

FAYETTE COUNTY
West Union, Iowa

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

June 30, 2005

FAYETTE COUNTY, IOWA
West Union, Iowa

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FAYETTE COUNTY
West Union, Iowa

OFFICIALS
(Before January, 2005)

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
John Bunn	January 2007	Board of Supervisors
Mike Kennedy	January 2007	Board of Supervisors
Richard Jensen	January 2005	Board of Supervisors
Larry Popenhagen	January 2005	Auditor
Kyle Jacobsen	January 2007	Treasurer
Karen Ford	January 2007	Recorder
Marty Fisher.....	January 2005	Sheriff
W. Wayne Saur	January 2007	Attorney
Joe Flores	Appointed.....	Assessor

(After January, 2005)

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
John Bunn	January 2007	Board of Supervisors
Mike Kennedy	January 2007	Board of Supervisors
Vicki Rowland	January 2009	Board of Supervisors
Larry Popenhagen	January 2009	Auditor
Kyle Jacobsen	January 2007	Treasurer
Karen Ford	January 2007	Recorder
Marty Fisher.....	January 2009	Sheriff
W. Wayne Saur	January 2007	Attorney
Joe Flores	Appointed.....	Assessor

Independent Auditors' Report

To the Officials of Fayette County
West Union, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fayette County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fayette 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 Fayette County at June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2006 on our consideration of Fayette 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.

Independent Auditors' Report (Continued)

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 34-36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fayette 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 three 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.

January 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Fayette County provides this Management's Discussion and Analysis of Fayette County's annual financial statements. This narrative overview and analysis of the financial activities of Fayette County 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.

FINANCIAL HIGHLIGHTS

- County governmental funds revenue increased 10% or approximately \$1,238,491 from 2004 to 2005. Property taxes and other county taxes increased approximately \$344,867 and intergovernmental increased approximately \$998,853.
- County program expenses were 12% or approximately \$1,510,771 more in 2005 than in 2004. Roads and transportation expense increased approximately \$847,778.
- The county's net assets increased 1%; approximately \$404,032 at June 30, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 - 10, Exhibits A and B) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on pages 11-12, Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

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 about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, 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 event or 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 displayed 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, government services

to residents, administration or general government, interest on long-term debt and other non-program activities. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements begin on pages 11-12 Exhibit C and provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help it control and manage money for particular purposes.

Most of the County’s basic services are accounted for in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed short-term view of the County’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page 21.

Supplemental Information

The supplemental information begins on page 37 (Schedule 1) and provides detailed information about the non-major governmental funds and the individual agency funds. In addition, the Schedule of Expenditures of Federal Awards provides details of the various Federal awards received by the County.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County’s combined net assets were changed slightly increasing from \$24,061,427 to \$24,465,459. The analysis below focuses on net assets and changes in net assets of government activities.

Net Assets of Governmental Activities

	(Expressed in Thousands)	
	2005	2004
Current and Other Assets	\$9,524	\$9,272
Capital Assets	23,931	23,808
Total Assets	<u>33,455</u>	<u>33,080</u>
Long-Term Debt Outstanding	2,495	2,664
Other Liabilities	6,495	6,354
Total Liabilities	<u>8,990</u>	<u>9,018</u>
Net Assets:		
Invested in Capital Assets, Net of debt	21,436	21,143
Restricted	1,725	1,695
Unrestricted	1,304	1,224
Total Net Assets	<u>\$24,465</u>	<u>\$24,062</u>

Net assets of the County's governmental activities increased by approximately 1%, (from \$24 Million) the largest portion of the County's net assets is the Invested in Capital Assets (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. 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.

Changes in Net Assets of Governmental Activities

	Year Ended June 30,	
	2005	2004
Program Revenues:		
Charges for service and sales	\$1,168	\$1,177
Operating grants and contributions	5,441	4,181
Capital grants and contributions	698	858
Property taxes	5,347	4,952
Unrestricted investments earnings	44	31
Other general revenues	1,286	2,168
Total revenues	<u>13,984</u>	<u>13,367</u>
Program Expenses:		
Public safety and legal services	2,447	2,418
Physical health and social services	494	492
Mental health	2,111	2,004
County environment and education	1,182	1,229
Roads and transportation	5,602	5,261
Government services to residents	464	443
Administration or general government	910	1,203
Non-program	267	6
Interest on long-term debt	104	113
Total expenses	<u>13,581</u>	<u>13,169</u>
Increase in net assets	403	198
Net assets – beginning of year	<u>24,062</u>	<u>23,864</u>
Net assets – end of year	<u>\$24,465</u>	<u>\$24,062</u>

The County's revenue increased 10% (\$1,238,491). The total cost of programs and services increased 12%, \$1,510,771 with no new programs added this year. The modest growth in revenue allowed the County to cover this year's costs and slightly increase the County's net assets.

Governmental Activities

Fayette County experienced an 8% increase in property taxes levied in 2005. The increase was \$408,587. Decreases in revenue which contributed to this increase were: \$77,764 less in local option tax revenue, Chapter 405 A.4 funding from state eliminated, and reduced interest income due to lower balances and rates. Expenditures contributing to this increase were: 25% increase in insurance package and \$25,000 interest budgeted for short term loans. Property taxes were increased \$477,722 in the General Supplemental Fund and \$101,378 in the rural services fund.

Overall revenue increased in fiscal year end 2005 due to the property tax increase, an increase in reimbursable road projects, and more state funding for mental health due to low fund balances.

The costs of programs and services increased 3% which was primarily due to major road projects completed in 2005.

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As the county completed the year, its governmental funds reported little change in combined fund balance.

The combined ending fund balance of the General and General Supplemental Funds increased by \$61,669 from 2004 to 2005. This increase in balance was due to a property tax increase and was intended to raise the balance to a more manageable level.

The Mental Health Fund maintained approximately the same balance as one year ago.

The Rural Services Fund balance increased \$182,960 from a low a year ago of \$20,896. This was achieved by a 9% levy increase, and reduction of \$282,996 of funds transferred to secondary roads, and a reduction in the roadside management budget.

The Secondary Road fund ended the 2005 year with a balance of \$392,467. This is substantially lower than the \$663,456 balance one year ago when the uncompleted bridge project balances were on hand

BUDGETARY HIGHLIGHTS

The budget was amended on March 14, 2005 with an increase of revenue of \$25,581 and an increase of expenditures of \$327,115. Expenditures increased due to the establishment forfeiture funds for the Sheriff and County Attorney and due to the establishment of the Recorder's Electronic Transfer Fee Fund. The Sheriff had increased expenditures due to damaged patrol vehicles and the road department due to flood damage expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the County had \$40.744 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$1.312 million or 3% over last year.

Capital Assets at Year End of Governmental Activities

	(Expressed in Thousands)	
	2005	2004
Land	\$1,123	\$1,123
Buildings	4,573	4,573
Equipment	8,312	8,030
Construction in Progress	349	0
Infrastructure	26,387	25,706
Total	\$40,744	\$39,432

This year's major additions include (expressed in thousands)

Law Enforcement Vehicles	\$40
Secondary Road Equipment	441
Infrastructure	680
	<u>\$1,161</u>

The County had depreciation expense of \$1,406,017 for the year ended June 30, 2005 and total accumulated depreciation as of June 30, 2005 of \$16,813,696.

The County's fiscal year 2005 capital expenditures totaled \$947,247 principally for the continued upgrading of secondary roads and bridges and various conservation projects. The County has no plans to issue additional debt to finance these projects.

Debt Administration

At year end, the County had \$2,826,139 in bonds and other debt compared to \$2,993,224 in bonds and other debt last year as shown below.

Outstanding Debt at Year-End of Governmental Activities

	(Expressed in Thousands)	
	2005	2004
General Obligation Notes	\$2,495	\$2,665
Compensated Absences	331	328
	<u>\$2,826</u>	<u>\$2,993</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$49 million limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County begins the 2006 fiscal year with a balance of 15.8% when compared to expected expenditures. This is slightly less than the ratio one year ago. Due to this low balance ratio, capital expenditures will be delayed until property tax revenue is received. A late payment will also be made on the insurance package, resulting in a 1% penalty. Major increases in expenditures will be for the new HAVA compliant voting equipment and a 10% increase in the insurance package. Property tax asking increased 4.1% which most likely is not enough to prevent a further reduction in reserves. Payment of debt for the law enforcement center continues to be a strain on the General Fund Balance.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the 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 the County Auditor's Office, 114 N. Vine St., West Union, IA.

**FAYETTE COUNTY
West Union, Iowa**

**STATEMENT OF NET ASSETS
June 30, 2005**

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$3,018,979
Receivables	
Property Tax	
Delinquent	13,884
Succeeding Year	5,384,659
Interest & Penalty On Property Tax	91
Accounts	40,329
Accrued Interest	3,639
Due From Other Governments	391,889
Inventories	670,209
Capital Assets (Net of Accumulated Depreciation)	23,930,810
TOTAL ASSETS	33,454,489
LIABILITIES	
Accounts Payable	434,376
Accrued Interest Payable	7,975
Salaries & Benefits Payable	181,231
Due To Other Governments	162,897
Deferred Revenue	
Succeeding Year Property Tax	5,384,659
Long Term Liabilities	
Portion Due Or Payable Within One Year	
Capital Lease Purchase Agreement	13,686
General Obligation Bonds	255,000
Compensated Absences	323,392
Portion Due or Payable After One Year	
Capital Lease Purchase Agreement	60,814
General Obligation Notes	2,165,000
TOTAL LIABILITIES	8,989,030
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	21,436,310
Restricted For:	
Mental Health Purposes	344,926
Secondary Roads Purposes	967,186
Other Purposes	413,296
Unrestricted	1,303,741
TOTAL NET ASSETS	\$24,465,459

See Notes To Financial Statements

**FAYETTE COUNTY
West Union, Iowa**

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2005**

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net (Expense) Revenue & Change in Net Assets
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest	
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$2,446,991	\$361,390	\$260,323	\$0	\$(1,825,278)
Physical Health & Social Services	493,655	6,975	154,903	3,013	(328,764)
Mental Health	2,110,440	167,135	1,270,533	0	(672,772)
County Environment & Education	1,182,083	25,978	198,364	0	(957,741)
Roads & Transportation	5,601,556	23,113	3,556,610	695,281	(1,326,552)
Governmental Services to Residents	463,861	330,325	0	0	(133,536)
Administrative Services	910,133	9,256	232	0	(900,645)
Non-Program	266,906	243,473	0	0	(23,433)
Interest on Long-Term Debt	104,407	0	0	0	(104,407)
TOTAL	\$13,580,032	\$1,167,645	\$5,440,965	\$698,294	\$(6,273,128)
 GENERAL REVENUES:					
Property & Other County Tax Levied For:					
General Purposes					5,347,261
Penalties & Interest on Property Tax					54,595
State Tax Credits					382,519
Local Option Sales Tax					489,847
Unrestricted Investment Earnings					44,452
Miscellaneous					365,565
Loss on Disposal of Capital Assets					(7,079)
TOTAL GENERAL REVENUES					6,677,160
CHANGE IN NET ASSETS					404,032
NET ASSETS, BEGINNING OF YEAR					24,061,427
NET ASSETS END OF YEAR					\$24,465,459

See Notes To Financial Statements

FAYETTE COUNTY
West Union, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue	
		Mental Health	Rural Services
ASSETS			
Cash and Pooled Investments	\$1,013,186	\$531,284	\$203,855
Receivables			
Property Tax			
Delinquent	8,687	1,745	3,452
Succeeding Year	3,468,883	696,312	1,219,464
Interest and Penalty on Property Tax	91	0	0
Accounts	17,872	284	53
Accrued Interest	3,575	0	0
Due From Other Funds	10,939	0	0
Due From Other Governments	60,438	35,914	42,195
Inventories	0	0	0
TOTAL ASSETS	\$4,583,671	\$1,265,539	\$1,469,019
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$99,373	\$55,459	\$6,062
Salaries and Benefits Payable	90,280	8,016	10,641
Due To Other Governments	2,071	160,826	0
Deferred Revenue			
Succeeding Year Property Tax	3,468,883	696,312	1,219,464
Other	22,789	1,717	3,452
Total Liabilities	3,683,396	922,330	1,239,619
Fund Balances			
Reserved For:			
Inventories	0	0	0
Unreserved, Reported In:			
General Fund	900,275	0	0
Special Revenue Funds	0	343,209	229,400
Total Fund Balances	900,275	343,209	229,400
TOTAL LIABILITIES AND FUND BALANCES	\$4,583,671	\$1,265,539	\$1,469,019

See Notes To Financial Statements

Exhibit C

<u>Special Revenue</u>	Nonmajor	
Secondary	Special	Total
Roads	Revenue	
\$392,468	\$186,316	\$2,327,109
0	0	13,884
0	0	5,384,659
0	0	91
4,216	1,087	23,512
0	64	3,639
0	0	10,939
253,342	0	391,889
670,209	0	670,209
<u>\$1,320,235</u>	<u>\$187,467</u>	<u>\$8,825,931</u>

\$119,949	\$3,571	\$284,414
72,294	0	181,231
0	0	162,897
0	0	5,384,659
0	0	27,958
<u>192,243</u>	<u>3,571</u>	<u>6,041,159</u>

670,209	0	670,209
0	0	900,275
457,783	183,896	1,214,288
<u>1,127,992</u>	<u>183,896</u>	<u>2,784,772</u>
<u>\$1,320,235</u>	<u>\$187,467</u>	<u>\$8,825,931</u>

**FAYETTE COUNTY
West Union, Iowa**

**RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS**
June 30, 2005

Total governmental fund balances (page 11-12)

<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	\$2,784,772
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. The costs of assets is \$40,744,506 and the accumulated depreciation is \$16,813,696.	23,930,810
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	27,958
The Internal Service Fund is used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	547,786
Long-term liabilities, including bonds 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.	<u>(2,825,867)</u>
Net assets of Governmental Activities (page 9)	<u><u>\$24,465,459</u></u>

See notes to financial statements.

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue	
		Mental Health	Rural Services
REVENUES			
Property & Other County Tax	\$3,462,823	\$720,012	\$1,655,717
Interest & Penalty on Property Tax	54,595	0	0
Intergovernmental	686,150	1,480,811	243,627
Licenses & Permits	7,350	0	2,550
Charges for Services	682,953	8,625	1,625
Use of Money & Property	43,890	0	0
Miscellaneous	193,423	0	9,838
Total Revenues	5,131,184	2,209,448	1,913,357
EXPENDITURES			
Operating			
Public Safety & Legal Services	2,368,612	0	0
Physical Health & Social Services	492,420	0	0
Mental Health	0	2,119,523	0
County Environment & Education	526,003	0	612,262
Roads & Transportation	0	0	220,992
Governmental Services to Residents	436,186	0	3,063
Administrative Services	806,014	0	0
Non-Program	5,774	0	0
Debt Service	350,199	0	0
Capital Projects	7,453	0	0
Total Expenditures	4,992,661	2,119,523	836,317
Excess (Deficiency) of Revenues Over (Under) Expenditures	138,523	89,925	1,077,040
Other Financing Sources (Uses)			
Sale of Capital Assets	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(127,864)	0	(948,360)
Capital Lease Purchase Agreement	0	0	0
Total Other Financing Sources (Uses)	(127,864)	0	(948,360)
Net Change in Fund Balances	10,659	89,925	128,680
Fund Balances – Beginning of Year	889,616	253,284	100,720
Increase in Reserve For Inventories	0	0	0
Fund Balances – End of Year	\$900,275	\$343,209	\$229,400

See Notes To Financial Statements

Exhibit E

<u>Special Revenue</u> Secondary Roads	Nonmajor Special Revenue	Total
\$0	\$0	\$5,838,552
0	0	54,595
3,996,735	33,541	6,440,864
1,120	0	11,020
1,327	27,055	721,585
0	734	44,624
133,648	43,869	380,778
<u>4,132,830</u>	<u>105,199</u>	<u>13,492,018</u>
0	15,020	2,383,632
0	0	492,420
0	0	2,119,523
0	24,778	1,163,043
4,494,520	0	4,715,512
0	27,641	466,890
96,769	0	902,783
0	0	5,774
0	0	350,199
928,302	11,492	947,247
<u>5,519,591</u>	<u>78,931</u>	<u>13,547,023</u>
<u>(1,386,761)</u>	<u>26,268</u>	<u>(55,005)</u>
4,225	0	4,225
1,076,224	0	1,076,224
0	0	(1,076,224)
89,500	0	89,500
<u>1,169,949</u>	<u>0</u>	<u>93,725</u>
(216,812)	26,268	38,720
1,344,121	157,628	2,745,369
683	0	683
<u>\$1,127,992</u>	<u>\$183,896</u>	<u>\$2,784,772</u>

**FAYETTE COUNTY
West Union, Iowa**

**RECONCILIATION 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 (pages 14-15- Exhibit E) \$39,403

*Amounts reported for governmental activities in the Statement of
Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlays exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$1,285,333	
Capital assets contributed by the Iowa Department of Transportation	255,156	
Depreciation Expense	<u>(1,406,017)</u>	134,472

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report, the proceeds from the sale as an increase in financial resources. (11,304)

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

Property taxes	1,530	
Other	<u>(1,034)</u>	496

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Issued	(89,500)	
Repaid	<u>260,000</u>	170,500

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.

Compensated absences	(4,337)	
Interest on long-term debt	<u>792</u>	(3,545)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The net revenue of the Internal Service Fund is reported with governmental funds. 74,010

Change in net assets of governmental funds (page 10 – Exhibit B) \$404,032

See Notes to Financial Statements

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005

	Internal Service Employee Group Health
<hr/>	
ASSETS	
Cash & Cash Equivalents	\$680,931
Receivables	
Accounts	16,817
TOTAL ASSETS	\$697,748
<hr/>	
LIABILITIES	
Accounts Payable	\$149,962
<hr/>	
NET ASSETS	
Unrestricted	\$547,786
<hr/> <hr/>	

See Notes To Financial Statements

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2005

	Internal Service Employee Group Health
<hr/>	
OPERATING REVENUES	
Reimbursements From Operating Funds	\$819,235
Reimbursements From Employees	190,831
Insurance Reimbursements	194,454
Total Operating Revenues	<hr/> 1,204,520 <hr/>
OPERATING EXPENSES	
Medical Claims	900,398
Insurance Premiums	144,725
Administrative Fees	85,255
Miscellaneous	132
Total Operating Expenses	<hr/> 1,130,510 <hr/>
Net Income	74,010
Net Assets Beginning of Year	<hr/> 473,776 <hr/>
Net Assets End of Year	<hr/> <hr/> \$547,786 <hr/> <hr/>

See Notes To Financial Statements

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Operating Fund Reimbursements	\$819,235
Cash Received From Employees & Others	384,904
Cash Payments To Suppliers For Services	<u>(1,208,382)</u>
Net Cash Used in Operating Activities	(4,243)
Cash & Cash Equivalents at Beginning of Year	<u>685,174</u>
Cash & Cash Equivalents at End of Year	<u><u>\$680,931</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$74,010
Adjustments to Reconcile Operating Income to Net Cash Used in Operating Activities	
Increase In Accounts Receivable	(381)
Decrease In Accounts Payable	<u>(77,872)</u>
Net Cash Used in Operating Activities	<u><u>\$(4,243)</u></u>

See Notes To Financial Statements

**FAYETTE COUNTY
West Union, Iowa**

**STATEMENT OF FIDUCIARY ASSETS
AGENCY FUNDS
June 30, 2005**

ASSETS

Cash & Pooled Investments	\$1,134,393
County Treasurer	324,458
Other County Officials	
Receivables	
Property Tax	
Delinquent	748
Succeeding Year	14,400,541
Accounts	29,983
Accrued Interest	476
Due From Other Governments	5,767
TOTAL ASSETS	15,896,366

LIABILITIES

Accounts Payable	22,613
Salaries & Benefits Payable	7,384
Due To Other Governments	15,518,821
Trusts Payable	339,301
Compensated Absences	8,247
TOTAL LIABILITIES	15,896,366

NET ASSETS	\$0
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See Notes To Financial Statements

FAYETTE COUNTY
West Union, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Fayette 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 presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Fayette 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.

These financial statements present Fayette County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

A drainage district has been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although this district is legally separate from the County, it is controlled, managed and supervised by the Fayette County Board of Supervisors. The drainage district is reported as a Special Revenue Fund. Financial information of this individual drainage district can be obtained from the Fayette County Auditor's office.

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 Fayette County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Fayette County Assessor's Conference Board, Fayette County Emergency Management Commission, and Fayette County Joint E911 Service Board. 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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary 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 non-exchange 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 that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are 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, proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major 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 that are not paid from other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

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 the secondary road construction and maintenance.

Additionally the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the county and provided to other departments or agencies on a cost reimbursement basis.

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, proprietary 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, 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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

The proprietary fund of the County applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board Statements of Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for the Internal Service Fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the day of purchase, they have a maturity date no longer than three months.

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Property Tax Receivable (Continued) –

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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.

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 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. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-65
Infrastructure	15-65
Equipment	2-20

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statement 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 receivables and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absence 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 and the proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Capital Projects Function and disbursements in a certain department exceeded the amounts appropriated.

Notes to Financial Statements (Continued)

Note 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.

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

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

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Trust and Agency: Auto License and Use Tax	\$10,939

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

Note 4 : Inter-fund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Special Revenue: Secondary Roads	General	\$127,864
	Special Revenue: Rural Services	948,360
Total		<u>\$1,076,224</u>

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

Notes to Financial Statements (Continued)

Note 5 : Capital Assets

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

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$1,123,224	\$0	\$0	\$1,123,224
Construction in Progress	0	349,226	0	349,226
	<u>1,123,224</u>	<u>349,226</u>	<u>0</u>	<u>1,472,450</u>
Capital assets being depreciated:				
Buildings	4,573,523	0	0	4,573,523
Machinery and equipment	8,030,706	510,852	230,149	8,311,409
Infrastructure	25,706,713	680,411	0	26,387,124
Total capital assets being depreciated	<u>38,310,942</u>	<u>1,191,263</u>	<u>230,149</u>	<u>39,272,056</u>
Less accumulated depreciation for:				
Buildings	469,683	85,496	0	555,179
Machinery and equipment	5,940,755	502,728	218,846	6,224,637
Infrastructure, road network	9,216,087	817,793	0	10,033,880
Total accumulated depreciation	<u>15,626,525</u>	<u>1,406,017</u>	<u>218,846</u>	<u>16,813,696</u>
Total capital assets being depreciated, net	<u>22,684,417</u>	<u>(214,754)</u>	<u>11,303</u>	<u>22,458,360</u>
Governmental activities capital assets, net	<u>\$23,807,641</u>	<u>\$134,472</u>	<u>\$11,303</u>	<u>\$23,930,810</u>

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public safety and legal services	\$128,822
Physical health and social services	2,114
Mental health	950
County environment and education	20,504
Roads and transportation	1,211,950
Administrative services	9,058
Non-Program	32,619
Total depreciation expense – governmental activities	<u>\$1,406,017</u>

Notes to Financial Statements (Continued)

Note 6 : Due to Other Governments

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

Fund	Description	Amount
General	Services	\$2,071
Special Revenue:		
Mental Health	Services	160,826
Total for governmental funds		<u>\$162,897</u>
Trust & Agency:		
Agricultural Extension	Collections	\$151,705
Assessor		210,169
Schools		10,024,221
Community Colleges		448,694
Corporations		3,464,018
Auto License & Use Tax		342,694
All Others		877,320
Total for agency funds		<u>\$15,518,821</u>

Note 7: Changes in Long-Term Debt

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

	Compensated Absences	Notes	Capital Lease Purchase Agreement	Total
Balance – Beginning of Year	\$328,224	\$2,665,500	\$0	\$2,993,224
Additions	3,415	0	89,500	92,915
Reductions	0	245,000	15,000	260,000
Balance – End of Year	<u>\$331,639</u>	<u>\$2,420,000</u>	<u>\$74,500</u>	<u>\$2,826,139</u>
Due Within One Year	<u>\$331,639</u>	<u>\$255,000</u>	<u>\$13,686</u>	<u>\$600,325</u>

Notes to Financial Statements (Continued)

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

Note Payable

During the year ended June 30, 2003, the County issued \$3,300,000 of General Obligation County Law Enforcement Center Notes, Series 2002. The notes were issued to pay the cost of constructing, furnishing and equipping a new Law Enforcement Center. Interest is due semi-annually on December 1 and June 1 at rates of 3.25% to 4.00% over the life of the notes. Principal payments are due annually, beginning on June 1, 2003 and ending on June 1, 2013.

A summary of the County's June 30, 2005 general obligation note indebtedness is as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	3.9%	\$255,000	\$95,705	\$350,705
2007	3.9%	265,000	85,760	350,760
2008	3.9%	280,000	75,425	355,425
2009	3.9%	295,000	64,505	359,505
2010	4.0%	310,000	53,000	363,000
2011	4.0%	325,000	40,600	365,600
2012	4.0%	335,000	27,600	362,600
2013	4.0%	355,000	14,200	369,200
		<u>\$2,420,000</u>	<u>\$456,795</u>	<u>\$2,876,745</u>

During the year ended June 30, 2005, the County retired \$245,000 of general obligation notes.

Capital Lease Purchase Agreement

During the fiscal year ended June 30, 2005, the County entered into a capital lease purchase agreement to lease a John Deere Tractor with a Diamond Wet Blade Mower. The following is a schedule of the future minimum lease payments, including interest of 4.25% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2005:

<u>Year Ending June 30,</u>	
2006	\$16,852
2007	16,853
2008	16,852
2009	16,852
2010	16,853
Total minimum lease payments	<u>84,262</u>
Less: amount representing interest	<u>(9,762)</u>
Present value of net minimum lease payments	<u>\$74,500</u>

Payments under this capital lease purchase agreement totaled \$15,000 for the year ended June 30, 2005.

Notes to Financial Statements (Continued)

Note 8: Closure and Postclosure Care Costs

Fayette County is a member of the Fayette County Solid Waste Management Commission. The agency is an inter-governmental agency, established in accordance with the provisions of Chapter 28E of the State Code of Iowa (Inter-governmental Cooperation Agreement). The purpose of the Commission is to provide for the economic disposal and or recycling of all solid waste produced or generated within each member city, town, and the unincorporated portion of Fayette County, comprising the municipalities. In performing its duties, the Commission may contract with and expend funds from federal, state, and local agencies and private individuals and corporations.

State and Federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, state laws require the Commission to submit a closure and postclosure plan detailing the schedule for and the methods by which the operator will meet the conditions for proper closure and postclosure. As of June 30, 2005, the estimated liability associated with closure and postclosure care costs had been determined. Also based on regulations, the financial assurance mechanism has been established.

Note 9: Pension and Retirement Benefits

Fayette County is a member in 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.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement and conservation employees, in which case the percentages for the year ended June 30, 2005 are 8.535% and 8.535%, respectively, for law enforcement and 6.16% and 9.23%, respectively, for conservation. For the year ended June 30, 2004, the contribution rates for law enforcement employees and the County were 4.99% and 7.48%, respectively, and for the year ended June 30, 2003, the contribution rates for law enforcements employees and the County were 5.37% and 8.05%, respectively. For the year ended June 30, 2004, the contribution rates for conservation employees and the County were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for conservation employees and the County were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$284,593, \$275,402 and \$333,382, respectively, equal to the required contributions for each year.

Note 10: Risk Management

Fayette County is a member of the Heartland Risk Pool as allowed by Chapter 331.301 of the Code of Iowa. The Heartland Risk Pool (Pool) is a local government risk-sharing pool whose 10 members include various governmental entities throughout the State of Iowa. The Pool was formed July 1, 1987 for the purpose of providing a voluntary self-insured program to counties in the State of Iowa. The program is designed to provide members a greatly improved loss control program whose purpose is to reduce claims and accidents; aid through sound and equitable claim management practices to reduce costs; and provide the required and/or desired reinsurance at a discount, based on volume and lower risk exposure. The Pool provides coverage and protection in the following categories: workers' compensation, automobile liability, automobile physical damage, law enforcement, public official errors and omissions, and crime lines of business on an occurrence basis. General liability coverage is written on a claims-made basis. There have been no reductions in insurance coverage from prior years.

Notes to Financial Statements (Continued)

Note 10: Risk Management (Continued)

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The Pool also provides property, inland marine, boiler, public officials errors and omissions, law enforcement liability, and business income and extra expense 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 sufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contribution to the Pool for the year ended June 30, 2005 was \$389,889.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains automobile liability, general liability, public officials liability and law enforcement legal liability. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$6,000,000 per claim. Workers' compensation claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,000,000. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. Property 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 that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 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 company coverage in any of the past three fiscal years.

Members agree to continue membership in the pool for a period of not less than three full years. Subsequent to this initial term, the member may withdraw at the end of the third fiscal year of any three-year term, only after at least 60 days prior written notice. 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. Upon withdrawal, the member is refunded 100% 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 and the member's proportionate share of any capital deficiency.

The County also carries commercial insurance purchased from another insurer for coverage associated with the employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. The County assumes responsibility for employees blanket bond claims in excess of \$20,000 per employee, with the exception of the Treasurer which is in excess of \$50,000. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Notes to Financial Statements (Continued)

Note 11: Employee Health Insurance Plan

The Internal Service Employee Group Health Fund, was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administrated through a Service Agreement with Wellmark. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitations of \$20,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative service agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2005 was \$819,235.

Note 12: Commitments and Contingencies

The County participates in a number of federally assisted grant programs. The programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, County officials do not believe that such amounts would be significant.

Note 13: Related Party Transactions

The County had business transactions between the County and the County officials totaling \$352,797 during the year ended June 30, 2005.

Note 14: Budget Overexpenditure

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Capital Projects Function and disbursements in a certain function exceeded amounts appropriated.

FAYETTE COUNTY
West Union, Iowa

**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	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS						
Property & Other County Tax	\$5,879,863	\$0	\$5,897,863	\$5,904,145	\$5,907,469	\$(27,606)
Interest & Penalty on Property Tax	54,863	0	54,863	56,705	60,705	(5,842)
Intergovernmental	6,394,564	0	6,394,564	6,050,575	6,147,067	247,497
Licenses & Permits	11,020	0	11,020	4,975	7,825	3,195
Charges for Services	777,666	0	777,666	747,490	792,696	(15,030)
Use of Money & Property	43,408	0	43,408	59,325	30,125	13,283
Miscellaneous	377,182	0	377,182	548,847	451,756	(74,574)
Total Receipts	13,538,566	0	13,538,566	13,372,062	13,397,643	140,923
DISBURSEMENTS						
Public Safety & Legal Services	2,396,605	0	2,396,605	2,361,508	2,417,557	20,952
Physical Health & Social Services	485,834	0	485,834	538,368	541,368	55,534
Mental Health	2,148,589	0	2,148,589	2,374,076	2,274,076	125,487
County Environment & Education	1,146,478	0	1,146,478	1,175,370	1,174,124	27,646
Roads & Transportation	4,642,340	0	4,642,340	3,931,850	4,668,245	25,905
Governmental Services to Residents	468,498	0	468,498	485,259	497,891	29,393
Administrative Services	903,423	0	903,423	1,000,985	978,144	74,721
Non-Program	5,835	0	5,835	34,600	7,650	1,815
Debt Service	350,199	0	350,199	350,199	350,199	0
Capital Projects	959,090	0	959,090	1,280,300	950,376	(8,714)
Total Disbursements	13,506,891	0	13,506,891	13,532,515	13,859,630	352,739
Excess (Deficiency) of Receipts Under Disbursements	31,675	0	31,675	(160,453)	(461,987)	493,662
Other Financing Sources, Net	4,225	0	4,225	0	0	4,225
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	35,900	0	35,900	(160,453)	(461,987)	497,887
Balance Beginning of Year	2,291,209	6,610	2,284,599	1,396,223	2,284,605	(6)
Balance End of Year	\$2,327,109	\$6,610	\$2,320,499	\$1,235,770	\$1,822,618	\$497,881

See Accompanying Independent Auditors' Report

FAYETTE COUNTY
West Union, Iowa

BUDGETARY COMPARISON SCHEDULE –
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$13,538,566	\$(46,548)	\$13,492,018
Expenditures	13,506,891	40,132	13,547,023
Net	31,675	(86,680)	(55,005)
Other Financing Sources – Net	4,225	89,500	93,725
Beginning Fund Balances	2,291,209	454,160	2,745,369
Increase in Reserve For:			
Inventories	0	683	683
Ending Fund Balances	\$2,327,109	\$457,663	\$2,784,772

See Accompanying Independent Auditors' Report

**Fayette County
West Union, Iowa**

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administrative services, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$327,115. This budget amendment is reflected in the final budgeted amounts.

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

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital projects function and disbursements in a certain department exceeded the amount appropriated.

FAYETTE COUNTY
West Union, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
 June 30, 2005

	Resource Enhancement & Protection	County Recorder's Record Management	County Recorder's Electronic Transaction Fee
ASSETS			
Cash & Pooled Investments	\$36,766	\$20,743	\$16,097
Receivables			
Accounts	0	326	0
Accrued Interest	27	13	24
TOTAL ASSETS	\$36,793	\$21,082	\$16,121
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts Payable	\$0	\$1,521	\$0
Fund Equity			
Fund Balances:			
Unreserved	36,793	19,561	16,121
TOTAL LIABILITIES AND FUND EQUITY	\$36,793	\$21,082	\$16,121

See Accompanying Independent Auditors' Report

Schedule 1

Attorney's Forfeiture	Sheriff's Forfeiture	Commissary Profit	Drainage Districts	Conservation Land Acquisition	Gilbertson Trust	Total
\$7,020	\$1,940	\$1,300	\$6,610	\$72,894	\$22,946	\$186,316
0	0	761	0	0	0	1,087
0	0	0	0	0	0	64
<hr/>						
\$7,020	\$1,940	\$2,061	\$6,610	\$72,894	\$22,946	\$187,467
<hr/>						
\$0	\$0	\$120	\$0	\$15	\$1,915	\$3,571
<hr/>						
7,020	1,940	1,941	6,610	72,879	21,031	183,896
<hr/>						
\$7,020	\$1,940	\$2,061	\$6,610	\$72,894	\$22,946	\$187,467
<hr/>						

FAYETTE COUNTY
West Union, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2005

	Resource Enhancement & Protection	County's Recorder's Records Management	County Recorder's Electronic Transaction Fee
REVENUES			
Intergovernmental	\$12,002	\$0	\$0
Charges for Services	0	4,249	14,196
Use of Money & Property	216	104	414
Miscellaneous	0	0	0
Total Revenues	12,218	4,353	14,610
EXPENDITURES			
Operating:			
Public Safety & Legal Services	0	0	0
County Environment & Education	0	0	0
Governmental Services to Residents	0	6,340	21,301
Capital Projects	6,888	0	0
Total Expenditures	6,888	6,340	21,301
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,330	(1,987)	(6,691)
Fund Balances – Beginning of Year	31,463	21,548	22,812
Fund Balances – End of Year	\$36,793	\$19,561	\$16,121

See Accompanying Independent Auditors' Report

Schedule 2

Attorney's Forfeiture	Sheriff's Forfeiture	Commissary Profit	Drainage Districts	Conservation Land Acquisition	Gilbertson Trust	Total
\$0	\$0	\$0	\$0	\$0	\$21,539	\$33,541
0	0	0	0	0	8,610	27,055
0	0	0	0	0	0	734
9,432	15,378	2,061	0	16,998	0	43,869
9,432	15,378	2,061	0	16,998	30,149	105,199
2,412	12,488	120	0	0	0	15,020
0	0	0	0	0	24,778	24,778
0	0	0	0	0	0	27,641
0	0	0	0	4,604	0	11,492
2,412	12,488	120	0	4,604	24,778	78,931
7,020	2,890	1,941	0	12,394	5,371	26,268
0	(950)	0	6,610	60,485	15,660	157,628
\$7,020	\$1,940	\$1,941	\$6,610	\$72,879	\$21,031	\$183,896

FAYETTE COUNTY
West Union, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash & Pooled Investments				
County Treasurer	\$0	\$3,075	\$36,579	\$216,057
Other County Officials	324,458	0	0	0
Receivables				
Property Tax				
Delinquent	0	5	7	388
Succeeding Year	0	148,625	201,798	9,807,776
Accounts	303	0	100	0
Accrued Interest	0	0	0	0
Due From Other Governments	0	0	0	0
TOTAL ASSETS	\$324,761	\$151,705	\$238,484	\$10,024,221
Liabilities				
Accounts Payable	\$279	\$0	\$13,133	\$0
Salaries & Benefits Payable	0	0	6,935	0
Due to Other Governments	24	151,705	210,169	10,024,221
Trusts Payable	324,458	0	0	0
Compensated Absences	0	0	8,247	0
TOTAL LIABILITIES	\$324,761	\$151,705	\$238,484	\$10,024,221

See Accompanying Independent Auditors' Report

Schedule 3

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$9,109	\$71,079	\$4,939	\$19,169	\$342,694	\$431,692	\$1,134,393
0	0	0	0	0	0	324,458
16	325	0	0	0	7	748
439,569	3,392,614	245,779	0	0	164,380	14,400,541
0	0	0	0	0	29,580	29,983
0	0	0	0	0	476	476
0	0	0	0	0	5,767	5,767
\$448,694	\$3,464,018	\$250,718	\$19,169	\$342,694	\$631,902	\$15,896,366
\$0	\$0	\$0	\$0	\$0	\$9,201	\$22,613
0	0	0	0	0	449	7,384
448,694	3,464,018	250,718	19,169	342,694	607,409	15,518,821
0	0	0	0	0	14,843	339,301
0	0	0	0	0	0	8,247
\$448,694	\$3,464,018	\$250,718	\$19,169	\$342,694	\$631,902	\$15,896,366

FAYETTE COUNTY
West Union, Iowa

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	\$323,465	\$144,673	\$262,014	\$10,125,666
Additions				
Property & Other County Tax	0	154,928	210,567	10,246,053
E911 Surcharge	0	0	0	0
State Tax Credits	0	10,647	14,824	749,845
Drivers License Fees	0	0	0	0
Office Fees & Collections	339,971	0	0	0
Electronic Transaction Fee	0	0	0	0
Auto Licenses, Use Tax & Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	1,336,245	0	0	0
Miscellaneous	0	0	4,057	0
Total Additions	1,676,216	165,575	229,448	10,995,898
Deductions				
Agency Remittances				
To Other Funds	193,468	0	0	0
To Other Governments	146,716	158,543	335,978	11,097,343
Trusts Paid Out	1,334,736	0	0	0
Total Deductions	1,674,920	158,543	335,978	11,097,343
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	83,000	0
Balances – End of Year	\$324,761	\$151,705	\$238,484	\$10,024,221

See Accompanying Independent Auditors' Report

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$430,047	\$3,347,346	\$241,972	\$9,770	\$356,934	\$572,100	\$15,813,987
458,141	3,538,874	256,714	0	0	170,241	15,035,518
0	0	0	0	0	127,058	127,058
31,458	249,801	16,654	969	0	9,907	1,084,105
0	0	0	0	100,253	0	100,253
0	0	0	0	0	0	339,971
0	0	0	0	0	4,287	4,287
0	0	0	0	4,327,340	0	4,327,340
0	0	0	90,212	0	0	90,212
0	0	0	0	0	198,364	1,534,609
0	0	0	0	0	113,513	117,570
489,599	3,788,675	273,368	91,181	4,427,593	623,370	22,760,923
0	0	0	0	180,661	0	374,129
470,952	3,672,003	264,622	81,782	4,261,172	283,637	20,772,748
0	0	0	0	0	196,931	1,531,667
470,952	3,672,003	264,622	81,782	4,441,833	480,568	22,678,544
0	0	0	0	0	(83,000)	0
\$448,694	\$3,464,018	\$250,718	\$19,169	\$342,694	\$631,902	\$15,896,366

Schedule 5**FAYETTE COUNTY
West Union, Iowa****SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS**

For the Last Six Years

	Modified Accrual Basis					
	2005	2004	2003	2002	2001	2000
Revenues:						
Property & Other County Tax	\$5,838,552	\$5,493,685	\$5,107,226	\$4,574,459	\$4,168,049	\$4,292,969
Interest & Penalty On Property Tax	54,595	67,632	53,612	53,322	50,574	54,065
Intergovernmental	6,440,864	5,442,011	5,664,850	5,084,488	5,658,027	5,939,022
Licenses & Permits	11,020	10,878	13,715	7,670	6,350	8,245
Charges For Service	721,585	884,792	530,343	391,664	362,300	304,087
Use of Money & Property	44,624	36,395	67,301	163,119	307,749	305,623
Miscellaneous	380,778	318,134	386,408	310,797	302,974	262,450
Total	<u>\$13,492,018</u>	<u>\$12,253,527</u>	<u>\$11,823,455</u>	<u>\$10,585,519</u>	<u>\$10,856,023</u>	<u>\$11,055,461</u>
Expenditures:						
Current:						
Public Safety & Legal Services	\$2,383,632	\$2,276,495	\$2,171,440	\$1,797,555	\$1,626,159	\$1,467,242
Physical Health & Social Services	492,420	490,076	490,642	483,477	453,240	404,503
Mental Health	2,119,523	1,998,575	1,736,300	1,719,738	1,604,760	1,455,915
County Environment & Education	1,163,043	1,208,766	1,354,060	1,578,895	1,021,274	1,266,108
Roads & Transportation	4,715,512	3,867,734	3,948,329	4,327,550	4,497,788	4,333,150
Governmental Services To Residents	466,890	433,422	419,276	365,967	349,098	364,764
Administration Services	902,783	874,104	1,108,297	890,472	872,784	914,783
Non-Program	5,774	5,881	8,324	38,426	7,416	13,425
Debt Service	350,199	349,305	348,024	271,533	0	0
Capital Projects	947,247	531,894	2,522,122	2,950,955	917,272	426,385
Total	<u>\$13,547,023</u>	<u>\$12,036,252</u>	<u>\$14,106,814</u>	<u>\$14,424,568</u>	<u>\$11,349,791</u>	<u>\$10,462,275</u>

See Accompanying Independent Auditors' Report

FAYETTE COUNTY
West Union, Iowa

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		<u>\$8,031</u>
U.S. Department of Justice			
Iowa Department of Justice			
Stop Violence Against Women	16.588	VW-05-55	<u>5,014</u>
U.S. Department of Transportation			
Iowa Department of Transportation			
Highway Planning & Construction	20.205	2-03-HBRRS-036	119,284
		2-03-HBRRS-040	199,148
		2-02-HBRRS-023	314,383
		2-02-STPES-056	62,004
			<u>139,951</u>
			<u>834,770</u>
National Highway Traffic Safety Administration			
Iowa Department of Public Safety			
Traffic Safety Bureau:			
Discretionary Innovative Grants to Increase			
Seatbelt Use Rates	20.604	PAP 05-157	<u>4,500</u>
Iowa Department of Public Defense			
Iowa Homeland Security & Emergency			
Management Division			
Hazardous Materials Emergency Preparedness	20.703		<u>2,671</u>
U.S. Department of Health & Human Services			
Iowa Department of Human Services			
Human Services Administrative Reimbursements			
Temporary Assistance for Needy Families	93.558		<u>10,640</u>
Refugee & Entrant Assistance – State			
Administered Programs	93.566		<u>14</u>
Child Care Mandatory & Matching Funds of the			
Child Care & Development Fund	93.596		<u>2,075</u>
Foster Care – Title IV – E	93.658		<u>5,613</u>
Adoption Assistance	93.659		<u>1,306</u>
Medical Assistance Program	93.778		<u>11,518</u>
Social Services Block Grant	93.667		<u>7,039</u>
Social Service Block Grant	93.667		<u>113,428</u>
			<u>120,467</u>
Federal Emergency Management Agency			
Iowa Department of Public Defense			
Iowa Homeland Security and Emergency Management			
Division:			
Disaster Recovery – Public Assistance	97.036	DR-1518-1A	284,730
Hazard Mitigation Grant	97.039	F094-33-00	2,073
Emergency Management Performance Chart	97.042		<u>12,381</u>
			<u>\$1,305,803</u>

Schedule 6 (Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Fayette 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 Auditors' Report

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

To the Officials of Fayette County
West Union, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fayette 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 January 27, 2006. We conducted our audit in accordance with U.S generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

In planning and performing our audit, we considered Fayette 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fayette County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness.

Compliance and Other Matters (Continued)

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 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 Fayette County and other parties to whom Fayette 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 Fayette 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.

January 27, 2006

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

To the Officials of Fayette County
West Union, Iowa

Compliance

We have audited the compliance of Fayette County, Iowa, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Fayette County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Fayette County's management. Our responsibility is to express an opinion on Fayette 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 Fayette County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fayette County's compliance with those requirements.

In our opinion, Fayette County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures disclosed no instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Fayette 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 Fayette 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.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements 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 material weaknesses. We noted no matters involving the material control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fayette County and other parties to whom Fayette 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.

January 27, 2006

Fayette County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (e) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (f) Major program are as follows:
 - CFDA Number 20.205 – Highway Planning and Construction – 2-03-HBRRS-036
 - CFDA Number 20.205 – Highway Planning and Construction – 2-03-HBRRS-040
 - CFDA Number 20.205 – Highway Planning and Construction – 2-02-HBRRS-023
 - CFDA Number 20.205 – Highway Planning and Construction – 2-02 STPES-056
- (g) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (h) Fayette County did not qualify as a low-risk auditee.

Fayette County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements

REPORTABLE CONDITIONS:

II-A-05 SEGREGATION OF DUTIES - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the County officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances

Response– We have reviewed the procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the one individual will be separated and spread among the County Official, Deputy, and Clerk.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

No matters were reported.

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, except for deposits at First National Bank – West Union. The maximum authorized amount of \$6,000,000 was exceeded in April 2005 by approximately \$400,000.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response– We will adopt a new resolution in amounts sufficient to cover anticipated balances at all approved depositories.

Conclusion – Response accepted.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2005**

Part IV: Other Findings Related to Required Statutory Reporting: (Continued)

IV-B-05 CERTIFIED BUDGET – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the capital projects function. Disbursements in a certain department exceeded the amount appropriated. Also, the Emergency Management budget was over expended at June 30, 2005.

Recommendation – The budgets 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 will amend the budgets when required and appropriations will be watched more closely by the departments.

Conclusion – Response accepted.

IV-C-05 QUESTIONABLE EXPENDITURES – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

Paid to	Purpose	Amount
Martin Fisher	Refreshments for a Demonstration Meeting	\$32.00

According to the opinion, it is possible for certain expenditures to meet the test of serving public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Board of Supervisors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures, including requirements for proper documentation.

Response – We will comply.

Conclusion – Response accepted.

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

Year Ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting: (Continued)

IV-E-05 BUSINESS TRANSACTIONS – The following business transactions between the County and County officials or employees were noted:

Name, Title and Business Connection	Description	Amount
Bunn's Service Nephew of Supervisor, John Bunn	Portable Restrooms & Drainage Tile Clearing	\$175
Baumler Implement Company, Inc. Partial Owner – Don Baumler, husband of Madonna Baumler; Treasurer's Office	Equipment & Repairs	\$48,748
Fauser Energy Resources Conservation Executive Director, Rob Marlatt's father-in-law	Diesel, tires, car parts	\$303,873

Of the transactions with Don Baumler, \$47,248 and of the transactions with Fauser Energy Resources \$302,373 may not be authorized in accordance with Chapter 331.342 of the Code of Iowa and Attorney General's Opinions dated April 17, 1979.

Recommendation – The County should refrain from business transactions with relatives of employees when possible. Contracts should be let for public bidding.

Response – The County will refrain from business transactions with relatives of employees and officials when possible or the contracts will be publicly bid.

Conclusion – Response accepted.

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

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 Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-I-05 RESOURCE ENHANCEMENT AND PROTECTION CERTIFICATION – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-J-05 ECONOMIC DEVELOPMENT – During the year ended June 30, 2005, the County paid \$39,644 for economic development which appears to be an appropriate expenditure of public funds since the public benefits to be derived have been clearly documented.

**Fayette County
Schedule of Findings and Questioned Costs**

Year Ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting: (Continued)

IV-K-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-L-05 SEPARATELY MAINTAINED ACCOUNTS – The Sheriff's Office maintains the DARE account and a K-9 account within the office. The receipts and disbursements of the accounts were not reflected in the County's accounting system and were not included in the County's annual budget or financial report. In addition, phone rebates are being deposited into the commissary account.

Recommendation – In accordance with the Code of Iowa, Special Revenue funds should be established for each these accounts, all collections should be remitted to the County Treasurer and all expenditures should be approved by the Board of Supervisors and reflected in the County's accounting system, annual budget and financial report.

Response – These funds were established at the beginning of the fiscal year ending June 30, 2006.

Conclusion – Response accepted.

NEWS RELEASE

Gardiner Thomsen today released an audit report on Fayette County, Iowa.

The County had local tax revenue of \$22,393,845 for the year ended June 30, 2005, which included \$1,466,624 in tax credits from the state. The County forwarded \$16,088,403 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$6,305,442 of the local tax revenue to finance County operations, an 8 percent decrease from the prior year. Other revenues include charges for service of \$1,167,645, operating grants, contributions and restricted interest of \$5,440,965, unrestricted investment earnings of \$44,452 and other general revenues of \$365,565.

Expenses for County operations total \$13,580,032, a 3 percent increase from the prior year. Expenses included \$5,601,556 for Road and Transportation, \$2,446,991 for Public Safety and Legal Services and \$2,110,440 for Mental Health Services.

A copy of the audit report is available for review in the office of Auditor of State and the County Auditor's Office.

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Fayette County
Corrective Action Plan for Federal Audit Findings
Year Ended June 30, 2005

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title Phone Number	Anticipated Date of Completion
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No matters were reported

Fayette County
Summary of Schedule of Prior Federal Audit Findings
Year Ended June 30, 2005

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
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No matters were reported