,938
Total assets		<u>15,570,169</u>

## Liabilities

Accounts payable	50,225
Salaries and benefits payable	36,266
Due to other funds	33,210
Due to other governments	15,346,606
Trusts payable	14,025
Compensated absences	89,837
Total liabilities	<u>15,570,169</u>

Net assets	<u>\$</u>	<u>--</u>
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See notes to financial statements.

## Shelby County

### Notes to Financial Statements

June 30, 2010

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Shelby County 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, 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, Harrison/Monona/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 organization 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) and Southwest Iowa Juvenile Detention Center.

Shelby County  
Notes to Financial Statements  
June 30, 2010

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 County. 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, which 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 nonmajor governmental funds.

Shelby County  
Notes to Financial Statements  
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The County reports the following major governmental funds:

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 expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

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.

Additionally, the County reports the following funds:

Fiduciary Funds - Agency Funds are used to account for assets 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 year end.

Shelby County

Notes to Financial Statements

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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-reimbursement 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-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - 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 tax 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 in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Shelby County

Notes to Financial Statements

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2009.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from and Due to Other Funds - During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2010, 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 consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, equipment and vehicles, and infrastructure assets acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at 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.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$ 50,000
Land, buildings, and improvements	25,000
Equipment and vehicles	5,000

Shelby County

Notes to Financial Statements

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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>
Building and improvements	20 - 50
Land improvements	10 - 50
Infrastructure	10 - 50
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.

Trusts Payable - Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected 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, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in 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, including employee benefits, for subsequent use or for 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 amounts paid to employees within sixty days after year end. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Secondary Roads and Conservation Funds.

Shelby County  
Notes to Financial Statements  
June 30, 2010

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 not available for appropriation or 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, 2010, disbursements exceeded the amounts budgeted in the Debt Service function.

NOTE 2 - CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2010 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.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Shelby County  
Notes to Financial Statements  
June 30, 2010

NOTE 2 - CASH AND POOLED INVESTMENTS - Continued

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

Credit Risk - The County had no investments with credit risk.

Concentration of Credit Risk - The County places no limit on the amount which may be invested in any one issuer.

NOTE 3 - DUE FROM AND DUE TO OTHER FUNDS

The detail of interfund receivables and payables at June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency:	
	County Sheriff	\$ 12,141
	County Recorder	<u>20,843</u>
		32,984
Special Revenue:	General	698
Secondary Roads	Special Revenue:	
	Mental Health	<u>220</u>
		918
Special Revenue:	Agency:	
County Recorder's Records	County Recorder	
Management		<u>226</u>
Total		<u>\$ 34,128</u>

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

Shelby County  
Notes to Financial Statements  
June 30, 2010

NOTE 4 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Rural Services	\$ 200,000
Special Revenue: Secondary Roads	Special Revenue: Rural Services General	1,139,314 <u>243,272</u> 1,382,586
Special Revenue: Mental Health	General	9,000
Special Revenue: Conservation	General	130,000
Special Revenue: Tax Increment Financing	General	125,000
Capital Projects	General Special Revenue: Rural Services	266,039 <u>100,000</u> <u>366,039</u>
		<u>\$ 2,212,625</u>

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

Shelby County  
Notes to Financial Statements  
June 30, 2010

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 330,775	\$ --	\$ --	\$ 330,775
Construction in progress	--	45,858	--	45,848
Total capital assets not being depreciated	<u>330,775</u>	<u>45,848</u>	<u>--</u>	<u>376,623</u>
Capital assets being depreciated:				
Buildings	3,786,504	--	--	3,786,504
Land improvements	--	63,667	--	63,667
Equipment and vehicles	6,744,503	1,032,994	422,624	7,354,873
Infrastructure, road network	<u>9,272,881</u>	<u>2,611,872</u>	<u>--</u>	<u>11,884,753</u>
Total capital assets being depreciated	<u>19,803,888</u>	<u>3,708,533</u>	<u>422,624</u>	<u>23,089,797</u>
Less accumulated depreciation for:				
Buildings	1,523,206	78,989	--	1,602,195
Land improvements	--	--	--	--
Equipment and vehicles	4,403,110	360,049	221,801	4,541,358
Infrastructure, road network	<u>920,009</u>	<u>360,927</u>	<u>--</u>	<u>1,280,936</u>
Total accumulated depreciation	<u>6,846,325</u>	<u>799,965</u>	<u>221,801</u>	<u>7,424,489</u>
Total capital assets being depreciated, net	<u>12,957,563</u>	<u>2,908,568</u>	<u>200,823</u>	<u>15,665,308</u>
Governmental activities capital assets, net	<u>\$ 13,288,338</u>	<u>\$ 2,954,416</u>	<u>\$ 200,823</u>	<u>\$ 16,041,931</u>

Shelby County  
Notes to Financial Statements  
June 30, 2010

NOTE 5 - CAPITAL ASSETS - continued

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 23,991
Mental health	3,927
County environment and education	20,269
Roads and transportation	631,034
Governmental services to residents	17,815
Administrative services	<u>102,929</u>

Total depreciation expense - governmental activities \$ 799,965

NOTE 6 - DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a 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:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Services	\$ 44
Special Revenue:		
Mental Health		490,031
Secondary Roads		<u>394</u>
		<u>490,425</u>
Total for governmental funds		<u>\$ 490,469</u>
Agency:		
County Assessor	Collections	\$ 394,699
Emergency Management		
Services		670,780
Schools		9,276,124
Community Colleges		500,409
Corporations		2,547,871
Auto License and Use Tax		285,263
County Hospital		600,378
E911 Commission		320,525
All Other		<u>750,557</u>
Total for agency funds		<u>\$ 15,346,606</u>

Shelby County  
Notes to Financial Statements  
June 30, 2010

**NOTE 7 - LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	General Obligation Capital Loan Notes		Compensated Absences	Total
	Series 2004A	Series 2007		
Balance beginning of year	\$ 250,000	\$ 1,000,000	\$ 502,456	\$ 1,752,456
Increases	--	--	18,151	18,151
Decreases	<u>250,000</u>	<u>95,000</u>	<u>--</u>	<u>345,000</u>
Balance end of year	<u>\$ --</u>	<u>\$ 905,000</u>	<u>\$ 520,607</u>	<u>\$ 1,425,607</u>
Due within one year	<u>\$ --</u>	<u>\$ 95,000</u>	<u>\$ 520,607</u>	<u>\$ 615,607</u>

In November, 2007, the County issued \$1,065,000 in general obligation capital loan notes to fund the costs of undertaking an urban renewal project, including improvements to a road leading to a new dairy. Tax increment financial revenues will be used to pay off the capital loan notes. A summary of the County's June 30, 2010 general obligation capital Loan notes is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	3.60%	\$ 95,000	\$ 34,179	\$ 129,179
2012	3.65%	100,000	30,759	130,759
2013	3.70%	105,000	27,109	132,109
2014	3.75%	110,000	23,224	133,224
2015	3.80%	115,000	19,099	134,099
2016-2018	3.85-3.90%	<u>380,000</u>	<u>30,102</u>	<u>410,102</u>
Total		<u>\$ 905,000</u>	<u>\$ 164,472</u>	<u>\$ 1,069,472</u>

During the year ended June 30, 2010, interest payments under the Series 2004A and Series 2007 general obligation capital loan notes totaled \$8,924 and \$37,551, respectively. The County retired \$250,000 of Series 2004 A Notes and \$95,000 of Series 2007 Notes.

Shelby County

Notes to Financial Statements

June 30, 2010

NOTE 8 - PENSION AND RETIREMENT BENEFITS

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 regular plan members are required to contribute 4.30% (4.50% beginning July 1, 2010) of their annual covered salary and the County is required to contribute 6.65% (6.95% beginning July 1, 2010) of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were approximately \$250,300, \$232,900, and \$213,500, respectively, equal to the required contributions for each year.

NOTE 9 - 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 634 members from various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual 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 200 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 expense 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.

Shelby County

Notes to Financial Statements

June 30, 2010

NOTE 9 - RISK MANAGEMENT - Continued

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 contributions to the Pool for the year ended June 30, 2010 were approximately \$88,000.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's 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, 2010, no liability has been recorded in the County's financial statements. As of June 30, 2010, 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 claim 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. If a member withdraws 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.

The County also carries insurance on the Shelby County Care Facility, and for employee blanket bond, and participates in the Iowa Municipalities Workers' Compensation Association (IMWCA) for Workman's Compensation insurance. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Shelby County

Notes to Financial Statements

June 30, 2010

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the County offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all County employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: The County currently finances a retiree benefit plan on a pay-as-you-go basis. Currently, the County has two retired employees in the plan. A review of the County's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Construction

The County has entered into a contract totaling approximately \$162,000 for a bridge replacement to be completed during fiscal year 2011. As of June 30, 2010, the County has incurred \$45,848 for materials on this project. The project will be financed with existing funds.

Development Funding

The County has committed to providing \$100,000 to Iowa Western Community College to help fund construction of its new College Park Plaza for new businesses. As of June 30, 2010, the County has provided \$75,000. The remaining \$25,000 commitment will be provided in fiscal year 2011.

Subsequent Events

The County has evaluated all subsequent events through February 28, 2011, the date the financial statements were available to be issued.

\* \* \*

REQUIRED SUPPLEMENTARY INFORMATION

Shelby County

Budgetary Comparison Schedule of Receipts, Disbursements and  
Changes in Balances - Budget and Actual (Cash Basis)  
All Governmental Funds  
Required Supplementary Information

Year ended June 30, 2010

	Actual	Less Funds not Required to be Budgeted	Net
<b>Receipts:</b>			
Property and other County tax	\$ 5,584,828	\$ --	\$ 5,584,828
Interest and penalty on property tax	33,899	--	33,899
Intergovernmental	5,977,394	--	5,977,394
Licenses and permits	234,903	--	234,903
Charges for service	351,774	--	351,774
Use of money and property	173,097	--	173,097
Miscellaneous	166,525	--	166,525
Total receipts	12,522,420	--	12,522,420
<b>Disbursements:</b>			
Public safety and legal services	1,766,138	--	1,766,138
Physical health and social services	456,403	--	456,403
Mental health	2,332,312	--	2,332,312
County environment and education	427,019	--	427,019
Roads and transportation	4,234,051	--	4,234,051
Governmental services to residents	400,972	--	400,972
Administration	1,004,317	--	1,004,317
Debt service	391,875	--	391,875
Capital projects	1,503,372	--	1,503,372
Total disbursements	12,516,459	--	12,516,459
Excess (deficiency) of receipts over (under) disbursements	5,961	--	5,961
Other financing sources, net	2,000	--	2,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	7,961	--	7,961
Balance beginning of year	4,821,712	--	4,821,712
Balance end of year	\$ 4,829,673	\$ --	\$ 4,829,673

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
<u>Original</u>	<u>Final</u>	
\$ 5,600,655	\$ 5,600,655	\$( 15,827)
22,000	22,000	11,899
5,369,691	5,466,246	511,148
221,074	221,074	13,829
274,155	280,155	71,619
218,078	218,078	( 44,981)
<u>116,332</u>	<u>116,332</u>	<u>50,193</u>
<u>11,821,985</u>	<u>11,924,540</u>	<u>597,880</u>
1,783,678	1,819,678	53,540
529,616	529,616	73,213
2,378,090	2,378,090	45,778
407,091	437,796	10,777
4,158,550	4,693,550	459,499
426,627	434,127	33,155
1,048,908	1,071,258	66,941
266,796	391,796	( 79)
<u>1,043,196</u>	<u>1,653,696</u>	<u>150,324</u>
<u>12,042,552</u>	<u>13,409,607</u>	<u>893,148</u>
( 220,567)	( 1,485,067)	1,491,028
<u>2,000</u>	<u>2,000</u>	<u>--</u>
( 218,567)	( 1,483,067)	1,491,028
<u>3,726,801</u>	<u>4,821,830</u>	<u>( 118)</u>
<u>\$ 3,508,234</u>	<u>\$ 3,338,763</u>	<u>\$ 1,490,910</u>

Shelby County  
 Budgetary Comparison Schedule -Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2010

	<u>Governmental Fund Types</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 12,522,420	\$( 411,273)	\$ 12,111,147
Expenditures	<u>12,516,459</u>	<u>105,626</u>	<u>12,622,085</u>
Net	5,961	( 516,899)	( 510,938)
Other financing sources, net	2,000	--	2,000
Beginning fund balances	<u>4,821,712</u>	<u>623,292</u>	<u>5,445,004</u>
Ending fund balances	<u>\$ 4,829,673</u>	<u>\$ 106,393</u>	<u>\$ 4,936,066</u>

See accompanying independent auditor's report.

## Shelby County

### Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2010

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 comparisons 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 ten major classes of expenditures known as functions, not by fund. These ten 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, administration, 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, and Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$1,367,055. The 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, 2010, disbursements exceeded the amounts budgeted in the Debt Service function.

**OTHER SUPPLEMENTARY INFORMATION**

Shelby County  
Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2010

	Special Revenue			
	County Recorder's Records Management	Recorder's Electronic Transaction Fee	Conservation Land Acquisition Trust	Conservation
Assets				
Cash and pooled investments	\$ 12,742	\$ 808	\$ 329	\$ 17,795
Receivables:				
Property tax:				
Succeeding year	--	--	--	--
Accounts receivable	--	--	--	--
Due from other funds	226	--	--	--
Due from other governments	--	--	--	160
	<u>12,968</u>	<u>808</u>	<u>329</u>	<u>17,955</u>
Total assets	<u>\$ 12,968</u>	<u>\$ 808</u>	<u>\$ 329</u>	<u>\$ 17,955</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ --	\$ 3,592
Salaries and benefits payable	--	--	--	7,220
Deferred revenue:				
Succeeding year				
property tax	--	--	--	--
Compensated absences	--	--	--	9,701
Total liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>20,513</u>
Fund balances:				
Reserved for:				
Debt service	--	--	--	--
Resource enhancement and protection	--	--	--	--
Unreserved	12,968	808	329	( 2,558)
Total fund balances	<u>12,968</u>	<u>808</u>	<u>329</u>	<u>( 2,558)</u>
Total liabilities and fund balances	<u>\$ 12,968</u>	<u>\$ 808</u>	<u>\$ 329</u>	<u>\$ 17,955</u>

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Special Revenue				
Resource Enhancement and Protection	Drug Forfeiture	Commissary	Flood and Erosion	Tax Increment Financing
\$ 5,789	\$ 12,036	\$ 3,725	\$ 9,716	\$ 218,671
--	--	--	--	207,800
--	--	481	--	--
--	--	--	--	--
<u>\$ 5,789</u>	<u>\$ 12,036</u>	<u>\$ 4,206</u>	<u>\$ 9,716</u>	<u>\$ 426,471</u>
\$ --	\$ --	\$ 166	\$ 4,563	\$ --
--	--	--	--	207,800
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>166</u>	<u>4,563</u>	<u>207,800</u>
--	--	--	--	--
5,789	--	--	--	--
--	12,036	4,040	5,153	218,671
<u>5,789</u>	<u>12,036</u>	<u>4,040</u>	<u>5,153</u>	<u>218,671</u>
<u>\$ 5,789</u>	<u>\$ 12,036</u>	<u>\$ 4,206</u>	<u>\$ 9,716</u>	<u>\$ 426,471</u>

Shelby County  
 Nonmajor Governmental Funds  
 Combining Balance Sheet - Continued  
 June 30, 2010

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Assets</b>			
Cash and pooled investments	\$ 320	\$ 274,019	\$ 555,950
Receivables:			
Property tax:			
Succeeding year	--	--	207,800
Accounts receivable	--	105	586
Due from other funds	--	--	226
Due from other governments	--	30,672	30,832
	<u>320</u>	<u>304,796</u>	<u>795,394</u>
<b>Total assets</b>	<b>\$ 320</b>	<b>\$ 304,796</b>	<b>\$ 795,394</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ --	\$ 16,416	\$ 24,737
Salaries and benefits payable	--	--	7,220
Deferred revenue:			
Succeeding year property tax	--	--	207,800
Compensated absences	--	--	9,701
<b>Total liabilities</b>	<u>--</u>	<u>16,416</u>	<u>249,458</u>
<b>Fund balances:</b>			
Reserved for:			
Debt service	320	--	320
Resource enhancement and protection	--	--	5,789
Unreserved	--	288,380	539,827
<b>Total fund balances</b>	<u>320</u>	<u>288,380</u>	<u>545,936</u>
<b>Total liabilities and fund balances</b>	<b>\$ 320</b>	<b>\$ 304,796</b>	<b>\$ 795,394</b>

See accompanying independent auditor's report.

Shelby County

Nonmajor Governmental Funds

Combining Schedule of Revenues, Expenditures and  
Changes in Fund Balances

Year ended June 30, 2010

	Special Revenue			
	County Recorder's Records Management	Recorder's Electronic Transaction Fee	Conservation Land Acquisition Trust	Conservation
Revenues:				
Property and other county tax	\$ --	\$ --	\$ --	\$ --
Intergovernmental	--	--	--	11,788
Charges for service	2,662	--	--	21,388
Use of money and property	28	5	1	3,001
Miscellaneous	--	--	--	2,207
Total revenues	<u>2,690</u>	<u>5</u>	<u>1</u>	<u>38,384</u>
Expenditures:				
Operating:				
Public safety and legal services	--	--	--	--
County environment and education	--	--	--	189,989
Debt service	--	--	--	--
Capital projects	--	--	--	--
Total expenditures	<u>--</u>	<u>--</u>	<u>--</u>	<u>189,989</u>
Excess (deficiency) of revenues over (under) expenditures	2,690	5	1	( 151,605)
Other financing sources (uses):				
Operating transfers in	--	--	--	130,000
Operating transfers out	--	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>130,000</u>
Net change in fund balances	2,690	5	1	( 21,605)
Fund balances beginning of year	<u>10,278</u>	<u>803</u>	<u>328</u>	<u>19,047</u>
Fund balances end of year	<u>\$ 12,968</u>	<u>\$ 808</u>	<u>\$ 329</u>	<u>\$( 2,558)</u>

(continued next page)

## Special Revenue

Resource Enhancement and Protection	Drug Forfeiture	Commissary	Flood and Erosion	Tax Increment Financing
\$ --	\$ --	\$ --	\$ --	\$ 399,815
15,757	--	--	--	526
--	--	--	--	--
20	27	--	--	--
--	4,025	6,152	--	--
<u>15,777</u>	<u>4,052</u>	<u>6,152</u>	<u>--</u>	<u>400,341</u>
--	5,377	7,379	--	--
10,000	--	--	34,345	--
--	--	--	--	391,875
--	--	--	--	--
<u>10,000</u>	<u>5,377</u>	<u>7,379</u>	<u>34,345</u>	<u>391,875</u>
5,777	( 1,325)	( 1,227)	( 34,345)	8,466
--	--	--	--	125,000
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
--	--	--	--	125,000
<u>5,777</u>	<u>( 1,325)</u>	<u>( 1,227)</u>	<u>( 34,345)</u>	<u>133,466</u>
12	13,361	5,267	39,498	85,205
<u>\$ 5,789</u>	<u>\$ 12,036</u>	<u>\$ 4,040</u>	<u>\$ 5,153</u>	<u>\$ 218,671</u>

## Shelby County

## Nonmajor Governmental Funds

Combining Schedule of Revenues, Expenditures and  
Changes in Fund Balances - Continued

Year ended June 30, 2010

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:			
Property and other county tax	\$ --	\$ --	\$ 399,815
Intergovernmental	--	--	28,071
Charges for service	--	--	24,050
Use of money and property	--	--	3,082
Miscellaneous	--	31,737	44,121
Total revenues	<u>--</u>	<u>31,737</u>	<u>499,139</u>
Expenditures:			
Operating:			
Public safety and legal services	--	--	12,756
County environment and education	--	--	234,334
Debt service	--	--	391,875
Capital projects	--	329,069	329,069
Total expenditures	<u>--</u>	<u>329,069</u>	<u>968,034</u>
Excess (deficiency) of revenues over (under) expenditures	--	( 297,332)	( 468,895)
Other financing sources (uses):			
Operating transfers in	--	366,039	621,039
Operating transfers out	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>366,039</u>	<u>621,039</u>
Net change in fund balances	--	68,707	152,144
Fund balances beginning of year	<u>320</u>	<u>219,673</u>	<u>393,792</u>
Fund balances end of year	<u>\$ 320</u>	<u>\$ 288,380</u>	<u>\$ 545,936</u>

See accompanying independent auditor's report.

Shelby County

Agency Funds

Combining Schedule of Fiduciary Assets and Liabilities

June 30, 2010

	<u>County Offices</u>		<u>Agricultural Extension Education</u>
	<u>County Recorder</u>	<u>County Sheriff</u>	
Assets			
Cash and pooled investments:			
County Treasurer	\$ --	\$ --	\$ 1,499
Other County officials	27,734	26,166	--
Receivables:			
Property tax:			
Delinquent	--	--	320
Succeeding year	--	--	146,300
Accounts	1,174	--	--
Special assessments	--	--	--
Due from other governments	--	--	--
Total assets	<u>\$ 28,908</u>	<u>\$ 26,166</u>	<u>\$ 148,119</u>
Liabilities			
Liabilities:			
Accounts payable	\$ --	\$ --	\$ --
Salaries and benefits payable	--	--	--
Due to other funds	21,069	12,141	--
Due to other governments	7,839	--	148,119
Trusts payable	--	14,025	--
Compensated absences	--	--	--
Total liabilities	<u>\$ 28,908</u>	<u>\$ 26,166</u>	<u>\$ 148,119</u>

(continued next page)

<u>County Assessor</u>	<u>Emergency Management Services</u>	<u>Sanitary Disposal District</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>
\$ 217,596	\$ 743,862	\$ 95,195	\$ 109,376	\$ 7,344	\$ 39,111
--	--	--	--	--	--
393	--	--	19,848	1,065	3,060
180,500	--	--	9,146,900	492,000	2,505,700
--	40,004	--	--	--	--
--	--	--	--	--	--
--	--	59,938	--	--	--
<u>\$ 398,489</u>	<u>\$ 783,866</u>	<u>\$ 155,133</u>	<u>\$9,276,124</u>	<u>\$ 500,409</u>	<u>\$ 2,547,871</u>
\$ --	\$ 8,692	\$ 24,165	\$ --	\$ --	\$ --
3,656	23,309	9,301	--	--	--
--	--	--	--	--	--
394,699	670,780	113,049	9,276,124	500,409	2,547,871
--	--	--	--	--	--
134	81,085	8,618	--	--	--
<u>\$ 398,489</u>	<u>\$ 783,866</u>	<u>\$ 155,133</u>	<u>\$9,276,124</u>	<u>\$ 500,409</u>	<u>\$ 2,547,871</u>

Shelby County

Agency Funds

Combining Schedule of Fiduciary Assets and Liabilities - Continued

June 30, 2010

	<u>Townships</u>	<u>Auto License and Use Tax</u>	<u>Brucellosis and Tuberculosis Eradication</u>
Assets			
Cash and pooled investments:			
County Treasurer	\$ 3,021	\$ 285,263	\$ 25
Other County officials	--	--	--
Receivables:			
Property tax:			
Delinquent	638	--	4
Succeeding year	245,700	--	1,800
Accounts	--	--	--
Special assessments	--	--	--
Due from other governments	--	--	--
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 249,359</u>	<u>\$ 285,263</u>	<u>\$ 1,829</u>
Liabilities			
Liabilities:			
Accounts payable	\$ --	\$ --	\$ --
Salaries and benefits payable	--	--	--
Due to other funds	--	--	--
Due to other governments	249,359	285,263	1,829
Trusts payable	--	--	--
Compensated absences	--	--	--
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>\$ 249,359</u>	<u>\$ 285,263</u>	<u>\$ 1,829</u>

(continued next page)

<u>Monies and Credits</u>	<u>City Special Assessments</u>	<u>County Hospital</u>	<u>M/H/S Empowerment</u>	<u>Flex Benefits</u>
\$ --	\$ 622	\$ 7,746	\$ 162,891	\$ 22,180
--	--	--	--	--
--	--	1,432	--	--
--	--	591,200	--	--
--	--	--	--	--
--	3,177	--	--	--
--	--	--	--	--
<u>\$ --</u>	<u>\$ 3,799</u>	<u>\$ 600,378</u>	<u>\$ 162,891</u>	<u>\$ 22,180</u>
\$ --	\$ --	\$ --	\$ 14,723	\$ --
--	--	--	--	--
--	--	--	--	--
--	3,799	600,378	148,168	22,180
--	--	--	--	--
--	--	--	--	--
<u>\$ --</u>	<u>\$ 3,799</u>	<u>\$ 600,378</u>	<u>\$ 162,891</u>	<u>\$ 22,180</u>

Shelby County

Agency Funds

Combining Schedule of Fiduciary Assets and Liabilities - Continued

June 30, 2010

	<u>E911</u>	<u>Advance Tax</u>
Assets		
Cash and pooled investments:		
County Treasurer	\$ 323,065	\$ 55,504
Other County officials	--	--
Receivables:		
Property tax:		
Delinquent	--	--
Succeeding year	--	--
Accounts	105	--
Special assessments	--	--
Due from other governments	<u>--</u>	<u>--</u>
Total assets	<u>\$ 323,170</u>	<u>\$ 55,504</u>
Liabilities		
Liabilities:		
Accounts payable	\$ 2,645	\$ --
Salaries and benefits payable	--	--
Due to other funds	--	--
Due to other governments	320,525	55,504
Trusts payable	--	--
Compensated absences	<u>--</u>	<u>--</u>
Total liabilities	<u>\$ 323,170</u>	<u>\$ 55,504</u>

See accompanying independent auditor's report.

<u>Tax Sale</u>	<u>Unapportioned Tax</u>	<u>Recorder's Electronic Transfer Fee</u>	<u>Total</u>
\$ --	\$ --	\$ 711	\$ 2,075,011
--	--	--	53,900
--	--	--	26,760
--	--	--	13,310,100
--	--	--	41,283
--	--	--	3,177
<u>--</u>	<u>--</u>	<u>--</u>	<u>59,938</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 711</u>	<u>\$ 15,570,169</u>
\$ --	\$ --	\$ --	\$ 50,225
--	--	--	36,266
--	--	--	33,210
--	--	711	15,346,606
--	--	--	14,025
<u>--</u>	<u>--</u>	<u>--</u>	<u>89,837</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 711</u>	<u>\$ 15,570,169</u>

Shelby County

Agency Funds

Combining Schedule of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2010

Assets and Liabilities	County Offices		Agricultural Extension Education
	County Recorder	County Sheriff	
Balances beginning of year	\$ 32,644	\$ 27,312	\$ 132,227
Additions:			
Property and other County tax	--	--	138,765
E911 surcharge	--	--	--
State tax credits	--	--	7,862
Office fees and collections	241,995	45,702	--
Auto licenses, use tax and postage	--	--	--
Assessments	--	--	--
Trusts	--	138,359	--
Miscellaneous	--	--	--
Total additions	<u>241,995</u>	<u>184,061</u>	<u>146,627</u>
Deductions:			
Agency Remittances:			
To other funds	97,105	--	--
To other governments	148,626	46,848	130,735
Trusts paid out	--	138,359	--
Total deductions	<u>245,731</u>	<u>185,207</u>	<u>130,735</u>
Balances end of year	\$ <u>28,908</u>	\$ <u>26,166</u>	\$ <u>148,119</u>

(continued next page)

<u>County Assessor</u>	<u>Emergency Management Services</u>	<u>Sanitary Disposal District</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>
<u>\$ 355,078</u>	<u>\$ 694,533</u>	<u>\$ 537,187</u>	<u>\$7,814,268</u>	<u>\$ 516,897</u>	<u>\$ 3,201,025</u>
169,822	--	--	8,702,911	471,054	2,374,426
--	--	--	--	--	--
11,053	--	--	463,276	30,880	144,166
44	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	787,687	325,569	--	--	--
<u>180,919</u>	<u>787,687</u>	<u>325,569</u>	<u>9,166,187</u>	<u>501,934</u>	<u>2,518,592</u>
--	--	--	--	--	--
137,508	698,354	707,623	7,704,331	518,422	3,171,746
--	--	--	--	--	--
<u>137,508</u>	<u>698,354</u>	<u>707,623</u>	<u>7,704,331</u>	<u>518,422</u>	<u>3,171,746</u>
<u>\$ 398,489</u>	<u>\$ 783,866</u>	<u>\$ 155,133</u>	<u>\$9,276,124</u>	<u>\$ 500,409</u>	<u>\$ 2,547,871</u>

Shelby County

Agency Funds

Combining Schedule of Changes in Fiduciary Assets and Liabilities - Continued

Year ended June 30, 2010

Assets and Liabilities	<u>Townships</u>	<u>Auto License and Use Tax</u>	<u>Brucellosis and Tuberculosis Eradication</u>
Balance beginning of year	\$ 232,589	\$ 267,221	\$ 1,690
Additions:			
Property and other County tax	231,398	--	1,704
E911 surcharge	--	--	--
State tax credits	14,111	--	100
Office fees and collections	--	--	--
Auto licenses, use tax and postage	--	3,397,090	--
Assessments	--	--	--
Trusts	--	--	--
Miscellaneous	--	--	--
Total additions	<u>245,509</u>	<u>3,397,090</u>	<u>1,804</u>
Deductions:			
Agency Remittances:			
To other funds	--	128,736	--
To other governments	228,739	3,250,312	1,665
Trusts paid out	--	--	--
Total deductions	<u>228,739</u>	<u>3,379,048</u>	<u>1,665</u>
Balance end of year	<u>\$ 249,359</u>	<u>\$ 285,263</u>	<u>\$ 1,829</u>

(continued next page)

<u>Monies and Credits</u>	<u>City Special Assessments</u>	<u>County Hospital</u>	<u>M/H/S Empowerment</u>	<u>Flex Benefits</u>
\$ --	\$ 771	\$ 551,058	\$ 255,532	\$ 21,532
--	--	559,893	--	--
--	--	--	--	--
--	--	32,755	--	--
--	--	--	--	--
--	--	--	--	--
--	7,372	--	--	--
--	--	--	--	--
<u>816</u>	<u>--</u>	<u>--</u>	<u>553,036</u>	<u>33,888</u>
<u>816</u>	<u>7,372</u>	<u>592,648</u>	<u>553,036</u>	<u>33,888</u>
--	--	--	--	--
816	4,344	543,328	645,677	33,240
--	--	--	--	--
<u>816</u>	<u>4,344</u>	<u>543,328</u>	<u>645,677</u>	<u>33,240</u>
\$ --	\$ 3,799	\$ 600,378	\$ 162,891	\$ 22,180

Shelby County

Agency Funds

Combining Schedule of Changes in Fiduciary Assets and Liabilities - Continued

Year ended June 30, 2010

	<u>E911</u>	<u>Advance Tax</u>	<u>Tax Sale</u>
Assets and Liabilities			
Balance beginning of year	\$ 339,433	\$ 45,713	\$ --
Additions:			
Property and other County tax	--	9,791	130,543
E911 surcharge	96,306	--	--
State tax credits	--	--	--
Office fees and collections	--	--	--
Auto licenses, use tax and postage	--	--	--
Assessments	--	--	--
Trusts	--	--	--
Miscellaneous	--	--	--
Total additions	<u>96,306</u>	<u>9,791</u>	<u>130,543</u>
Deductions:			
Agency Remittances:			
To other funds	--	--	--
To other governments	112,569	--	130,543
Trusts paid out	--	--	--
Total deductions	<u>112,569</u>	<u>--</u>	<u>130,543</u>
Balance end of year	<u>\$ 323,170</u>	<u>\$ 55,504</u>	<u>\$ --</u>

See accompanying independent auditor's report.

<u>Unapportioned Tax</u>	<u>Recorder's Electronic Transfer Fee</u>	<u>Total</u>
\$ 180,710	\$ 586	\$ 15,208,006
--	--	12,790,307
--	--	96,306
--	--	704,203
--	7,208	294,949
--	--	3,397,090
--	--	7,372
--	--	138,359
--	--	1,700,996
<u>--</u>	<u>7,208</u>	<u>19,129,582</u>
--	--	225,841
--	7,083	18,222,509
<u>180,710</u>	<u>--</u>	<u>319,069</u>
<u>180,710</u>	<u>7,083</u>	<u>18,767,419</u>
<u>\$ --</u>	<u>\$ 711</u>	<u>\$ 15,570,169</u>

Shelby County

Schedule of Revenues by Source and Expenditures by Function -  
All Governmental Fund Types

For the Last Seven Years

	Modified Accrual Basis			
	2010	2009	2008	2007
<b>Revenues:</b>				
Property and other				
County tax	\$ 5,191,493	\$ 5,297,292	\$ 4,737,413	\$ 4,766,609
Tax increment financing	399,815	335,158	183,245	183,245
Interest and penalty on property tax	33,851	33,076	28,403	28,459
Intergovernmental	5,551,934	5,184,318	5,225,590	4,410,119
Licenses and permits	234,838	233,589	214,120	177,386
Charges for service	381,407	340,943	313,916	337,799
Use of money and property	133,249	186,901	328,668	273,406
Miscellaneous	184,560	196,293	287,209	275,494
Total	<u>\$ 12,111,147</u>	<u>\$ 11,807,570</u>	<u>\$ 11,318,564</u>	<u>\$ 10,452,517</u>
<b>Expenditures:</b>				
Operating:				
Public safety and legal services	\$ 1,791,313	\$ 1,717,065	\$ 1,704,440	\$ 1,630,894
Physical health and social services	461,919	639,560	368,441	357,941
Mental health	2,104,122	2,236,326	2,446,599	2,160,238
County environment and education	430,653	426,924	444,997	357,578
Roads and transportation	4,651,541	3,895,860	4,679,611	4,355,212
Governmental services to residents	404,185	399,957	398,242	350,805
Administration	1,010,335	1,012,706	1,004,741	919,344
Non-program	--	--	21,259	27,667
Debt service	391,875	326,818	228,445	221,123
Capital projects	1,376,142	1,266,974	368,616	343,285
Total	<u>\$ 12,622,085</u>	<u>\$ 11,922,190</u>	<u>\$ 11,665,391</u>	<u>\$ 10,724,087</u>

See accompanying independent auditor's report.

<u>Modified Accrual Basis</u>		
<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 4,818,830	\$ 4,502,899	\$ 5,067,769
104,412	80,486	76,791
27,516	39,534	33,092
4,295,795	5,156,147	5,262,810
175,258	155,961	146,386
451,336	360,563	309,773
263,287	178,185	103,765
<u>278,586</u>	<u>196,995</u>	<u>148,858</u>
<u>\$ 10,415,020</u>	<u>\$ 10,670,770</u>	<u>\$ 11,149,244</u>
\$ 1,524,392	\$ 1,433,248	\$ 1,414,193
355,800	348,471	327,235
2,078,486	1,863,309	1,708,411
316,362	358,298	434,326
4,079,612	3,709,770	3,346,330
362,108	333,628	292,064
1,010,105	964,039	929,941
126,899	654,913	394,390
59,481	69,528	566,504
<u>892,627</u>	<u>1,250,941</u>	<u>1,201,839</u>
<u>\$ 10,805,872</u>	<u>\$ 10,986,145</u>	<u>\$ 10,615,233</u>

## Shelby County

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
<b>Direct:</b>			
U.S. Department of Agriculture: Emergency Watershed Protection Program	10.923	69-6114-9-62 69-6114-9-72 69-6114-10-07	\$ 602,422
Total direct			<u>602,422</u>
<b>Indirect:</b>			
U.S. Department of Agriculture: Iowa Department of Human Services: State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561		4,528
Hungry Canyons Alliance: Soil and Water Conservation	10.902		74,934
U.S. Department of Transportation: Iowa Department of Public Defense: Interagency Hazardous Materials Training and Planning Grants	20.703		9,275
U.S. Department of Energy: Iowa Office of Energy Independence: ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-EE000812	30,672
U.S. Department of Education: Iowa Department of Transportation: ARRA - State Fiscal Stabilization Fund - Governmental Services Recovery Act	84.397	5397A090016A	12,309
Iowa Department of Human Services: ARRA - State Fiscal Stabilization Fund - Governmental Services Recovery Act	84.397		<u>203,000</u>
			<u>215,309</u>
U.S. Department of Health and Human Services: Iowa Department of Human Services: Human Services Administrative Reimbursements: Temporary Assistance for Needy Families Refugee and Entrant Assistance - State Administered Programs	93.558		2,330
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.566		13
Foster Care - Title IV-E	93.596		1,187
Adoption Assistance	93.658		2,422
Children's Health Insurance Program	93.659		606
Medical Assistance Program	93.767		27
	93.778		5,114
Social Services Block Grant	93.667		2,404
Social Services Block Grant	93.667		<u>42,378</u>
			<u>44,782</u>

(continued next page)

## Shelby County

## Schedule of Expenditures of Federal Awards - Continued

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
<b>Indirect:</b>			
U.S. Department of Health and Human Services (continued):			
Iowa Department of Education:			
Harrison, Monona, Shelby Community Empowerment Board:			
Child Care and Development Block Grant	93.575		\$ 56,735
Iowa Department of Management:			
Harrison, Monona, Shelby Community Empowerment Board:			
ARRA - Child Care and Development Block Grant	93.713	ACSS-11-034	24,009
Iowa Department of Public Health: Hospital Preparedness Program	93.889	5880EM221	10,000
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		97,841
Emergency Management Performance Grants	97.042		35,498
Total indirect			<u>615,282</u>
Total			<u>\$ 1,217,704</u>

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

See accompanying independent auditor's report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Officials of Shelby County

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, 2010, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated February 28, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelby County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shelby County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined below.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis.

To the Officials of Shelby County

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters 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 IV 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, 2010 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Shelby County and other parties to whom Shelby County may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Garnett, Ben, Kynan & Co. P.C.

Atlantic, Iowa  
February 28, 2011

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect on  
Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Officials of Shelby County

Compliance

We have audited the compliance of Shelby County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2010. Shelby County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of Shelby County's management. Our responsibility is to express an opinion on Shelby County's compliance based on our audit.

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

As described in the item 10-III-A in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding fund balance that are applicable to its State Fiscal Stabilization Fund - Governmental Services Recovery Act Grant Program. Compliance with such requirements is necessary, in our opinion, for Shelby County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Shelby County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

To the Officials of Shelby County

Internal Control Over Compliance

The management of Shelby County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shelby County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shelby County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 10-III-B. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Shelby County and other parties to whom Shelby County may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*G. Marshall, Ben, Kym + W.P.C.*

Atlantic, Iowa  
February 28, 2011

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

*Financial Statements*

- (a) Unqualified opinions were issued on the financial statements.
- (b) Internal control over financial reporting:
- Material weakness(es) identified?      \_\_\_\_\_ yes        X   no
  - Significant deficiency(ies) identified?      \_\_\_\_\_ yes        X   none reported
- (c) Noncompliance material to financial statements noted?      \_\_\_\_\_ yes        X   no

*Federal Awards*

- (d) Internal control over major programs:
- Material weakness(es) identified?      \_\_\_\_\_ yes        X   no
  - Significant deficiency(ies) identified?        X   yes      \_\_\_\_\_ none reported
- (e) Unqualified for all major programs except for State Fiscal Stabilization Fund - Governmental Services Recovery Act Grant Program, which was qualified.
- (f) Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the OMB Circular A-133?        X   yes      \_\_\_\_\_ no
- (g) The major programs were as follows:
- CFDA Number 10.923 - Emergency Watershed Protection Program
  - CFDA Number 84.397 - State Fiscal Stabilization Fund - Governmental Services Recovery Act
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- (i) Auditor qualify as low-risk auditee?      \_\_\_\_\_ yes        X   no

Shelby County

Schedule of Findings and Questioned Costs - Continued

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

10-II-A Timely Deposits: During our audit, we noted that the Environmental Health Department deposits receipts with the Treasurer sporadically, normally once every two or three weeks.

Recommendation: For better accountability and improved internal controls, deposits should be made at least weekly.

Response: The Environmental Health Department will deposit receipts in a timely manner.

Conclusion: Response accepted.

10-II-B Reconciliation of Collections: We noted during our audit that the Environmental Health Department does not reconcile permits issued with collections and deposits with the Treasurer.

Recommendation: For better accountability and improved internal controls, a reconciliation should be made between cash received and deposited, and permits issued.

Response: The County will reconcile permits issued with money collected and deposited.

Conclusion: Response accepted.

10-II-C Documentation Retentions: The Environmental Health Department does not maintain support to document the amount charged to restaurants for inspections and issuance of permits.

Recommendation: The County should keep documentation to support the charge for each restaurant's permit.

Response: The County will keep proper documentation in the future.

Conclusion: Response accepted.

Shelby County

Schedule of Findings and Questioned Costs - Continued

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements - Continued

10-II-D Comp Time: Employees of the County can earn comp time for hours worked in excess of forty hours per week to be used at a later time. These hours are to be approved by each department's supervisor and reported to the County Auditor's office with other payroll information to be tracked through the payroll system. We noted during the audit that the employees of the Environmental Health Department did not report to the County Auditor's office the amount of comp time earned or used. Therefore, approval of these hours is not documented and they are not tracked through the County's payroll system.

Recommendation: We recommend that all hours, including comp time, are approved and reported to the Auditor's office for proper documentation and tracking through the payroll system.

Response: All departments will comply with the reporting and approval of payroll hours in the future.

Conclusion: Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

CFDA Number 84.397: State Fiscal Stabilization Fund - Governmental Services Recovery Act.  
U.S. Department of Education  
Passed through the Iowa Department of Human Services

10-III-A Overabundance of Fund Balance: According to the grant agreement, the Mental Health Fund was required to have less than 5 percent of total revenues as a fund balance at June 30, 2010. Due to the Mental Health Fund having a larger fund balance at June 30, 2010, the grant of \$203,000 had to be paid back to the granting agency subsequent to year end.

Recommendation: The County should closely monitor fund balances in order to abide by grant agreements.

Response: The County will monitor grant requirements in the future.

Conclusion: Response accepted.

Shelby County

Schedule of Findings and Questioned Costs - Continued

Year ended June 30, 2010

Part III: Findings and Questioned Costs for Federal Awards - Continued

INTERNAL CONTROL DEFICIENCIES:

10-III-B Monitoring of Grant: The County's internal controls over grant compliance failed to identify its noncompliance with a certain requirement of the State Fiscal Stabilization Fund - Governmental Services Recovery Act Grant Program requirements, which led to the repayment of the grant funds received.

Recommendation: The County should establish a review process related to the County's compliance with its grant agreements. This improved internal control step will help ensure that the County is in compliance with its various grants.

Response: We will review our internal controls over grant compliance.

Conclusion: Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

10-IV-A Certified Budget: Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the debt service function.

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.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

10-IV-B Questionable Expenditures: No expenditures were noted that meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

10-IV-C Travel Expense: No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

10-IV-D Business Transactions: No business transactions between the County and County officials were noted.

10-IV-E 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 ensure that coverage is adequate for current operations.

10-IV-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

Shelby County

Schedule of Findings and Questioned Costs - Continued

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting - Continued

10-IV-G Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted, except that we noted the County received less than the minimum interest rate for public funds as established by the State Rate Setting Committee for one of its certificates of deposit.

Recommendation: The County should be sure to obtain interest rates for public funds equal to or greater than the minimum interest rates as established by the State Rate Setting Committee.

Response: We will be sure the minimum interest rates are obtained in the future.

Conclusion: Response accepted.

10-IV-H Resource Enhancement and Protection Certification: The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.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).

10-IV-I 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 and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2010 for the County Extension Office did not exceed the amount budgeted.

10-IV-J Payment of General Obligation Bonds: Certain general obligation notes were paid from the Special Revenue, Tax Increment Financing Fund. The Debt Service Fund is to be used to account for the payment of interest and principal on the County's general long-term debt.

Recommendation: The City should transfer from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response: We will transfer in the future as recommended.

Conclusion: Response accepted.

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