

FRANKLIN COUNTY
Hampton, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2006

FRANKLIN COUNTY, IOWA
Hampton, Iowa

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**FRANKLIN COUNTY
Hampton, Iowa**

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Nolte.....	Board of Supervisors	January 2007
Jerry Plagge.....	Board of Supervisors	January 2007
Corey Eberling	Board of Supervisors	January 2009
Michelle Giddings	County Auditor.....	January 2009
Naomi Morton	County Treasurer	January 2007
Toni Wilkinson	County Recorder.....	January 2007
Larry Richtsmeier.....	County Sheriff	January 2009
Brent J. Symens.....	County Attorney.....	January 2007
Danielle Naumann	County Assessor.....	Appointed



Independent Auditors' Report

To the Officials of Franklin County
Hampton, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Franklin 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 Franklin County at June 30, 2006, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2006 on our consideration of Franklin County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages **4 - 10** and **36 - 38** are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Franklin 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, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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.

October 5, 2006

Gardiner Thomsen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- ◆ County governmental funds revenue increased by \$264,221, or approximately 5.5% from 2005 to 2006. Property taxes increased approximately \$17,677, including debt service, and grants and contributions increased by approximately \$3,781,020 from 2005 to 2006, largely due to \$1.5 million in Secondary Road and Farm to Market projects completed, and \$2.2 million in progress at June 30, 2006. Charges for service increased by \$360,429.
- ◆ County program expenses were \$2,273,871 more in fiscal year 2006 than in fiscal year 2005. Roads and transportation expense increased approximately \$801,331.
- ◆ The County's net assets increased approximately \$3,659,149, at June 30, 2006.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements will display information about the major funds individually and the non-major funds in the aggregate. Financial statements will be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

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

Required Supplementary Information (other than MD&A), will include required budgetary comparison information.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

- 2) Proprietary funds: Services for which the County charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the county-wide statements.

The County uses an *Internal Service Fund*, to account for the Employee Group Health Insurance account.

- 3) Fiduciary funds: The County is the trustee, or fiduciary, for assets that belong to others, such as drainage districts, emergency management services and County Assessor.

The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The County excludes these activities from the county-wide financial statements because it cannot use these assets to finance its operations.

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets: As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	2006	2005
Net Assets:		
Current and Other Assets	\$10,473	\$10,227
Capital Assets	13,147	7,222
Total Assets	<u>\$23,620</u>	<u>\$17,449</u>
Current Liabilities	\$4,873	\$4,603
Long-Term Liabilities	3,557	1,315
Total Liabilities	<u>\$8,430</u>	<u>\$5,918</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$11,691	\$7,222
Restricted	2,581	3,568
Unrestricted	918	741
Total Net Assets	<u>\$15,190</u>	<u>\$11,531</u>

Net assets of Franklin County's governmental activities increased by 32% (\$15.2 million compared to \$11.5 million). Franklin County's net assets were restated at the beginning of FY 2005/2006 due to an adjustment to infrastructure. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Unrestricted net assets are 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.

The County increased its investment in Capital Assets and Infrastructure by approximately 32%. The County's improved financial position is the product of many factors. Slight growth during the year in taxes, along with an increase in capital assets was a significant contributor to this improvement.

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

	Year Ended June 30,	
	2006	2005
Revenues:		
Program Revenues		
Charges for Service	\$1,772	\$1,411
Operating Grants, Contributions and Restricted Interest	3,386	3,285
Capital Grants, Contributions and Restricted Interest	3,870	190
General Revenues		
Property Tax – General Purpose	3,907	4,061
Property Tax – Debt Service	174	297
Penalty and Interest on Property Tax	29	34
State Tax Credits	254	231
Local Option Sales Tax	353	317
Unrestricted Investment Earnings	236	108
Other General Revenues	145	82
Total Revenues	14,126	9,719
Program Expenses		
Public Safety and Legal Services	1,621	1,084
Physical Health and Social Services	1,399	1,221
Mental Health	949	1,032
County Environment and Education	520	502
Roads and Transportation	3,484	2,682
Government Services to Residents	487	301
Administration	1,347	1,218
Non-Program	544	120
Interest on Long-Term Debt	116	32
Total Expenses	10,467	8,192
Increase in Net Assets	3,659	1,527
Net Assets Beginning of Year	11,530(restated)	7,872
Net Assets End of Year	\$15,189	\$9,399

Governmental Activities

Revenues for Franklin County’s governmental activities increased 41%, while total expenses increased 28%. This is primarily due to \$1.5 million in completed Secondary Road projects, with \$2.2 million in progress. Farm to Market receipts also had a substantial impact on Secondary Road revenue. The increase in net assets in governmental activities totaled \$3.6 million in Fiscal 2006.

Revenues for governmental activities were \$14 million while expenses amounted to \$10 million. The County came close to trimming expenses to match available revenues.

The cost of all governmental activities this year was \$10,467,000. The portion of the cost financed by users of the County's programs was \$1,772,000. The federal and state governments and private contributors subsidized certain programs with grants and contributions totaling \$7,257,000. The net cost portion of governmental activities was financed with \$4,109,019 in property tax and penalties, \$254,000 in intergovernmental revenue, \$498,000 (local option sales tax, tax increment financing revenue, etc.) and \$236,000,000 in unrestricted interest income.

INDIVIDUAL MAJOR FUND ANALYSIS

As Franklin County completed the year, its governmental funds reported a combined fund balance of \$5.4 million, a decrease of \$189,000 overall from last year's total of \$5.5 million. The following are the major reasons for the changes in individual fund balances of the major funds from the prior year:

- General Fund revenues were up \$400,000, while expenditures increased by \$1,027,000 over last year. There are a number of reasons for this. The Child Support Recovery Department was added to Franklin County with an annual budget of \$350,000. This service is shared by several counties, and reimbursement is received from the State of Iowa. The cost to law enforcement of housing prisoners and juvenile detention increased by slightly over \$100,000. Increased cost to the Auditor's Office due to mandated purchase of new election equipment and poll worker training resulted in an increase of approximately \$200,000 in the Governmental Service to Residents area. The ending fund balance showed an increase of \$475,600 from the prior year to \$2,354,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,222,000, an increase of 18% from the prior year. The Mental Health Fund balance at year ended decreased by approximately \$291,000 over the prior year due to the purchase by the Mental Health Fund of the Community Resource Center from the Franklin County General Fund.
- Secondary Roads Fund expenditures increased by approximately \$1,092,000 over the prior year, due principally to work on projects which had been delayed during transition between county engineers. This increase in expenditures, along with a slight increase in revenues, resulted in a decrease in the Secondary Roads Fund ending balance of approximately \$629,192, or 29%.
- Rural Basic Fund balances increased moderately by \$108,000.

BUDGETARY HIGHLIGHTS

In accordance with the State of Iowa, the County annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The county's certified budget is prepared on the cash basis.

Over the course of the year, Franklin County amended its budget three times. These amendments resulted in an increase in budgeted revenue of \$173,603, and an increase in budgeted expenditures of \$1,238,499, which slightly impact the fiscal year 2006 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the County had \$17.9 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 \$6,240,839, or 53% over last year. More detailed information about capital assets is available in Note 5 to the financial statement.

Capital Assets at Year End of Governmental Activities
(Expressed in Thousands)

	June 30,	
	2006	2005
Land	\$665	\$593
Buildings & Improvements	1,825	1,695
Machinery & Equipment	5,687	5,337
Infrastructure	5,571	4,009
Construction in Process	4,127	0
Totals	\$17,875	\$11,634

This year's major additions included (in thousands):

Machinery & Equipment	\$630
Infrastructure	1,561
Construction in Process	4,127
	\$6,318

The County had depreciation expense of \$596,042 for the year ended June 30, 2006 and total accumulated depreciation of \$4,728,205.

The County's fiscal year 2006 capital budget included \$2,343,300 for capital projects, principally for road construction and clock tower repair.

Debt Administration

At June 30, 2006, Franklin County had approximately \$3,562,000 in notes and other debt (Landfill liability), compared to approximately \$1,548,000 at June 30, 2005, as shown below.

Outstanding Debt of Governmental Activities at Year-End
(Expressed in Thousands)

	June 30,	
	2006	2005
General Obligation Bonds	\$346	\$379
General Obligation Notes	1,730	0
Drainage Warrants and Improvement Certificates	292	38
Compensated Absences	269	200
Postclosure Estimate	924	931
Totals	\$3,561	\$1,548

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Franklin County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the economy. The County's budgeted ending cash balance for fiscal year 2006 is \$.7 million less than the budgeted ending cash balance for fiscal 2005.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Franklin 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 Franklin County Auditor's Office, 12 1st Ave NW, PO Box 26, Hampton, IA 50441.

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$4,728,130
Receivables	
Property Tax	
Delinquent	7,401
Succeeding Year	4,289,766
Interest & Penalty On Property Tax	39
Accounts	62,274
Accrued Interest	55,370
Drainage Assessments	11,940
Due From Other Governments	464,905
Inventories	815,647
Prepaid Insurance	37,463
Capital Assets (Net of Accumulated Depreciation)	13,147,057
TOTAL ASSETS	23,619,992
LIABILITIES	
Accounts Payable	421,815
Accrued Interest Payable	16,575
Salaries & Benefits Payable	45,508
Due To Other Governments	99,767
Deferred Revenue	
Succeeding Year Property Tax	4,289,766
Long Term Liabilities	
Portion Due Or Payable Within One Year	
General Obligation Bonds	304,782
Compensated Absences	264,619
Portion Due Or Payable After One Year	
General Obligation Bonds	1,771,521
Postclosure Care Costs	923,789
Drainage Warrants/Drainage Improvement Certificates Payable	292,304
TOTAL LIABILITIES	8,430,446
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	11,690,642
Restricted For:	
Mental Health Purposes	59,763
Secondary Roads Purposes	1,432,680
Other Purposes	1,088,616
Unrestricted	917,845
TOTAL NET ASSETS	\$15,189,546

See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

	Program Revenues				
	Operating Grants, Capital Grants, Net (Expense)				
Expenses	Charges for	Contributions,	Contributions,	Revenue	& Changes
	Service	& Restricted	& Restricted	Interest	In Net Assets
		Interest	Interest		
FUNCTIONS/PROGRAMS:					
Governmental Activities:					
Public Safety and Legal Services	\$1,620,634	\$99,350	\$294,074	\$23,255	\$(1,203,955)
Physical Health and Social Services	1,399,166	969,546	244,549	0	(185,071)
Mental Health	948,917	134,964	427,730	0	(386,223)
County Environment and Education	519,748	20,388	26,461	31,121	(441,778)
Roads and Transportation	3,483,539	62,116	2,200,059	3,815,840	2,594,476
Governmental Services to Residents	486,578	178,377	114,567	0	(193,634)
Administration	1,347,059	36,089	79,019	0	(1,231,951)
Non-Program	544,369	271,049	0	0	(273,320)
Interest and Fees on Long-Term Debt	116,497	0	0	0	(116,497)
TOTAL	\$10,466,507	\$1,771,879	\$3,386,459	\$3,870,216	(1,437,953)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					3,906,861
Debt Service					173,558
Penalty and Interest on Property Tax					28,600
State Tax Credits					253,872
Local Option Sales Tax					353,164
Unrestricted Investment Earnings					236,356
Miscellaneous					141,745
Gain on Disposal of Capital Assets					2,946
TOTAL GENERAL REVENUES					5,097,102
CHANGE IN NET ASSETS					3,659,149
NET ASSETS BEGINNING OF YEAR, as restated (Note 11)					11,530,397
NET ASSETS END OF YEAR					\$15,189,546

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

	General	Special Revenue			Debt Service	Capital Projects	Nonmajor Special Revenue	Total
		Mental Health	Rural Services	Secondary Roads				
ASSETS								
Cash and Pooled Investments	\$2,312,821	\$48,690	\$486,198	\$874,379	\$5,932	\$20	\$761,342	\$4,489,382
Receivables:								
Property Tax								
Delinquent	4,584	428	1,824	0	565	0	0	7,401
Succeeding Year	2,468,123	230,248	1,275,182	0	316,213	0	0	4,289,766
Interest & Penalty on Property Tax	39	0	0	0	0	0	0	39
Accounts	50,629	93	0	6,141	0	0	5,411	62,274
Accrued Interest	55,296	0	0	0	0	0	74	55,370
Drainage Assessments	0	0	0	0	0	0	11,940	11,940
Due From Other Funds	6,441	0	0	0	0	0	0	6,441
Due From Other Governments	7,128	106,721	13,756	180,950	0	0	156,350	464,905
Inventories	0	0	0	815,647	0	0	0	815,647
Prepaid Insurance	37,463	0	0	0	0	0	0	37,463
TOTAL ASSETS	\$4,942,524	\$386,180	\$1,776,960	\$1,877,117	\$322,710	\$20	\$935,117	\$10,240,628
LIABILITIES & FUND BALANCES								
Liabilities:								
Accounts Payable	\$60,032	\$33,258	\$4,781	\$287,369	\$0	\$0	\$29,452	\$414,892
Salaries & Benefits Payable	12,095	2,239	467	21,334	0	0	9,373	45,508
Interest Payable	0	0	0	0	0	0	9,565	9,565
Due To Other Governments	38,333	60,672	0	762	0	0	0	99,767
Deferred Revenue:								
Succeeding Year Property Tax	2,468,123	230,248	1,275,182	0	316,213	0	0	4,289,766
Other	9,704	423	1,824	0	559	0	11,913	24,423
Total Liabilities	2,588,287	326,840	1,282,254	309,465	316,772	0	60,303	4,883,921
Fund Balances								
Reserved For:								
Inventories	0	0	0	815,647	0	0	0	815,647
Debt Service	0	0	0	0	5,938	0	0	5,938
Drainage Warrants/Drainage Improvement Certificates	0	0	0	0	0	0	(8,755)	(8,755)
Unreserved, Reported In:								
General Fund	2,354,237	0	0	0	0	0	0	2,354,237
Special Revenue Funds	0	59,340	494,706	752,005	0	0	883,569	2,189,620
Capital Projects Fund	0	0	0	0	0	20	0	20
Total Fund Balances	2,354,237	59,340	494,706	1,567,652	5,938	20	874,814	5,356,707
TOTAL LIABILITIES & FUND BALANCES	\$4,942,524	\$386,180	\$1,776,960	\$1,877,117	\$322,710	\$20	\$935,117	\$10,240,628

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS**

June 30, 2006

Total Governmental Fund Balances – Page 13 (Exhibit C) \$5,356,707

Amounts reported for governmental activities in the Statement of Net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$17,875,262 and the accumulated depreciation is \$4,728,205. 13,147,057

Other long-term assets are not available to pay current expenditures and, therefore, are deferred in the funds. 24,423

The Internal Service Fund is used by management to charge the costs of the partial 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. 225,384

Long-term liabilities, including bonds payable, compensated absences payable, accrued interest payable, postclosure costs payable and drainage warrants and improvement certificates payable are not due and payable in the current period and, therefore, are not reported in the funds. (3,564,025)

Net Assets of Governmental Activities – Page 11 (Exhibit A) \$15,189,546

See Notes To Financial Statements.

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
REVENUES:				
Property and Other County Tax	\$2,358,191	\$337,526	\$1,335,053	\$117,722
Interest and Penalty on Property Tax	28,600	0	0	0
Intergovernmental	682,398	592,317	138,225	2,200,363
Licenses and Permits	11,692	0	0	1,355
Charges for Service	252,664	0	0	83
Use of Money and Property	235,794	0	0	21,925
Miscellaneous	33,068	503	4,209	39,650
Total Revenues	3,602,407	930,346	1,477,487	2,381,098
EXPENDITURES:				
Operating:				
Public Safety and Legal Services	1,206,038	0	387,556	0
Physical Health and Social Services	218,470	0	0	0
Mental Health	0	1,221,761	0	0
County Environment and Education	276,927	0	97,997	0
Roads and Transportation	0	0	0	3,587,349
Governmental Services to Residents	468,716	0	0	0
Administrative Services	1,442,754	0	1,946	0
Nonprogram	0	0	0	0
Debt Service	7,921	0	0	0
Capital Projects	0	0	0	482,173
Total Expenditures	3,620,826	1,221,761	487,499	4,069,522
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(18,419)	(291,415)	989,988	(1,688,424)
Other Financing Sources (Uses):				
Sale of Capital Assets	275,758	0	0	6,370
Operating Transfers In	15,000	0	0	944,500
Operating Transfers Out	(268,146)	0	(881,848)	(15,000)
General Obligation Bonds Issued	471,405	0	0	0
Drainage Warrant Proceeds	0	0	0	0
Total Other Financing Sources (Uses)	494,017	0	(881,848)	935,870
Net Change in Fund Balances	475,598	(291,415)	108,140	(752,554)
Fund Balances Beginning of Year	1,878,639	350,755	386,566	2,196,844
Increase in Reserve for Inventories	0	0	0	123,362
Fund Balances End of Year	\$2,354,237	\$59,340	\$494,706	\$1,567,652

See Notes to Financial Statements

Exhibit E

Debt Service	Capital Projects	Nonmajor Special Revenue	Total
\$173,407	\$ 0	\$190,021	\$4,511,920
0	0	0	28,600
10,684	0	922,302	4,546,289
0	0	0	13,047
0	0	284,058	536,805
0	1,580	4,720	264,019
0	0	223,016	300,446
184,091	1,580	1,624,117	10,201,126
0	0	13,871	1,607,465
0	0	1,181,739	1,400,209
0	0	0	1,221,761
0	0	160,089	535,013
0	0	0	3,587,349
0	0	12,995	481,711
0	0	0	1,444,700
0	0	479,641	479,641
191,158	23,419	61,445	283,943
0	1,371,341	40,994	1,894,508
191,158	1,394,760	1,950,774	12,936,300
(7,067)	(1,393,180)	(326,657)	(2,735,174)
0	0	0	282,128
13,000	0	192,494	1,164,994
0	0	0	(1,164,994)
0	1,393,595	0	1,865,000
0	0	275,805	275,805
13,000	1,393,595	468,299	2,422,933
5,933	415	141,642	(312,241)
5	(395)	733,172	5,545,586
0	0	0	123,362
\$5,938	\$20	\$874,814	\$5,356,707

**FRANKLIN COUNTY
Hampton, Iowa**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2006

**Net Change in Fund Balances - Total Governmental Funds –
Page 15 (Exhibit E)** \$(188,879)

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

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

Expenditures for capital assets	\$2,930,784	
Capital assets contributed by the Iowa Department of Transportation	3,815,840	
Capital assets contributed by others	53,955	
Depreciation expense	<u>(596,042)</u>	6,204,537

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (279,182)

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 tax	383	
Other	<u>(27,262)</u>	(26,879)

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 issuances exceed repayments as follows:

Issued	(2,140,805)	
Repaid	<u>196,728</u>	(1,944,077)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds as follows:

Compensated absences	(68,406)	
Interest on long-term debt	<u>(5,160)</u>	(73,566)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (32,805)

Change in Net Assets of Governmental Activities – Page 12 (Exhibit B) \$3,659,149

See Notes to Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006**

	<u>Internal Service Employee Group Health</u>
ASSETS	
Cash and Cash Equivalents	<u>\$232,307</u>
Total Assets	232,307
 LIABILITIES	
Accounts Payable	<u>6,923</u>
 NET ASSETS	
Unrestricted	<u><u>\$225,384</u></u>

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2006**

	Internal Service Employee Group Health
<hr/>	
OPERATING REVENUES:	
Reimbursements From Operating Funds	\$900,570
Reimbursements From Employees	73,979
Other Reimbursements	42,124
Total Operating Revenues	<hr/> 1,016,673 <hr/>
OPERATING EXPENSES:	
Medical Claims	72,140
Insurance Premiums	966,306
Administrative Fees	9,468
Miscellaneous	1,564
Total Operating Expenses	<hr/> 1,049,478 <hr/>
Net Loss	(32,805)
Net Assets Beginning of Year	<hr/> 258,189 <hr/>
Net Assets End of Year	<hr/> <hr/> \$225,384 <hr/> <hr/>

See Notes to Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2006

	Internal Service Employee Group Health
<hr/>	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received From Operating Fund Reimbursements	\$900,570
Cash Received From Employees and Others	116,103
Cash Payments To Suppliers For Services	(1,054,855)
Net Cash Used in Operating Activities	<hr/> (38,182) <hr/>
Cash & Cash Equivalents at Beginning of Year	<hr/> 270,488 <hr/>
Cash & Cash Equivalents at End of Year	<hr/> \$232,307 <hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating Loss	\$(32,805)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:	
Decrease In Accounts Payable	<hr/> (5,377) <hr/>
Net Cash Used In Operating Activities	<hr/> \$(38,182) <hr/>

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006**

ASSETS

Cash & Pooled Investments	
County Treasurer	\$630,231
Other County Officials	4,984
Receivables:	
Property Tax:	
Delinquent	383
Succeeding Year	11,545,471
Accounts	2,428
Accrued Interest	158
Assessments	135,838
TOTAL ASSETS	<u>12,319,493</u>

LIABILITIES

Accounts Payable	1,844
Salaries & Benefits Payable	274
Due To Other Governments	12,285,174
Trusts Payable	27,501
Compensated Absences	4,700
TOTAL LIABILITIES	<u>12,319,493</u>

NET ASSETS	<u>\$ 0</u>
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See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

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

A. REPORTING ENTITY

For financial reporting purposes, Franklin 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 Franklin 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 that 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.

One hundred thirty five drainage districts have 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 these districts are legally separate from the County, they are controlled, managed and supervised by the Franklin County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Franklin County Auditor's office.

Jointly Governed Organizations – The County also 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 Franklin County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Franklin County Assessor's Conference Board, Franklin County Emergency Management Commission, and Franklin 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 inter-fund 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 non-fiduciary 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 which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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 fund 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 and 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 Internal Service Funds 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 the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and 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, 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 revenue recognized in these funds becomes 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2005.

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.

Drainage Assessments Receivable – Drainage assessment receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Delinquent drainage assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represent remaining assessments which are payable but not yet due.

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

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

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. 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.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, Buildings and Improvements	25,000
Equipment and Vehicles	5,000

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-65
Building Improvements	20-50
Infrastructure	10-65
Equipment	2-20
Vehicles	3-10

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or 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, 2006. 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 and proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund 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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in certain departments exceeded the amounts appropriated.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Iowa Public Agency Investment Trust which are valued at amortized cost of \$108,974, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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.

Credit risk. The investment in Iowa Public Agency Investment Trust is unrated.

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, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Trust and Agency: Auto License and Use Tax	\$6,441

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.

Notes to Financial Statements (Continued)

Note 4: Inter-fund Transfers

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

Transfer To	Transfer From	Amount
General Basic	Special Revenue	\$15,000
Special Revenue:		
Secondary Roads	General Basic	62,652
	Special Revenue	
Secondary Roads	Rural Services	881,848
Public Health	General Basic	54,494
Homemakers	General Basic	138,000
Debt Service	General Basic	13,000
Agency	Agency	
County Assessor	Special Appraiser	40,000
Total		<u>\$1,204,994</u>

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

Note 5: Capital Assets

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

	Balance Beginning Of Year	Adjustments	Beginning Balance As Restated	Increases	Decreases	Balance End of Year
Governmental activities:						
Capital assets not being depreciated:						
Land	\$593,287	\$ 0	\$593,287	\$83,800	\$12,000	\$665,087
Construction in progress	0	0	0	4,127,021	0	4,127,021
Total capital assets not being depreciated	<u>593,287</u>	<u>0</u>	<u>593,287</u>	<u>4,210,821</u>	<u>12,000</u>	<u>4,792,108</u>
Capital assets being depreciated:						
Buildings	1,566,983	0	1,566,983	370,600	140,328	1,797,255
Improvements other than buildings	127,563	0	127,563	27,508	127,563	27,508
Machinery and equipment	5,337,156	0	5,337,156	630,167	279,849	5,687,474
Infrastructure	1,625,543	2,383,891	4,009,434	1,561,483	0	5,570,917
Total capital assets being depreciated	<u>8,657,245</u>	<u>2,383,891</u>	<u>11,041,136</u>	<u>2,589,758</u>	<u>547,740</u>	<u>13,083,154</u>
Less accumulated depreciation for						
Buildings	401,556	0	401,556	30,041	6,390	425,207
Improvements other than buildings	4,357	0	4,357	94	4,357	94
Machinery and equipment	3,697,884	0	3,697,884	316,297	269,811	3,744,370
Infrastructure	56,575	252,349	308,924	249,610	0	558,534
Total accumulated depreciation	<u>4,160,372</u>	<u>252,349</u>	<u>4,412,721</u>	<u>596,042</u>	<u>280,558</u>	<u>4,728,205</u>
Total capital assets being depreciated, net	<u>4,496,873</u>	<u>2,131,542</u>	<u>6,628,415</u>	<u>1,993,716</u>	<u>267,182</u>	<u>8,354,949</u>
Governmental activities capital assets, net	<u>\$5,090,160</u>	<u>\$2,131,542</u>	<u>\$7,221,702</u>	<u>\$6,204,537</u>	<u>\$279,182</u>	<u>\$13,147,057</u>

Notes to Financial Statements (Continued)

Note 5: Capital Assets (Continued)

Depreciation expense was charged to the following functions:

Public Safety and Legal Services	\$39,737
Physical Health and Social Services	5,100
Mental Health	2,367
County Environment and Education	28,182
Roads and Transportation	489,199
Governmental Services to Residents	3,034
Administration	<u>28,423</u>
 Total Depreciation Expense – Governmental Activities	 <u><u>\$596,042</u></u>

During the fiscal year ended June 30, 2006, the Engineer's Office updated the infrastructure in service from the fiscal year ended June 30, 2004. While completing this project, it was noted that several State projects had not been reported for the fiscal year ended June 30, 2004. These now completed projects were added to the infrastructure total for the fiscal year ended June 30, 2006. The beginning capital assets, the beginning accumulated depreciation and the beginning net assets on the Statement of Activities have been restated to reflect the correction.

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	\$38,333
Special Revenue:		
Mental Health	Services	60,672
Secondary Roads	Services	762
Total for governmental funds		<u>\$99,767</u>
Agency:		
Agricultural Extension	Collections	\$126,867
Assessor		239,968
Schools		7,495,553
Community Colleges		351,261
Corporations		2,423,341
Auto License & Use Tax		195,117
All Others		1,453,067
Total for agency funds		<u><u>\$12,285,174</u></u>

Notes to Financial Statements (Continued)

Note 7: Changes in Long-Term Liabilities

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

	General Obligation Notes	General Obligation Bonds	Estimated Liability for Landfill Postclosure Care Costs	Drainage Warrants	Drainage Improvement Certificates	Compensated Absences	Total
Balance beginning of year,	\$379,093	\$ 0	\$931,433	\$19,402	\$18,391	\$200,177	\$1,548,496
Increases	0	1,865,000	0	275,805	0	69,142	2,209,947
Decreases	32,790	135,000	7,644	14,817	6,477	0	196,728
Balance end of year	<u>\$346,303</u>	<u>\$1,730,000</u>	<u>\$923,789</u>	<u>\$280,390</u>	<u>\$11,914</u>	<u>\$269,319</u>	<u>\$3,561,715</u>
Due within one year	<u>\$34,782</u>	<u>\$270,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$269,319</u>	<u>\$574,101</u>

Notes Payable

A summary of the County's June 30, 2006 general obligations note indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principle	Interest	Total
2007	5.95%	\$34,782	\$20,208	\$54,990
2008	5.95	36,874	18,116	54,990
2009	5.95	39,133	15,857	54,990
2010	5.95	41,509	13,481	54,990
2011	5.95	44,030	10,960	54,990
2012	5.95	46,695	8,295	54,990
2013	5.95	49,539	5,451	54,990
2014	5.95	53,741	2,439	56,180
		<u>\$346,303</u>	<u>\$94,807</u>	<u>\$441,110</u>

Notes to Financial Statements (Continued)

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

Bonds Payable

During the fiscal year ended June 30, 2006, Franklin County issued \$1,865,000 of General Obligation County Purpose Bonds to finance the restoration of the Courthouse Clock Tower, Courthouse Remodeling, and other capital expenditures. The County retired \$135,000 of the bonds.

A summary of the County's June 30, 2006 general obligation bond indebtedness is as follows:

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2007	3.05%	\$270,000	\$63,910	\$333,910
2008	3.15	290,000	55,560	345,560
2009	3.25	165,000	46,125	211,125
2010	3.35	130,000	40,550	170,550
2011	3.45	135,000	35,740	170,740
2012	3.55	135,000	30,800	165,800
2013	3.65	140,000	25,340	165,340
2014	3.75	150,000	19,540	169,540
2015	3.85	155,000	13,390	168,390
2016	3.95	160,000	6,880	166,880
		<u>\$1,730,000</u>	<u>\$337,835</u>	<u>\$2,067,835</u>

Landfill – Postclosure Care Costs

State and Federal Laws and regulations require the County 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. The County stopped accepting waste at the landfill on June 20, 1994. The County closed the landfill during the year ended June 30, 1995, incurring a total cost of \$100,118. The County has also incurred \$105,211 for the years ended June 30, 1996 through 2006, in costs for postclosure expenditures. The \$923,789 reported as estimated liability for landfill postclosure costs at June 30, 2006, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all postclosure care during the year ended June 30, 2006. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Drainage Warrants/Drainage Improvement Certificates

Drainage warrants are warrants which are legally drawn on drainage district funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented. Warrants will be paid as funds are available.

Drainage improvement certificates payable represent amounts due to purchasers of drainage improvement certificates. Drainage improvement certificates are waivers that provide for a landowner to pay an improvement assessment in installment payments over a designated number of years with interest at a designated interest rate. The improvement certificates representing those assessments or installments due from the landowner are sold for cash as interest bearing certificates. Funds received from the sale of certificates are used to pay outstanding registered warrants issued to contractors who perform work on drainage district improvements and registered warrants issued for other related costs. Drainage improvement certificates are redeemed and interest paid to the bearer of the certificate upon receipt of the installment payment plus interest from the landowner.

Drainage warrants and drainage improvement certificates are paid from the Special Revenue Fund solely from special assessments against benefited properties.

Notes to Financial Statements (Continued)

Note 8: Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$209,608, \$187,818 and \$182,600, equal to the required contributions for each year.

Note 9: Risk Management

Franklin County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2006 were \$135,610.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

Notes to Financial Statements (Continued)

Note 9: Risk Management (Continued)

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, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation and employee blanket bond in the amount of \$500,000 and \$50,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10: Employee Health Insurance Plan

The Franklin County Employees Group Health Fund was established to account for the County's health insurance benefit plan. The plan is funded by both employee and County contributions and was administered through a service agreement with Wellmark Blue Cross and Blue Shield of Iowa. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitations of \$35,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Franklin County 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 Blue Cross and Blue Shield of Iowa from the Franklin County Employee Group Health Fund. The County records the plan assets and related liabilities of the Franklin County Employee Group Health Fund as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2006 was \$900,570.

Notes to Financial Statements (Continued)

Note 11: Restatement of Net Assets

During the fiscal year ended June 30, 2006, the Engineer's Office updated the infrastructure in service from the fiscal year ended June 30, 2004. While completing this project, it was noted that several State projects had not been reported for the fiscal year ended June 30, 2004. These now completed projects were added to the infrastructure total for the fiscal year ended June 30, 2006. The beginning capital assets and beginning accumulated depreciation have been restated to reflect the correction. Beginning Net Assets on the Statement of Activities have been restated as follows:

Net Assets, June 30, 2005 as previously reported	\$9,398,855
Infrastructure Adjustment	2,383,891
Infrastructure Accumulated Depreciation Adjustment	<u>(252,349)</u>
Net assets, July 1, 2005 as restated for governmental funds	<u><u>\$11,530,397</u></u>

Note 12: Construction Commitments

The County has entered into a contract totaling \$1,549,736 for the Courthouse Clock Tower Restoration Project. As of June 30, 2006, costs of \$1,390,491 on the project have been incurred. The balance remaining on the project at June 30, 2006 will be paid as work on the project progresses.

The County has entered into a contract totaling \$129,074 for the construction of a maintenance shed. As of June 30, 2006, no costs have been incurred for this project.

Note 13: Subsequent Events

On July 17, 2006, the Board of Supervisors accepted a bid from Technical Specialty Systems Corp. of \$123,637 for the Courthouse Tuck Pointing Project.

FRANKLIN COUNTY
Hampton, 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, 2006

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS:						
Property & Other County Tax	\$4,503,066	\$ 0	\$4,503,066	\$4,605,234	\$4,605,234	\$(102,168)
Interest & Penalty on Property Tax	28,687	0	28,687	5,155	5,155	23,532
Intergovernmental	4,422,347	0	4,422,347	4,344,628	4,449,699	(27,352)
Licenses & Permits	13,266	0	13,266	5,835	5,835	7,431
Charges for Services	544,508	0	544,508	443,410	496,710	47,798
Use of Money & Property	231,933	0	231,933	111,105	111,005	120,928
Miscellaneous	302,102	198,853	103,249	63,525	65,857	37,392
Total Receipts	10,045,909	198,853	9,847,056	9,578,892	9,739,495	107,561
DISBURSEMENTS:						
Public Safety & Legal Services	1,590,396	0	1,590,396	1,584,158	1,710,953	120,557
Physical Health & Social Services	1,386,222	0	1,386,222	1,327,525	1,452,648	66,426
Mental Health	1,229,422	0	1,229,422	1,178,677	1,451,677	222,255
County Environment & Education	537,851	0	537,851	550,209	592,380	54,529
Roads & Transportation	3,533,480	0	3,533,480	3,230,000	3,535,000	1,520
Governmental Services to Residents	479,490	0	479,490	485,619	512,561	33,071
Administrative Services	1,441,177	0	1,441,177	1,530,150	1,684,618	243,441
Nonprogram	470,906	470,906	0	0	0	0
Debt Service	260,524	0	260,524	244,653	264,653	4,129
Capital Projects	1,848,441	0	1,848,441	2,191,300	2,343,300	494,859
Total Disbursements	12,777,909	470,906	12,307,003	12,322,291	13,547,790	1,240,787
Excess (Deficiency) of Receipts Over (Under) Disbursements	(2,732,000)	(272,053)	(2,459,947)	(2,743,399)	(3,808,295)	1,348,348
Other Financing Sources, Net	2,422,933	275,805	2,147,128	2,200,000	2,200,000	(52,872)
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	(309,067)	3,752	(312,819)	(543,399)	(1,608,295)	1,295,476
Balance Beginning of Year	4,798,449	117,396	4,681,053	3,675,873	3,675,873	1,005,180
Balance End of Year	\$4,489,382	\$121,148	\$4,368,234	\$3,132,474	\$2,067,578	\$2,300,656

See Accompanying Independent Auditors' Report

FRANKLIN COUNTY
Hampton, Iowa

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$10,045,909	\$155,217	\$10,201,126
Expenditures	12,777,909	158,391	12,936,300
Net	(2,732,000)	(3,174)	(2,735,174)
Other Financing Sources – Net	2,422,933	0	2,422,933
Beginning Fund Balances	4,798,449	747,137	5,545,586
Increase in Reserve For:			
Inventories	0	123,362	123,362
Ending Fund Balances	\$4,489,382	\$867,325	\$5,356,707

See Accompanying Independent Auditors' Report

Franklin County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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 appropriation 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, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$1,225,449. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2006, disbursements in certain departments exceeded the amounts appropriated.

FRANKLIN COUNTY
Hampton, Iowa

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2006

	Landfill	County Recorder's Records Management	Resource Enhancement & Protection	Rural County Betterment	Northern Pipe Urban Renewal	Drainage
ASSETS						
Cash & Pooled Investments	\$200,510	\$1,391	\$23,227	\$23,559	\$23,497	\$121,148
Receivables						
Accounts	0	297	0	0	0	0
Accrued Interest	0	1	0	0	0	0
Drainage Assessments	0	0	0	0	0	11,940
Due from Other Governments	0	0	0	11,081	0	0
TOTAL ASSETS	\$200,510	\$1,689	\$23,227	\$34,640	\$23,497	\$133,088
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$5,556	\$ 0	\$250	\$ 0	\$ 0	\$ 0
Salaries & Benefits Payable	0	0	0	0	0	0
Interest Payable	0	0	0	0	0	9,565
Deferred Revenue	0	0	0	0	0	11,913
Total Liabilities	5,556	0	250	0	0	21,478
Fund Balances						
Reserved for Drainage Warrants/ Drainage Improvement Certificates	0	0	0	0	0	(8,755)
Unreserved	194,954	1,689	22,977	34,640	23,497	120,365
Total Fund Equity	194,954	1,689	22,977	34,640	23,497	111,610
TOTAL LIABILITIES AND FUND BALANCES	\$200,510	\$1,689	\$23,227	\$34,640	\$23,497	\$133,088

See Accompanying Independent Auditors' Report

Schedule 1

Sheriff's Forfeiture	Tobacco/ Alcohol	DARE	Attorney Forfeiture	Memorial Hall Wolf Bequest	Public Health	Home- makers	Conservation Land Acquisition	Conservation Drill Replacemen t	Total
\$8,462	\$2,242	\$11,204	\$7,184	\$19,020	\$172,232	\$119,152	\$24,585	\$3,929	\$761,342
0	0	0	0	0	4,968	146	0	0	5,411
14	0	22	8	29	0	0	0	0	74
0	0	0	0	0	0	0	0	0	11,940
0	0	0	0	0	145,269	0	0	0	156,350
\$8,476	\$2,242	\$11,226	\$7,192	\$19,049	\$322,469	\$119,298	\$24,585	\$3,929	\$935,117
\$518	\$ 0	\$ 0	\$43	\$ 0	\$21,912	\$1,173	\$ 0	\$ 0	\$29,452
0	0	0	0	0	2,778	6,595	0	0	9,373
0	0	0	0	0	0	0	0	0	9,565
0	0	0	0	0	0	0	0	0	11,913
518	0	0	43	0	24,690	7,768	0	0	60,303
0	0	0	0	0	0	0	0	0	(8,755)
7,958	2,242	11,226	7,149	19,049	297,779	111,530	24,585	3,929	883,569
7,958	2,242	11,226	7,149	19,049	297,779	111,530	24,585	3,929	874,814
\$8,476	\$2,242	\$11,226	\$7,192	\$19,049	\$322,469	\$119,298	\$24,585	\$3,929	\$935,117

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2006

	Landfill	County Recorder's Records Management	Resource Enhancement & Protection	Rural County Betterment	Highway 65 Urban Renewal	Northern Pipe Urban Renewal	County Recorder's Electronic Transaction
Revenues:							
Property and Other County Tax	\$ 0	\$ 0	\$ 0	\$117,722	\$6,455	\$65,844	\$ 0
Intergovernmental	21,860	0	4,601	0	0	0	0
Charges for Services	0	2,845	0	0	0	0	0
Use of Money and Property	1,512	11	109	0	0	0	31
Miscellaneous	0	0	0	0	0	0	0
Total Revenues	23,372	2,856	4,710	117,722	6,455	65,844	31
Expenditures:							
Operating:							
Public Safety and Legal Services	0	0	0	0	0	0	0
Physical Health and Social Services	0	0	0	0	0	0	0
County Environment and Education	29,713	0	250	130,126	0	0	0
Governmental Services to Residents	0	3,992	0	0	0	0	9,003
Nonprogram	0	0	0	0	0	0	0
Debt Service	0	0	0	0	6,455	54,990	0
Capital Projects	0	0	0	0	0	0	0
Total Expenditures	29,713	3,992	250	130,126	6,455	54,990	9,003
Excess (Deficiency) of Revenues Over (Under)							
Expenditures	(6,341)	(1,136)	4,460	(12,404)	0	10,854	(8,972)
Other Financing Sources:							
Operating Transfers In	0	0	0	0	0	0	0
Drainage Warrant Proceeds	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
Excess (Deficiency) of Revenues and Other							
Financing Sources Over Expenditures	(6,341)	(1,136)	4,460	(12,404)	0	10,854	(8,972)
Fund Balances – Beginning of Year	201,295	2,825	18,517	47,044	0	12,643	8,972
Fund Balances – End of Year	\$194,954	\$1,689	\$22,977	\$34,640	\$0	\$23,497	\$0

See Accompanying Independent Auditors' Report

Schedule 2

Drainage	Sheriff's Forfeiture	Tobacco/ Alcohol	DARE	Attorney Forfeiture	Memorial Hall Wolf Bequest	Public Health	Home- makers	Conservation Land Acquisition	Conservation Drill Replacement	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$190,021
0	0	550	0	0	0	818,480	76,811	0	0	922,302
0	0	0	0	0	0	38,212	243,001	0	0	284,058
0	195	0	369	79	314	2,100	0	0	0	4,720
198,858	362	0	4,230	1,109	0	16,685	1,146	0	626	223,016
198,858	557	550	4,599	1,188	314	875,477	320,958	0	626	1,624,117
0	6,012	0	7,383	476	0	0	0	0	0	13,871
0	0	0	0	0	0	767,279	414,460	0	0	1,181,739
0	0	0	0	0	0	0	0	0	0	160,089
0	0	0	0	0	0	0	0	0	0	12,995
479,641	0	0	0	0	0	0	0	0	0	479,641
0	0	0	0	0	0	0	0	0	0	61,445
0	0	0	0	0	0	0	0	40,994	0	40,994
479,641	6,012	0	7,383	476	0	767,279	414,460	40,994	0	1,950,774
(280,783)	(5,455)	550	(2,784)	712	314	108,198	(93,502)	(40,994)	626	(326,657)
0	0	0	0	0	0	54,494	138,000	0	0	192,494
275,805	0	0	0	0	0	0	0	0	0	275,805
275,805	0	0	0	0	0	54,494	138,000	0	0	468,299
(4,978)	(5,455)	550	(2,784)	712	314	162,692	44,498	(40,994)	626	141,642
116,588	13,413	1,692	14,010	6,437	18,735	135,087	67,032	65,579	3,303	733,172
\$111,610	\$7,958	\$2,242	\$11,226	\$7,149	\$19,049	\$297,779	\$111,530	\$24,585	\$3,929	\$874,814

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash and Pooled Investments				
County Treasurer	\$ 0	\$3,273	\$125,974	\$100,943
Other County Officials	4,984	0	0	0
Receivables:				
Property Tax:				
Delinquent	0	2	2	179
Succeeding Year	0	123,592	118,411	7,394,431
Accounts	1,063	0	1,049	0
Accrued Interest	0	0	0	0
Assessments	0	0	0	0
TOTAL ASSETS	\$6,047	\$126,867	\$245,436	\$7,495,553
LIABILITIES				
Accounts Payable	\$ 0	\$ 0	\$494	\$ 0
Salaries and Benefits Payable	0	0	274	0
Due to Other Governments	185	126,867	239,968	7,495,553
Trusts Payable	5,862	0	0	0
Compensated Absences	0	0	4,700	0
TOTAL LIABILITIES	\$6,047	\$126,867	\$245,436	\$7,495,553

See Accompanying Independent Auditors' Report

Schedule 3

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$4,727	\$26,258	\$1,841	\$1,948	\$195,117	\$170,150	\$630,231
0	0	0	0	0	0	4,984
6	174	0	0	0	20	383
346,528	2,396,909	122,620	0	0	1,042,980	11,545,471
0	0	0	0	0	316	2,428
0	0	0	0	0	158	158
0	0	0	135,838	0	0	135,838
<u>\$351,261</u>	<u>\$2,423,341</u>	<u>\$124,461</u>	<u>\$137,786</u>	<u>\$195,117</u>	<u>\$1,213,624</u>	<u>\$12,319,493</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$1,350	\$1,844
0	0	0	0	0	0	274
351,261	2,423,341	124,461	137,786	195,117	1,190,635	12,285,174
0	0	0	0	0	21,639	27,501
0	0	0	0	0	0	4,700
<u>\$351,261</u>	<u>\$2,423,341</u>	<u>\$124,461</u>	<u>\$137,786</u>	<u>\$195,117</u>	<u>\$1,213,624</u>	<u>\$12,319,493</u>

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS

Year Ended June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances Beginning of Year	\$3,256	\$114,552	\$277,445	\$7,033,156
Additions:				
Property and Other County Tax	0	127,458	123,125	7,637,643
E911 Surcharge	0	0	0	0
State Tax Credits	0	7,310	8,923	453,541
Drivers License Fees	0	0	0	0
Office Fees and Collections	0	0	0	0
Electronic Transaction Fee	274,659	0	0	0
Auto Licenses, Use Tax and Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	1,119,525	0	0	0
Miscellaneous	0	30	5,291	2,113
Total Additions	1,394,184	134,798	137,339	8,093,297
Deductions:				
Agency Remittances:				
To Other Funds	172,895	0	0	0
To Other Governments	101,668	122,483	209,348	7,630,900
Trusts Paid Out	1,116,830	0	0	0
Total Deductions	1,391,393	122,483	209,348	7,630,900
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	40,000	0
Balances End of Year	\$6,047	\$126,867	\$245,436	\$7,495,553

See Accompanying Independent Auditors' Report

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Totals
\$324,906	\$2,471,226	\$121,988	\$3,219	\$231,259	\$1,058,533	\$11,639,540
357,469	2,447,276	126,374	0	0	1,074,509	11,893,854
0	0	0	0	0	54,634	54,634
21,010	139,382	7,562	0	0	60,764	698,492
0	0	0	0	35,275	0	35,275
0	0	0	0	0	0	274,659
0	0	0	0	2,455,419	0	2,455,419
0	0	0	167,106	0	0	167,106
0	0	0	0	0	136,118	1,255,643
78	2,135	0	0	0	134,638	144,285
378,557	2,588,793	133,936	167,106	2,490,694	1,460,663	16,979,367
0	0	0	0	98,182	0	271,077
352,202	2,636,678	131,463	32,539	2,428,654	1,141,457	14,787,392
0	0	0	0	0	124,115	1,240,945
352,202	2,636,678	131,463	32,539	2,526,836	1,265,572	16,299,414
0	0	0	0	0	(40,000)	0
\$351,261	\$2,423,341	\$124,461	\$137,786	\$195,117	\$1,213,624	\$12,319,493

**FRANKLIN COUNTY
Hampton, Iowa**

**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS**

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Property & Other County Tax	\$4,511,920	\$4,399,879	\$4,222,168	\$4,160,905
Interest & Penalty On Property Tax	28,600	34,055	27,087	27,745
Intergovernmental	4,546,289	4,197,553	4,216,205	3,680,055
Licenses & Permits	13,047	8,169	4,850	3,015
Charges For Service	536,805	557,917	476,618	474,960
Use of Money & Property	264,019	123,448	80,141	103,768
Miscellaneous	300,446	136,784	355,073	210,219
Total	<u>\$10,201,126</u>	<u>\$9,457,805</u>	<u>\$9,382,142</u>	<u>\$8,660,667</u>
Expenditures:				
Operating:				
Public Safety & Legal Services	\$1,607,465	\$1,065,327	\$1,011,949	\$1,026,679
Physical Health & Social Services	1,400,209	1,224,960	1,218,394	1,255,053
Mental Health	1,221,761	1,032,808	1,005,413	995,789
County Environment & Education Services	535,013	476,768	507,341	943,424
Roads & Transportation	3,587,349	2,964,754	2,708,995	3,013,516
Governmental Services To Residents	481,711	297,391	248,222	234,555
Administrative Services	1,444,700	1,196,279	1,309,166	1,207,662
Nonprogram	479,641	52,097	164,159	301,484
Debt Services	283,943	63,000	32,488	7,796
Capital Projects	1,894,508	13,955	633,578	9,053
Total	<u>\$12,936,300</u>	<u>\$8,387,339</u>	<u>\$8,839,705</u>	<u>\$8,995,011</u>

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 Franklin County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated October 5, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Franklin 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 the accompanying Schedule of Findings.

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 A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective 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 the accompanying Schedule of Findings.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Franklin 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.

October 5, 2006

Gardiner Thomsen, P.C.

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

- (A) **Segregation of Duties** – During our review of internal control, 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 procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by each office will be separated and spread among the Official, Deputy and Clerk.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Other Findings Related to Required Statutory Reporting:

1. **Certified Budget** – Disbursements in certain departments exceeded the amounts appropriated during the year ended June 30, 2006.

Recommendation – Chapter 331.434(b) 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 – Appropriations will be watched more closely by the departments and additional appropriations will be awarded as necessary.

Conclusion – Response accepted.

2. **Questionable Expenditures** – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
3. **Travel Expenses** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

4. **Business Transaction** – The following business transactions between the County and officials or employees were noted.

<u>Name and Title</u>	<u>Description</u>	<u>Amount</u>
Michelle Giddings – Auditor Husband is owner of Giddings Signs	Signs	\$2,361

In accordance with Chapter 331.342 of the Code of Iowa, these transactions appear to represent conflicts since total transactions were more than \$1,500 during the fiscal year.

Recommendation – The County should refrain from conducting business with related parties. Transactions in excess of \$1,500 should be competitively bid.

Response – The transactions with Giddings Signs constitute six different projects, none exceeding the \$1,500 limit prescribed by Chapter 331.342 of the Code of Iowa. We will consider this for future projects.

Conclusion – Response accepted.

5. **Bond Coverages** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed periodically to ensure that coverage is adequate for current operations.
6. **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the Board went into closed session on September 26, 2005 and January 3, 2006 to discuss matters relating to the County. The minutes record did not document the vote of each member on the question of holding the closed session as required by Chapter 21.5(2) of the Code of Iowa. The Board also went into closed session on February 13, 2006. The minutes record did not document final action taken in open session as required by Chapter 21.5(3) of the Code of Iowa.

Recommendation – The Board of Supervisors should ensure that all closed meetings comply with Chapter 21 of the Code of Iowa.

Response – This was an oversight. We will record the vote and final action taken as required in the future.

Conclusion – Response accepted.

7. **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy were noted, except interest earned on proceeds of bonds was not credited to the Capital Projects Fund for which the indebtedness was issued.

Recommendation – Chapter 12C.9(2) of the Code of Iowa requires the interest earned on the proceeds of notes, bonds, refunding bonds and other evidence of indebtedness to be used to pay the principal or interest as it comes due on the indebtedness or be credited to the Capital Project Fund for which the indebtedness was issued.

Response – This was an oversight. The correction will be made during the fiscal year ended June 30, 2007.

Conclusion – Response accepted.

8. **Resources 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).
9. **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, 2006 for the County Extension Office did not exceed the amount budgeted.

News Release

Gardiner Thomsen, P.C. today released an audit report on Franklin County, Iowa.

The County had local tax revenue of \$16,926,637 for the year ended June 30, 2006 which included \$952,364 in tax credits from the State. The County then forwarded \$12,039,396 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$4,362,891 of the local tax revenue to finance County operations, a 14% decrease from the prior year. Other revenues included charges for service of \$1,771,879, operating grants, contributions and restricted interest of \$3,386,459, capital grants, contributions and restricted interest of \$3,870,216, local option sales tax of \$353,164, unrestricted investment earnings of \$236,356 and other general revenues of \$141,745.

Expenses for the County operations totaled \$10,466,507, a 27% increase from the prior year. Expenses included \$3,483,539 for Roads and Transportation, \$1,620,634 for Public Safety and Legal Services, and \$1,399,166 for Physical Health and Social Services.

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

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