



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ March 17, 2006

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Auditor of State David A. Vaudt today released an audit report on Shelby County, Iowa.

The County had local tax revenue of \$15,493,680 for the year ended June 30, 2005, which included \$984,881 in tax credits from the state. The County forwarded \$10,682,532 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,811,148 of the local tax revenue to finance County operations, an 11 percent decrease from the prior year. Other revenues included charges for service of \$553,149, operating grants, contributions and restricted interest of \$4,529,718, capital grants, contributions and restricted interest of \$2,167,367, tax increment financing of \$80,486, unrestricted investment earnings of \$116,269 and other general revenues of \$259,329.

Expenses for County operations totaled \$10,841,715, an 18.7 percent increase from the prior year. Expenses included \$4,204,585 for roads and transportation, \$1,862,458 for mental health and \$1,371,961 for non-program.

The significant increase in expenses is due primarily to the completion of various capital projects as a result of capital contributions from the Iowa Department of Transportation and other grant awards.

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

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SHELBY COUNTY

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

JUNE 30, 2005

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Shelby County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2005)		
Gayle Petersen	Board of Supervisors	Jan 2005
Richard Ferry	Board of Supervisors	Jan 2005
Roger Schmitz	Board of Supervisors	Jan 2007
Marsha Carter	County Auditor	Jan 2005
Kathy Stinn	County Treasurer	Jan 2007
Linda Fahn	County Recorder	Jan 2007
Gene Cavanaugh	County Sheriff	Jan 2005
Jeffrey L. Larson	County Attorney	Jan 2007
Robert J. Heyderhoff	County Assessor	Jan 2010
(After January 2005)		
Roger Schmitz	Board of Supervisors	Jan 2007
LaVon Christensen	Board of Supervisors	Jan 2009
Richard Ferry	Board of Supervisors	Jan 2009
Marsha Carter	County Auditor	Jan 2009
Kathy Stinn	County Treasurer	Jan 2007
Linda Fahn	County Recorder	Jan 2007
Gene Cavanaugh	County Sheriff	Jan 2009
Marcus Gross	County Attorney	Jan 2009
Robert J. Heyderhoff	County Assessor	Resigned Aug 2005

Shelby County



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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, 2005, which collectively comprise the County's basic financial statements listed in the table of contents. These 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 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 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, 2005, and the respective changes in financial position 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 December 15, 2005 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 and other matters. 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 should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 38 through 41 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2004 (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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 11%, or approximately \$1,245,000, from fiscal 2004 to fiscal 2005. Property tax decreased approximately \$626,000, operating grants and contributions increased approximately \$219,000 and capital grants and contributions increased approximately \$1,570,000.
- Program expenses were 18.7%, or approximately \$1,706,000, more in fiscal 2005 than in fiscal 2004. Roads and transportation expense increased approximately \$868,000.
- The County's net assets increased 16.4%, or approximately \$1,676,000, from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the County's total net assets at June 30, 2005.

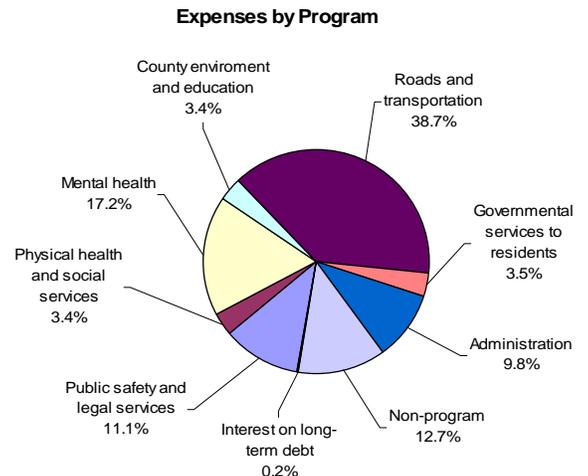
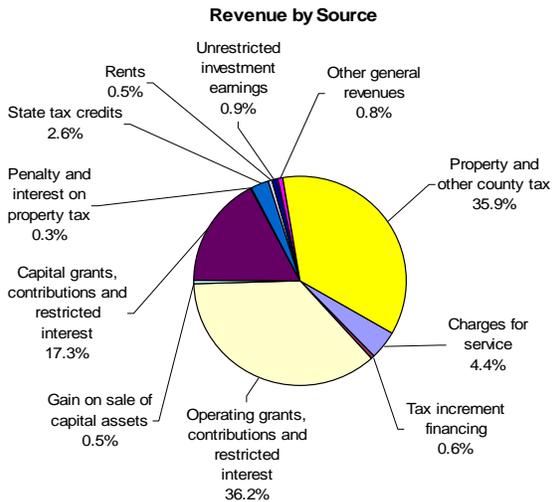
Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2005	2004
Current and other assets	\$ 9,861	9,659
Capital assets	7,995	5,913
Total assets	17,856	15,572
Long-term liabilities	1,175	408
Other liabilities	4,814	4,972
Total liabilities	5,989	5,380
Net assets:		
Invested in capital assets, net of related debt	7,785	5,638
Restricted	3,882	3,726
Unrestricted	200	828
Total net assets	\$ 11,867	10,192

Net assets of Shelby County's governmental activities increased by \$1.7 million or 16.4%. 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 \$828,000 at June 30, 2004 to approximately \$200,000 at the end of this year, a decrease of 75.8 percent. This reduction of approximately \$628,000 in unrestricted net assets was a result of increased expenditures for roadway maintenance and capital projects. The County increased its investment in capital assets, net of related debt by approximately \$2,147,000 over the prior year, primarily due to capital grants, contributions and restricted interest received from the Iowa Department of Transportation.

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

	Year ended June 30,	
	2005	2004
Revenues:		
Program revenues:		
Charges for service	\$ 553	546
Operating grants, contributions and restricted interest	4,530	4,311
Capital grants, contributions and restricted interest	2,167	597
General revenues:		
Property and other county tax	4,490	5,116
Tax increment financing	80	77
Penalty and interest on property tax	39	33
State tax credits	322	319
Rents	62	56
Unrestricted investment earnings	116	47
Gain on sale of capital assets	60	106
Other general revenues	98	64
Total revenues	12,517	11,272
Program expenses:		
Public safety and legal services	1,203	1,505
Physical health and social services	368	331
Mental health	1,863	1,700
County environment and education	367	469
Roads and transportation	4,205	3,337
Governmental services to residents	377	293
Administration	1,062	1,092
Non-program	1,372	394
Interest on long-term debt	25	15
Total expenses	10,842	9,136
Change in net assets	1,675	2,136
Net assets beginning of year	10,192	8,056
Net assets end of year	\$ 11,867	10,192



Revenues for governmental activities increased by approximately \$1,245,000 over the prior year, primarily due to an increase in capital grants, contributions and restricted interest, which increased from the prior year by approximately \$1,570,000. Property tax revenue was down from the prior year by approximately \$626,000, or 12.2 percent.

Shelby County had a 25% decrease in agricultural property value for this budget year. Our total taxable valuation dropped approximately \$88,000,000. This forced the County to increase property tax rates. The County increased property tax rates for fiscal year 2005 by an average of 9.4%. The County increased the general property tax levy rate by \$.72378 per \$1,000 of property valuation. The mental health property tax levy rate increased by \$.34847 per \$1,000 of property valuation. The rural services property tax levy rate was increased by \$.53784 per \$1,000 of property valuation. After the early pay-off of bank loans last year, the debt service property tax levy rate was decreased by \$.53584 per \$1,000 of property valuation. The valuation decrease combined with the property tax rate increases resulted in a \$590,810 decrease in tax asking for fiscal year 2005.

The cost of all governmental activities this year was \$10.8 million compared to \$9.1 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was only \$3.6 million because some of the cost was paid by those directly benefited from the programs (\$553,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,697,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2005 from approximately \$5,454,000 in 2004 to \$7,250,000, principally due to receiving grant proceeds from the Iowa Department of Transportation for the completion of road projects. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$4,490,000 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Shelby County completed the year, its governmental funds reported a combined fund balance of \$5 million, an increase of more than \$374,000 above last year's total of \$4.6 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 2005 with a fund balance totaling \$992,646. This was an increase from fiscal year 2004 of approximately \$10,700. Approximately \$90,000 of this balance has been earmarked for the future purchase of voting equipment as required by the Help America Vote Act.
- The Mental Health Fund balance at year end increased by approximately \$157,000 over the prior year. This was due to the County receiving community service and growth distribution dollars from the State and receiving additional funding for programs like the MR Waiver Program.
- The Rural Services Fund ended fiscal year 2005 with a fund balance of \$249,449. This was an increase from fiscal year 2004 of approximately \$97,000. This was primarily due to the County transferring \$114,000 less to the Secondary Roads Fund than during fiscal year 2004.
- The Secondary Roads Fund ended fiscal year 2005 with a fund balance of \$3,008,011, holding fairly level when compared to the ending balance for fiscal year 2004. The Secondary Roads Department maintains 960 miles of secondary roads within the County. It also has 250 bridges that exceed 20 feet in length on this system. Many of these bridges are older and have a reduced load limit. The County is on an extensive program to upgrade these bridges in order to eliminate the problems caused by less than legal loads. The useful life of the bridges is approximately 60 years. In order to break even, the County has to replace a minimum of 4 bridges per year. Currently, we are replacing them at the rate of about 5 per year in order to make the road systems legal for modern loads. The County is actively pursuing the closing of bridges and roads, where possible, to save tax dollars in maintenance.

- The Debt Service Fund ended fiscal year 2005 with a fund balance of \$2,995, holding level when compared to the ending balance for fiscal year 2004.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on a cash basis. Shelby County amended its budget March 1, 2005 to cover a \$690,000 note issue and a \$530,000 Iowa Department of Economic Development (IDED) flow-through grant for Shelby County Cookers, a new microwave bacon plant. The budget was amended again on May 17, 2005. This was due to a \$150,000 increase in secondary roads expenditures, a \$100,000 increase in mental health expenditures, an \$80,000 incentive payment to Shelby County Cookers, a possible additional \$170,000 IDED flow-thru grant, a \$100,000 possible payment for voting equipment, increased insurance costs and unanticipated expenditures in various other county departments, for a total fiscal year 2005 budget amendment of \$2,171,246. These expenditures were offset by \$690,000 of note proceeds, \$530,000 of grant receipts, \$519,146 from other revenue sources and \$297,000 from designated reserves, leaving only \$135,100 to be paid from unbudgeted revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, Shelby County had approximately \$8 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$2.1 million over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2005	2004
Land	\$ 331	331
Construction in progress	1,214	758
Buildings and improvements	2,273	2,334
Equipment and vehicles	2,216	2,256
Infrastructure	1,961	234
Total	\$ 7,995	5,913

The County had depreciation expense of \$431,908 in fiscal year 2005 and total accumulated depreciation of \$5,019,640 at June 30, 2005. The County's fiscal year 2005 capital budget included \$1,978,421 for capital projects, principally for road construction. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

During fiscal year 2005, secondary roads construction in progress included two major bridge replacements--a 30' X 253' pretensioned, prestressed concrete beam bridge one mile north of Irwin on M-47 at a cost of \$705,459 and a 24' X 226' pretensioned, prestressed concrete bridge south of F-58 on 450th Street at a cost of \$539,839.

At the end of fiscal year 2005, the M-47 rehabilitation project was nearing completion. This project was 9.86 miles of new hot mix asphalt pavement from Irwin south to State Highway 44 at a cost of \$3,092,649.

Long-Term Debt

At June 30, 2005, Shelby County had \$900,000 in general obligation capital loan notes outstanding, compared to approximately \$274,000 of long-term debt at June 30, 2004, as shown below.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2005	2004
General obligation capital loan notes	\$ 690	-
Capital lease/installment purchase agreements	-	19
Capital loan notes	210	255
Total	\$ 900	274

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Shelby County's officials considered many factors when setting the fiscal year 2006 budget, tax rates and the fees charged for various County activities. One of those factors is the economy. Unemployment in the County in June 2005 was 3.9%. This compares with the State's unemployment rate of 4.6% and the national rate of 5.0% for the same period.

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

All the different variables were taken into account when adopting the fiscal year 2006 budget. Budgeted revenues for the General and Rural Services Funds stayed fairly level from fiscal year 2005. Budgeted expenditures in the General and Rural Services Funds only increased by approximately \$3,500 and our General and Rural Services Funds budgeted reserves actually increased by \$132,663. Existing fund balances may be necessary to cover increases in health insurance costs for employees if they are higher than anticipated and to cover any unforeseen expenditures throughout fiscal year 2006. The final fiscal year 2006 budget was adopted with a total tax rate decrease of \$0.38745 per \$1,000 of taxable valuation and a total tax asking decrease of \$43,760.

At the end of fiscal year 2004, the County was in the process of bonding to finance the Western Ventures Sewer Project, a project to connect the Western Ventures Business Park to the City of Harlan's sewer system and to accommodate a new microwave bacon plant and all the other existing businesses in the park. That project was successfully completed during fiscal year 2005. The County issued general obligation capital loan notes of \$620,000 for the construction of the sewer line and \$70,000 in job incentives. Shelby County Cookers opened for business in early 2005 with the promise of 174 jobs within two years.

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

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.

Basic Financial Statements

Exhibit A

Shelby County
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 4,307,131
Receivables:	
Property tax:	
Delinquent	51,118
Succeeding year	4,428,000
Accounts	7,764
Accrued interest	31,846
Due from other governments	315,350
Inventories	675,820
Prepaid insurance	44,459
Capital assets (net of accumulated depreciation)	7,994,814
Total assets	<u>17,856,302</u>
Liabilities	
Accounts payable	114,857
Accrued interest payable	2,740
Salaries and benefits payable	121,710
Due to other governments	146,446
Deferred revenue:	
Succeeding year property tax	4,428,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	50,000
Compensated absences	66,847
Portion due or payable after one year:	
Capital loan notes	850,000
Compensated absences	208,302
Total liabilities	<u>5,988,902</u>
Net Assets	
Invested in capital assets, net of related debt	7,784,814
Restricted for:	
Supplemental levy purposes	420,044
Mental health purposes	578,348
Secondary roads purposes	2,154,470
Debt service	803
Capital projects	52,951
Other purposes	675,820
Unrestricted	200,150
Total net assets	<u>\$ 11,867,400</u>

See notes to financial statements.

Shelby County
Statement of Activities
Year ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,203,393	87,760	34,439	-	(1,081,194)
Physical health and social services	367,641	163,204	50,766	-	(153,671)
Mental health	1,862,458	-	1,110,363	-	(752,095)
County environment and education	366,979	8,140	32,511	-	(326,328)
Roads and transportation	4,204,585	83,815	2,679,282	2,087,367	645,879
Governmental services to residents	377,275	188,047	8,257	-	(180,971)
Administration	1,062,361	22,183	26,000	-	(1,014,178)
Non-program	1,371,961	-	588,100	80,000	(703,861)
Interest on long-term debt	25,062	-	-	-	(25,062)
Total	\$ 10,841,715	553,149	4,529,718	2,167,367	(3,591,481)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,436,503
Debt service					53,111
Tax increment financing					80,486
Penalty and interest on property tax					39,534
State tax credits					321,534
Rents					61,916
Unrestricted investment earnings					116,269
Gain on sale of capital assets					60,072
Miscellaneous					97,807
Total general revenues					5,267,232
Change in net assets					1,675,751
Net assets beginning of year					10,191,649
Net assets end of year					\$ 11,867,400

See notes to financial statements.

Shelby County
Balance Sheet
Governmental Funds

June 30, 2005

	Special		
	General	Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 1,004,791	727,519	257,148
Receivables:			
Property tax:			
Delinquent	27,887	8,864	13,819
Succeeding year	2,597,000	825,000	950,000
Accounts	10	7,027	727
Accrued interest	31,846	-	-
Due from other funds	2,057	-	-
Due from other governments	15,228	42,017	-
Inventories	-	-	-
Prepaid insurance	44,459	-	-
Total assets	\$ 3,723,278	1,610,427	1,221,694
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 47,504	48,811	3,493
Salaries and benefits payable	56,210	7,468	4,456
Due to other funds	2,031	62	477
Due to other governments	-	146,446	-
Deferred revenue:			
Succeeding year property tax	2,597,000	825,000	950,000
Other	27,887	8,864	13,819
Total liabilities	2,730,632	1,036,651	972,245
Fund balances:			
Reserved for:			
Debt service	-	-	-
Supplemental levy purposes	349,064	-	86,593
Unreserved, reported in:			
General fund	643,582	-	-
Special revenue funds	-	573,776	162,856
Capital projects fund	-	-	-
Total fund balances	992,646	573,776	249,449
Total liabilities and fund balances	\$ 3,723,278	1,610,427	1,221,694

See notes to financial statements.

Revenue			
Secondary Roads	Debt Service	Nonmajor	Total
2,137,340	2,995	177,338	4,307,131
-	548	-	51,118
-	56,000	-	4,428,000
-	-	-	7,764
-	-	-	31,846
2,570	-	-	4,627
258,105	-	-	315,350
675,820	-	-	675,820
-	-	-	44,459
<u>3,073,835</u>	<u>59,543</u>	<u>177,338</u>	<u>9,866,115</u>
13,283	-	1,766	114,857
52,541	-	1,035	121,710
-	-	2,057	4,627
-	-	-	146,446
-	56,000	-	4,428,000
-	548	-	51,118
<u>65,824</u>	<u>56,548</u>	<u>4,858</u>	<u>4,866,758</u>
-	2,995	-	2,995
-	-	-	435,657
-	-	-	643,582
3,008,011	-	119,529	3,864,172
-	-	52,951	52,951
<u>3,008,011</u>	<u>2,995</u>	<u>172,480</u>	<u>4,999,357</u>
<u>3,073,835</u>	<u>59,543</u>	<u>177,338</u>	<u>9,866,115</u>

Shelby County

Shelby County

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

June 30, 2005

Total governmental fund balances (page 19) \$ 4,999,357

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 \$13,014,454 and the accumulated depreciation is 7,994,814

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 51,118

Long-term liabilities, including capital loan notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,177,889)

Net assets of governmental activities (page 16) \$ 11,867,400

See notes to financial statements.

Shelby County

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

Year ended June 30, 2005

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,358,359	827,840	1,263,503	-
Tax increment financing	-	-	-	-
Interest and penalty on property tax	39,534	-	-	-
Intergovernmental	924,739	1,170,927	85,857	2,961,039
Licenses and permits	155,836	-	-	125
Charges for service	273,907	-	-	83,572
Use of money and property	174,324	-	3,491	-
Miscellaneous	70,570	21,522	877	-
Total revenues	3,997,269	2,020,289	1,353,728	3,044,736
Expenditures:				
Operating:				
Public safety and legal services	1,392,238	-	26,583	-
Physical health and social services	348,471	-	-	-
Mental health	-	1,863,309	-	-
County environment and education	239,096	-	78,882	-
Roads and transportation	7,777	-	217,821	3,484,172
Governmental services to residents	324,305	-	87	-
Administration	931,674	-	6,154	-
Non-program	618,536	-	-	-
Debt service	-	-	-	-
Capital projects	112,452	-	13,190	408,250
Total expenditures	3,974,549	1,863,309	342,717	3,892,422
Excess (deficiency) of revenues over (under) expenditures	22,720	156,980	1,011,011	(847,686)
Other financing sources (uses):				
General obligation capital loan notes issued	-	-	-	-
Operating transfers in	72,638	-	13,177	899,597
Operating transfers out	(84,688)	-	(927,037)	(2,021)
Total other financing sources (uses)	(12,050)	-	(913,860)	897,576
Net change in fund balances	10,670	156,980	97,151	49,890
Fund balances beginning of year	981,976	416,796	152,298	2,958,121
Fund balances end of year	\$ 992,646	573,776	249,449	3,008,011

See notes to financial statements.

Debt Service	Nonmajor	Total
53,197	-	4,502,899
-	80,486	80,486
-	-	39,534
3,670	9,915	5,156,147
-	-	155,961
-	3,084	360,563
-	370	178,185
-	104,026	196,995
<u>56,867</u>	<u>197,881</u>	<u>10,670,770</u>
-	14,427	1,433,248
-	-	348,471
-	-	1,863,309
-	40,320	358,298
-	-	3,709,770
-	9,236	333,628
-	26,211	964,039
-	36,377	654,913
69,528	-	69,528
-	717,049	1,250,941
<u>69,528</u>	<u>843,620</u>	<u>10,986,145</u>
<u>(12,661)</u>	<u>(645,739)</u>	<u>(315,375)</u>
-	690,000	690,000
12,688	72,000	1,070,100
-	(56,354)	(1,070,100)
<u>12,688</u>	<u>705,646</u>	<u>690,000</u>
27	59,907	374,625
2,968	112,573	4,624,732
<u>2,995</u>	<u>172,480</u>	<u>4,999,357</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, 2005

Net change in fund balances - Total governmental funds (page 23) \$ 374,625

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 outlay expenditures and contributed capital assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 366,575	
Capital assets contributed by the Iowa Department of	2,087,367	
Depreciation expense	(431,908)	2,022,034

In the Statement of Activities, the gain on the sale of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. 60,072

Because some property tax will not be collected for several months after the County's year end, they are not considered available revenues and, therefore, are deferred in the governmental funds. (13,284)

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 issues exceeded repayment, as follows:

Issued	(690,000)	
Repaid	64,407	(625,593)

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	(141,569)	
Interest on long-term debt	(534)	(142,103)

Change in net assets of governmental activities (page 17) \$ 1,675,751

See notes to financial statements.

Shelby County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2005

Assets

Cash and pooled investments:	
County Treasurer	\$ 1,307,607
Other County officials	12,050
Shelby County Solid Waste Agency	333,000
Receivables:	
Property tax:	
Delinquent	79,065
Succeeding year	10,063,940
Accounts	17,411
Due from other governments	17,564
Prepaid insurance	1,485
Total assets	11,832,122

Liabilities

Accounts payable	67,217
Salaries and benefits payable	18,464
Due to other governments	11,742,951
Trusts payable	3,490
Total liabilities	11,832,122

Net assets

\$ -

See notes to financial statements.

Shelby County

Notes to Financial Statements

June 30, 2005

(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 E911 Service Board, Monona/Harrison/Shelby County Empowerment Area and Shelby County Area Solid Waste Agency. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

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

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 and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable 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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources 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 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.

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 revenues 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 not paid from other funds.

Special Revenue:

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.

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 roads construction and maintenance.

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

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.

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 balance sheet:

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

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date 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.

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2004.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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.

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

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

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Land improvements	10 - 50
Infrastructure	10 - 65
Equipment and vehicles	3 - 20

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means 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.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours 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 employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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, 2005, disbursements exceeded the amounts budgeted in the mental health and governmental services to residents functions and disbursements in certain departments exceeded the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Conservation Land Acquisition	\$ 2,057
Special Revenue: Secondary Roads	General Special Revenue: Mental Health Rural Services	2,031 62 477
Total		\$ 4,627

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Rural Services	\$ 27,440
	Secondary Roads	2,021
	Tax Increment Financing	43,177
Special Revenue:	Special Revenue:	
Rural Services	Tax Increment Financing	13,177
Secondary Roads	Rural Services	899,597
Insurance Reimbursement	General	72,000
Debt Service	General	12,688
Total		<u>\$ 1,042,660</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 330,775	-	-	330,775
Construction in progress	757,702	2,187,217	(1,730,691)	1,214,228
Total capital assets not being depreciated	1,088,477	2,187,217	(1,730,691)	1,545,003
Capital assets being depreciated:				
Buildings	3,523,914	8,776	-	3,532,690
Equipment and vehicles	5,756,245	394,947	(181,311)	5,969,881
Infrastructure, road network	236,189	1,730,691	-	1,966,880
Total capital assets being depreciated	9,516,348	2,134,414	(181,311)	11,469,451
Less accumulated depreciation for:				
Buildings	1,189,869	70,039	-	1,259,908
Equipment and vehicles	3,500,155	357,458	(103,608)	3,754,005
Infrastructure, road network	2,093	4,411	(777)	5,727
Total accumulated depreciation	4,692,117	431,908	(104,385)	5,019,640
Total capital assets being depreciated, net	4,824,231	1,702,506	(76,926)	6,449,811
Governmental activities capital assets, net	\$ 5,912,708	3,889,723	(1,807,617)	7,994,814

Depreciation expense was charged to the following functions:

Governmental activities:		
Public safety and legal services		\$ 83,630
Physical health and social services		4,759
Mental health		1,070
County environment and education		26,077
Roads and transportation		266,431
Governmental services to residents		49,941
		<hr/>
Total depreciation expense - governmental activities		\$ 431,908
		<hr/> <hr/>

(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>
Special Revenue:		
Mental Health	Services	\$ 146,446
		<hr/>
Agency:		
County Assessor	Collections	\$ 171,472
Schools		5,934,860
Community Colleges		321,078
Corporations		3,179,509
Auto License and Use Tax		262,540
All other		1,873,492
		<hr/>
Total for agency funds		\$ 11,742,951
		<hr/> <hr/>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Capital		General Obligation			Compen- sated Absences	Total
	Lease Purchase Agreement	Installment Purchase Agreements	Capital Loan Notes				
			Series 1999	Series 2004A	Series 2004B		
Balance beginning of year	\$ 5,444	13,963	255,000	-	-	133,580	407,987
Increases	-	-	-	620,000	70,000	305,641	995,641
Decreases	5,444	13,963	45,000	-	-	164,072	228,479
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance end of year	\$ -	-	210,000	620,000	70,000	275,149	1,175,149
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Due within one year	\$ -	-	50,000	-	-	66,847	116,847
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Capital Lease Purchase Agreement

The County entered into a capital lease purchase agreement to purchase a tractor with loader. During the year ended June 30, 2005, the final payment of \$5,880, including interest, was paid under this agreement.

Installment Purchase Agreements

The County entered into installment purchase agreements to finance the acquisition of a 2003 Ford Truck, a 1999 Ford Truck and a 1998 D4C Dozer. During the year ended June 30, 2005, final payments totaling \$15,220, including interest, were paid under the agreements.

Capital Loan Notes

In June 1999, the County issued \$465,000 in general obligation essential corporate purpose capital loan notes to fund improvements to the courthouse and annex buildings. The notes are payable from a continuing annual levy of taxes against all taxable property of the County. A summary of the County's June 30, 2005 general obligation essential corporate purpose capital loan notes is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2006	4.40%	\$ 50,000	9,483	59,483
2007	4.50	50,000	7,282	57,282
2008	4.55	55,000	5,032	60,032
2009	4.60	55,000	2,530	57,530
Total		\$ 210,000	24,327	234,327

In November 2004, the County issued \$620,000 in general obligation capital loan notes, Series 2004A and \$70,000 in general obligation capital loan notes, Series 2004B to fund the costs of aiding in planning, undertaking and carrying out an urban renewal project, including improvements to sewer services to the Business Park and a forgivable loan to Shelby County Cookers, LLC. A Special Revenue, TIF Fund has been established for collection of tax increment financing revenues which will be used to pay off the capital loan notes. A summary of the County's June 30, 2005 general obligation capital loan notes, Series 2004A is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2006		\$ -	20,136	20,136
2007	2.80%	70,000	20,135	90,135
2008	3.00	150,000	18,175	168,175
2009	3.20	150,000	13,675	163,675
2010	3.40	125,000	8,875	133,875
2011	3.70	125,000	4,625	129,625
Total		\$ 620,000	85,621	705,621

A summary of the County's June 30, 2005 general obligation capital loan notes, Series 2004B is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2006	4.65%	-	3,255	3,255
2007	4.65	70,000	3,255	73,255
Total		\$ 70,000	6,510	76,510

During the year ended June 30, 2005, interest payments made under the Series 2004A and 2004B general obligation capital loan notes totaled \$10,962 and \$1,772, respectively.

(8) Hospital Revenue Capital Loan Notes

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

(9) 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 3.70% of their annual covered salary and the County is required to contribute 5.75% 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, 2005, 2004 and 2003 were \$195,383, \$186,542 and \$184,963, respectively, equal to the required contributions for each year.

(10) Risk Management

Shelby County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members 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 and inland marine. 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 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2005 were \$89,278.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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 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 such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the County's financial statements. As of June 30, 2005, 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 commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. 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.

(11) Construction Commitment

During the year ended June 30, 2005, the County entered into an agreement for culvert replacement for \$238,201. As of June 30, 2005, no costs had been incurred against the project. The \$238,201 will be paid as work on the project progresses.

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, 2005

	Actual	Budgeted Amounts	
		Original	Final
Receipts:			
Property and other county tax	\$ 4,513,487	4,535,107	4,545,107
Interest and penalty on property tax	39,534	21,050	21,050
Intergovernmental	5,433,811	4,337,830	5,255,830
Licenses and permits	155,961	155,070	155,070
Charges for service	290,797	216,430	223,257
Use of money and property	160,418	123,150	123,150
Miscellaneous	275,149	243,724	358,043
Total receipts	10,869,157	9,632,361	10,681,507
Disbursements:			
Public safety and legal services	1,440,553	1,437,125	1,507,825
Physical health and social services	343,072	363,628	363,628
Mental health	1,812,437	1,670,796	1,770,796
County environment and education	367,292	340,190	447,690
Roads and transportation	3,727,161	3,994,710	3,996,710
Governmental services to residents	360,180	317,732	344,172
Administration	968,093	932,424	1,009,374
Non-program	657,922	14,185	764,185
Debt service	69,528	56,740	70,240
Capital projects	1,355,239	954,265	1,978,421
Total disbursements	11,101,477	10,081,795	12,253,041
Deficiency of receipts under disbursements	(232,320)	(449,434)	(1,571,534)
Other financing sources, net	690,000	-	690,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	457,680	(449,434)	(881,534)
Balance beginning of year	3,849,451	2,842,930	2,842,930
Balance end of year	\$ 4,307,131	2,393,496	1,961,396

See accompanying independent auditor's report.

Final to Actual Variance
(31,620)
18,484
177,981
891
67,540
37,268
(82,894)
187,650
67,272
20,556
(41,641)
80,398
269,549
(16,008)
41,281
106,263
712
623,182
1,151,564
1,339,214
-
1,339,214
1,006,521
2,345,735

Shelby County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 10,869,157	(198,387)	10,670,770
Expenditures	11,101,477	(115,332)	10,986,145
Net	(232,320)	(83,055)	(315,375)
Other financing sources (uses), net	690,000	-	690,000
Beginning fund balances	3,849,451	775,281	4,624,732
Ending fund balances	\$ 4,307,131	692,226	4,999,357

See accompanying independent auditor's report.

Shelby County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the 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, two budget amendments increased budgeted disbursements by \$2,171,246. The budget amendments are 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, 2005, disbursements exceeded the amounts budgeted in the mental health and governmental services to residents functions and disbursements in certain departments exceeded the amounts appropriated.

Shelby County

Other Supplementary Information

Shelby County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Resource Enhancement and Protection	County Recorder's Electronic Transaction Fee	Conservation Land Acquisition	K-9	Special Flood and Erosion
Assets					
Cash and pooled investments	\$ 5,890	10,915	6,729	6,398	1,952
Total assets	\$ 5,890	10,915	6,729	6,398	1,952
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	-	-	19	-
Salaries and benefits payable	1,035	-	-	-	-
Due to other funds	-	-	2,057	-	-
Total liabilities	1,035	-	2,057	19	-
Fund equity:					
Unreserved fund balances	4,855	10,915	4,672	6,379	1,952
Total liabilities and fund equity	\$ 5,890	10,915	6,729	6,398	1,952

See accompanying independent auditor's report.

Revenue						
Insurance Reimbursement	County Recorder's Records Management	Drug Forfeiture	Commissary	Capital Projects	Total	
56,518	9,269	20,287	6,429	52,951	177,338	
56,518	9,269	20,287	6,429	52,951	177,338	
1,675	-	-	72	-	1,766	
-	-	-	-	-	1,035	
-	-	-	-	-	2,057	
1,675	-	-	72	-	4,858	
54,843	9,269	20,287	6,357	52,951	172,480	
56,518	9,269	20,287	6,429	52,951	177,338	

Shelby County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

	Resource	County	Conservation		Special
	Enhancement	Recorder's	Land	K-9	Flood
	and	Electronic	Acquisition		and
	Protection	Transaction Fee			Erosion
Revenues:					
Tax increment financing	\$ -	-	-	-	-
Intergovernmental	9,915	-	-	-	-
Charges for service	-	-	-	-	-
Use of money and property	38	196	12	16	-
Miscellaneous	-	-	5,794	9,045	-
Total revenues	9,953	196	5,806	9,061	-
Expenditures:					
Operating:					
Public safety and legal services	-	-	1,578	4,328	-
County environment and education	14,398	-	-	-	2,745
Governmental services to residents	-	-	-	-	-
Administration	-	26,211	-	-	-
Non-program	-	-	-	-	-
Capital projects	-	-	-	-	-
Total expenditures	14,398	26,211	1,578	4,328	2,745
Excess (deficiency) of revenues over (under) expenditures	(4,445)	(26,015)	4,228	4,733	(2,745)
Other financing sources (uses):					
Proceeds of long term debt	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Excess of revenues over (under) expenditures and other financing uses	(4,445)	(26,015)	4,228	4,733	(2,745)
Fund balances beginning of year	9,300	36,930	444	1,646	4,697
Fund balances end of year	\$ 4,855	10,915	4,672	6,379	1,952

See accompanying independent auditor's report.

Revenue							
Insurance Reimbursement	County Recorder's Records Management	Drug Forfeiture	Tax Increment Financing	Commissary	Capital Projects	Total	
-	-	-	80,486	-	-	80,486	
-	-	-	-	-	-	9,915	
-	3,084	-	-	-	-	3,084	
-	46	62	-	-	-	370	
-	-	1,400	-	7,787	80,000	104,026	
-	3,130	1,462	80,486	7,787	80,000	197,881	
-	-	1,000	955	6,566	-	14,427	
-	-	-	23,177	-	-	40,320	
-	9,236	-	-	-	-	9,236	
-	-	-	-	-	-	26,211	
36,377	-	-	-	-	-	36,377	
-	-	-	-	-	717,049	717,049	
36,377	9,236	1,000	24,132	6,566	717,049	843,620	
(36,377)	(6,106)	462	56,354	1,221	(637,049)	(645,739)	
-	-	-	-	-	690,000	690,000	
72,000	-	-	-	-	-	72,000	
-	-	-	(56,354)	-	-	(56,354)	
72,000	-	-	(56,354)	-	690,000	705,646	
35,623	(6,106)	462	112,708	1,221	52,951	59,907	
19,220	15,375	19,825	-	5,136	-	112,573	
54,843	9,269	20,287	112,708	6,357	52,951	172,480	

Shelby County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	2,190	27,840	110,850
Other County officials	12,050	-	-	-
Shelby County Solid Waste Agency	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	1,201	1,613	62,831
Succeeding year	-	111,910	150,331	5,761,179
Accounts	-	-	-	-
Due from other governments	-	-	-	-
Prepaid insurance	-	-	-	-
Total assets	\$ 12,050	115,301	179,784	5,934,860
Liabilities				
Accounts payable	\$ -	-	5,112	-
Salaries and benefits payable	-	-	3,200	-
Due to other governments	8,560	115,301	171,472	5,934,860
Compensated absences	3,490	-	-	-
Total liabilities	\$ 12,050	115,301	179,784	5,934,860

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
5,781	35,075	3,312	262,540	860,019	1,307,607
-	-	-	-	-	12,050
-	-	-	-	333,000	333,000
3,297	3,336	2,565	-	4,222	79,065
312,000	3,141,098	193,943	-	393,479	10,063,940
-	-	-	-	17,411	17,411
-	-	-	-	17,564	17,564
-	-	-	-	1,485	1,485
321,078	3,179,509	199,820	262,540	1,627,180	11,832,122
-	-	-	-	62,105	67,217
-	-	-	-	15,264	18,464
321,078	3,179,509	199,820	262,540	1,549,811	11,742,951
-	-	-	-	-	3,490
321,078	3,179,509	199,820	262,540	1,627,180	11,832,122

Shelby County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 11,193	112,542	258,446	5,876,261
Additions:				
Property and other county tax	-	114,888	150,770	5,782,506
E911 surcharge	-	-	-	-
State tax credits	-	8,206	13,775	416,031
Office fees and collections	220,014	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	143,238	-	-	-
Miscellaneous	-	-	329	-
Total additions	363,252	123,094	164,874	6,198,537
Deductions:				
Agency remittances:				
To other funds	116,002	-	-	-
To other governments	106,446	120,335	243,536	6,139,938
Trusts paid out	139,947	-	-	-
Total deductions	362,395	120,335	243,536	6,139,938
Balances end of year	\$ 12,050	115,301	179,784	5,934,860

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
308,089	3,066,206	188,924	231,492	1,642,306	11,695,459
313,427	3,083,028	177,968	-	396,598	10,019,185
-	-	-	-	93,408	93,408
21,682	163,449	11,229	-	28,975	663,347
-	-	-	-	-	220,014
-	-	-	3,026,350	102	3,026,452
-	-	-	-	6,017	6,017
-	-	-	-	-	143,238
-	-	-	-	1,592,547	1,592,876
335,109	3,246,477	189,197	3,026,350	2,117,647	15,764,537
-	-	-	106,572	-	222,574
322,120	3,133,174	178,301	2,888,730	2,132,773	15,265,353
-	-	-	-	-	139,947
322,120	3,133,174	178,301	2,995,302	2,132,773	15,627,874
321,078	3,179,509	199,820	262,540	1,627,180	11,832,122

Schedule 5

Shelby County

Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

For the Last Five Years

	Modified Accrual Basis				
	2005	2004	2003	2002	2001
Revenues:					
Property and other county tax	\$ 4,502,899	5,067,769	5,148,294	5,054,419	4,261,202
Tax increment financing	80,486	76,791	13,467	10,834	5,068
Interest and penalty on property tax	39,534	33,092	31,318	30,593	23,747
Intergovernmental	5,156,147	5,262,810	4,597,199	4,685,112	4,573,516
Licenses and permits	155,961	146,386	155,428	167,189	156,631
Charges for service	360,563	309,773	259,749	207,932	178,740
Use of money and property	178,185	103,765	107,014	146,027	207,490
Miscellaneous	196,995	148,858	157,358	178,701	158,851
Total	\$ 10,670,770	11,149,244	10,469,827	10,480,807	9,565,245
Expenditures:					
Operating:					
Public safety and legal services	\$ 1,433,248	1,414,193	1,412,643	1,320,652	1,225,741
Physical health and social services	348,471	327,235	309,525	313,999	302,710
Mental health	1,863,309	1,708,411	1,722,413	1,693,340	1,751,263
County environment and education	358,298	434,326	474,704	456,852	598,966
Roads and transportation	3,709,770	3,346,330	3,369,496	3,450,517	4,054,152
Governmental services to residents	333,628	292,064	298,686	307,206	273,619
Administration	964,039	929,941	948,414	928,139	934,196
Non-program	654,913	394,390	172,125	91,118	170,100
Debt service	69,528	566,504	172,834	169,554	142,596
Capital projects	1,250,941	1,201,839	447,566	862,900	1,462,254
Total	\$ 10,986,145	10,615,233	9,328,406	9,594,277	10,915,597

See accompanying independent auditor's report.

Shelby County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for Food Stamp Program	10.561		\$ 5,610
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	04-ED-004	531,600
Community Development Block Grants/State's Program	14.228	02-CF-013-99	54,683
			<u>586,283</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	403-HBRRS-012	56,086
Highway Planning and Construction	20.205	403-HBRRS-028	127,701
			<u>183,787</u>
Iowa Department of Public Defense:			
Homeland Security Division:			
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	CERT	3,520
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		7,505
Refugee and Entrant Assistance - State Administered Programs	93.566		11
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		1,469
Foster Care - Title IV-E	93.658		3,927
Adoption Assistance	93.659		913
Medical Assistance Program	93.778		8,066
Social Services Block Grant	93.667		4,824
Social Services Block Grant	93.667		39,095
			<u>43,919</u>

Schedule 6

Shelby County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Homeland Security Grant Program	97.004	ODP-2003-83	112,478
Public Assistance Grants	97.036	DR-1518-IA	87,848
Emergency Management Performance Grants	97.042	CERT 2005	27,575
Emergency Management Performance Grants	97.042	CERT 2003	2,510
			<u>30,085</u>
Total			<u>\$ 1,075,421</u>

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
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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, 2005, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated December 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

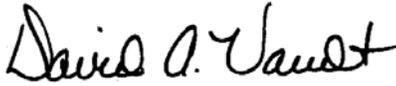
Compliance and Other Matters

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

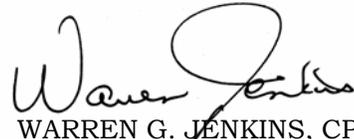
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the 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.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 15, 2005

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

Shelby County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Officials of Shelby County:

Compliance

We have audited the compliance of Shelby County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. Shelby County's major federal program is 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 program 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 item III-A-05 in the accompanying Schedule of Findings and Questioned Costs, Shelby County did not comply with requirements regarding subrecipient monitoring applicable to its Community Development Block Grants/State's 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, because of the effects of the noncompliance described in the preceding paragraph, Shelby County did not comply, in all material respects, with the requirements referred to above in that are applicable to the Community Development Block Grants/State's Program for the year ended June 30, 2005.

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 grant agreements 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 in order to determine our 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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Shelby County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 15, 2005

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

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

Shelby County
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part II: Findings Related to Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE AND REPORTABLE CONDITION:

CFDA Number 14.228: Community Development Block Grants/State's Program

Pass-through Agency Number: 02-CF-013-99

Federal Award Year: 2004

U.S. Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development

III-A-05 Subrecipient Monitoring – Shelby County passes funds received to West Central Development Corporation. The County's contract with the Iowa Department of Economic Development states it will review all requests for payment, verify all claimed expenditures are allowable and maintain supporting documentation.

The contract also states local funds must be contributed to the project once two-thirds of the grant amount has been drawn down. This is to be documented in the requests for payment/activity status reports sent to the Federal agency requesting funds. The inclusion of these reports is to be monitored by the County.

These requirements are not being met by Shelby County.

Recommendation – The County should implement procedures to ensure it is complying with the requirements of the contract with the Iowa Department of Economic Development concerning the performance of subrecipient monitoring of amounts awarded to West Central Development Corporation.

Response – We were not aware of this requirement. This grant has been completed, but we will watch for this requirement on future grants.

Conclusion – Response accepted.

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the mental health and governmental services to residents functions and disbursements in certain departments exceeded the amounts appropriated.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We try to monitor the budgets every year, but sometimes last minute grants or unexpected expenditures put us over budget. We will continue to watch each budget closely.

Conclusion – Response accepted.

IV-C-05 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-05 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-05 Business Transactions – No business transactions between the County and County officials or employees were noted.

IV-F-05 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-G-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-I-05 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-J-05 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, 2005 for the County Extension Office did not exceed the amount budgeted.

IV-K-05 Special Appraiser's Levy – Chapter 441.50 of the Code of Iowa states:

“The conference board shall have power to employ appraisers or other technical or expert help to assist in the valuation of property, the cost thereof to be paid in the same manner as other expenses of the assessor's office. The conference board may certify for levy annually an amount not to exceed forty and one-half cents per thousand dollars for the purpose of establishing a special appraiser's fund, to be used only for such purposes. From time to time the conference board may direct the transfer of any unexpended balance in the special appraiser's fund to the assessment expense fund.”

Recent advice received from the Attorney General Office dated January 4, 2006 states “nothing within the terms of the statute directly prohibits use of the special appraiser's fund to cover the salary and costs associated with staff employed by the county assessor as long as these staff provide technical or expert help to assist in the valuation of property. This is not to say that the special appraiser's fund may be used to cover all personnel costs of the assessor's office. Section 441.50 does not authorize use of the special appraiser's fund for payment of salary and expenses associated with the employment of clerical staff or other employees who do not provide technical or expert help to assist in the valuation of property.”

The County Assessor's Conference Board levies annually for the special appraiser's levy and transfers the amount received to the Assessment Expense Fund to supplement operations for expenses other than for appraisers or other technical or expert help to assist in the valuation of property.

Recommendation – The Conference Board should discontinue budgeting and levying the special appraiser's levy to supplement the Assessment Expense Fund for costs not allowable per Code Section 441.50.

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

The County Assessor and Conference Board should also consult the County Attorney to determine the proper disposition of unspent amounts levied for the Special Appraiser's Fund for fiscal 2006.

Response – Shelby County no longer levies in the Special Appraisal Fund just to supplement the operating budget of the Assessors Office. In the future, we will be using the Special Appraisal Fund as advised by the Attorney General's Office.

Conclusion – Response accepted.

Shelby County

Staff

This audit was performed by:

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Brad T. Holtan, Staff Auditor
Jeffrey L. Lenhart, Staff Auditor
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