

LUCAS COUNTY

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

JUNE 30, 2006

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LUCAS COUNTY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clarence Gee	Board of Supervisors	Jan. 2009
Cathy Reece	Board of Supervisors	Jan. 2009
Larry Davis	Board of Supervisors	Jan. 2007
Julie Masters	County Auditor	Jan. 2009
Phyllis Baker	County Treasurer	Jan. 2007
Sheryl Pierce Jacque Gober	County Recorder County Recorder	(Resigned March 2006) (Appointed April 2006) Jan. 2007
Delbert Longley	County Sheriff	Jan. 2009
Paul Goldsmith	County Attorney	Jan. 2007
Tim McGee	County Assessor	Jan. 2010

INDEPENDENT AUDITOR'S REPORT

To the Officials of Lucas County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas 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 basic financial statements are the responsibility of Lucas County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2006 on our consideration of Lucas County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and 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 6 through 12 and 44 through 46 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 performed for the purpose of forming opinions on the financial statements that collectively comprise Lucas 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 year ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2004 (none of which are presented herein) were audited by other auditors who expressed qualified opinions on those financial statements due to the omission of the materials and supplies inventories pertaining to the Secondary Roads Fund and for the effects of the omission of the general fixed assets account group for the year ended June 30, 2003. 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.

Oskaloosa, Iowa
December 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lucas 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

- The County's Governmental fund revenues increased \$700,784 from fiscal year 2005 to 2006. Property and other county tax increased \$332,701, intergovernmental revenues increased \$188,387 and other revenues increased by \$179,646

- The County's Governmental fund expenditures increased \$973,576 from fiscal 2005 to fiscal 2006. Public safety and legal services increased \$49,179, Mental Health increased \$81,290, Roads and Transportation increased \$397,344, Government Services to residents and Administration increased \$102,557, Debt service increased \$15,230 and Capital Projects increased \$347,927. Some service areas saw decreases as well, including Physical Health and Social Services and County environment and education

- The County's governmental activities net assets increased \$1,841,157 from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has two kinds of funds:

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

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

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

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

Reconciliation's between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets of Governmental Activities

	June 30	
	2005	2006
Current and other assets	\$6,550,935	5,986,273
Capital assets	<u>4,770,385</u>	<u>7,278,971</u>
Total Assets	<u>11,321,32</u>	<u>13,265,244</u>
Long-Term liabilities	368,788	330,553
Other Liabilities	<u>2,900,166</u>	<u>3,041,168</u>
Total liabilities	<u>3,268,954</u>	<u>3,371,721</u>
Net Assets:		
Invested in capital assets, net of related debt	4,662,888	7,106,872
Restricted	3,481,360	2,928,475
Unrestricted	<u>(91,882)</u>	<u>(141,824)</u>
Total net assets	<u>8,052,366</u>	<u>9,893,523</u>

Net assets of Lucas County’s governmental activities increased by approximately 23% (\$8 million compared to \$9.8 million). The largest portion of the County’s net assets is the invested in capital assets, net of related debt (e.g., land, infrastructure, buildings and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—are reported at \$(141,824) at June 30, 2006.

Changes in Net Assets of Governmental Activities

	Year Ended June 30	
	2005	2006
Revenues:		
Program Revenues:		
Charges for service	\$ 493,193	463,223
Operating grants, contributions & restricted interest	2,045,412	2,523,667
Capital grants, contributions, and restricted interest	905,943	2,061,527
General Revenues		
Property tax	2,236,519	2,587,623
Penalty and interest on property tax	31,470	39,016
State Tax Credits	161,131	180,716
Grants and contributions not restricted to specific purpose	1,799	
Unrestricted investment earnings	72,006	130,969
Other general revenues	<u>48,554</u>	<u>48,857</u>
Total Revenues	<u>5,995,733</u>	<u>8,035,598</u>
Program Expenses		
Public Safety and Legal Services	848,484	912,168
Physical health and social services	471,386	469,564
Mental Health	700,595	799,771
County government and education	207,445	221,700
Roads and transportation	2,823,111	2,825,310
Government services to residents	215,070	227,057
Administration	715,305	730,584
Interest on long-term debt	<u>1,874</u>	<u>8,287</u>
Total Expenses	<u>5,983,270</u>	<u>6,194,441</u>

Change in Net Assets	12,463	1,841,157
Net assets beginning of year	<u>8,039,903</u>	<u>8,052,366</u>
Net assets end of year	<u>8,052,366</u>	<u>9,893,523</u>

The County increased Levy rates FY2006 by \$1.44303 per \$1000.00 valuation. This increase, due to a decrease in taxable valuation of the county, was necessary to generate the money needed to maintain county services. Property tax revenue increased from 2005 by approximately \$351,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lucas County completed the year, its governmental funds reported a combined fund balance of \$2.88 million, which is down approximately \$716,000 from a year ago. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues increased \$551,391 over the prior year, mainly due to an increase in property tax revenues and intergovernmental revenues. Expenditures increased \$184,886 due mainly to increases in public safety and legal service costs and election costs.
- Mental Health Fund revenues increased \$33,763 from the prior year due to an increase in the property tax levy. The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$797,690, an increase of \$81,290 from the prior year. The Mental Health fund balance at the end of the year decreased \$128,666 from the prior year.
- The Rural Services Fund showed a decrease in revenue. A decrease in property and other taxes collected, intergovernmental revenues and Charges for service making a decrease of \$11,665. Expenditures increased \$16,505 due to an increase in Public Safety, Secondary Roads, and Administration costs. The Rural Services Fund balance decreased by \$82,233 from the prior year.
- Secondary Roads Fund revenues increased by \$96,966 for the year mainly due to a rise in Intergovernmental revenues and miscellaneous fees collected. Expenditures in Roads and transportation also increased by \$395,235 and Capital project expenditures increased by \$348,600. The ending fund balance showed a decrease of \$493,314 from last year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lucas County amended its budget 1 time. The amendment was necessary for various reasons including funding received from the State for the Purchase of Voting machines and Polling Place Accessibility and receiving EMS Grant money to be paid to Lucas County EMS. Disbursements exceeded the amount budgeted in the public safety and legal services function at year end due to increased housing costs for inmates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, Lucas County had approximately \$7.3 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges.

	Balance June 30, 2005	June 30, 2006
Governmental activities		
Capital assets not being depreciated:		
Land	\$ 659,457	\$659,457
Construction in progress	<u>100,350</u>	<u>265,103</u>
Total Capital assets not being depreciated	<u>759,807</u>	<u>924,560</u>
Capital assets being depreciated:		
Buildings	\$479,705	676,414
Machinery and equipment	3,350,217	3,522,840
Infrastructure	<u>2,540,488</u>	<u>4,708,858</u>
Total Capital assets being depreciated	<u>6,370,410</u>	<u>8,908,112</u>
Less accumulated depreciation for:		
Buildings	128,474	144,846
Machinery and equipment	1,764,940	1,912,044
Infrastructure	<u>466,418</u>	<u>496,811</u>
Total Accumulated depreciation	<u>2,359,832</u>	<u>2,553,701</u>
Total Capital Assets being depreciated, net	<u>4,010,578</u>	<u>6,354,411</u>
Governmental activities capital assets, net	<u>4,770,385</u>	<u>7,278,971</u>

The County had depreciation expense of \$247,996, in FY 2006 and total accumulated depreciation of \$2,553,701 at June 30, 2006. More detailed information about the County's capital assets is presented in Note 6 to the financial statements.

Long-Term Liabilities

At June 30, 2006 Lucas County had \$158,454 in compensated absences as compared to approximately \$144,000 on June 30, 2005, and a Decrease of \$52,901 in General Obligation Notes with \$55,108 due within 1 year. The General Obligation Note was to pay a portion to the cost of making repairs to the Courthouse roof, installing handicapped accessible doors at the Courthouse and acquiring equipment for use at the courthouse. During the year the General Supplemental Fund loaned the General Basic Fund \$200,000 to help temporarily finance operating expenses. The Loan will be

paid back with interest in four equal annual installments. More detailed information can be found in Note 8 to the financial statements.

Short -Term Debt Activity

During the year ended June 30, 2006 the County entered into a short-term loan from the General Supplemental Fund to the General Basic Fund to help provide temporary financing during a period of low cash flows. Further information is detailed in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lucas County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and the fees that will be charged for various County activities. In an ongoing effort to maintain County services without raising tax levies, the Lucas County Board of Supervisors is committed to limiting expenditure increases, using excess fund balances, and reducing funding to non-mandated programs to provide essential services for the citizens of Lucas County.

Budgeted disbursements in the FY 2007 operating budget are \$9,272,131, an increase of approximately 2% over the final FY 2006 budget. Lucas County will spend down fund balances to finance programs currently offered due to the effect inflation has on program costs. Increases in costs related to Adult Correctional Services, insurance premiums, heating and electric costs, maintenance on building and contents were a large portion of the increased expenses. Lucas County has added no major programs to the FY 2007 budget.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Lucas 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 Lucas Auditor's Office, 916 Braden Avenue, Chariton, Iowa.

Basic Financial Statements

LUCAS COUNTY
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 2,945,970
Receivables:	
Property tax:	
Delinquent	12,382
Succeeding year	2,631,000
Interest and penalty on property tax	23,955
Accounts	1,200
Accrued interest	16,374
Due from other governments	181,732
Contract receivable (note 5)	22,764
Inventories	150,896
Capital assets, net of accumulated depreciation (note 6)	<u>7,278,971</u>
 Total assets	 <u>13,265,244</u>
Liabilities	
Accounts payable	240,959
Salaries and benefits payable	26,150
Due to other governments (note 7)	142,493
Accrued interest payable	566
Deferred revenue:	
Succeeding year property tax	2,631,000
Long-term liabilities (note 8):	
Portion due or payable within one year:	
General obligation notes	55,108
Compensated absences	158,454
Portion due or payable after one year:	
General obligation notes	<u>116,991</u>
 Total liabilities	 <u>3,371,721</u>

LUCAS COUNTY
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 7,106,872
Restricted for:	
Supplemental levy purposes	883,760
Mental health purposes	639,708
Secondary roads	1,222,691
Debt service	11,006
Capital projects	9,502
Other special revenue purposes	161,808
Unrestricted	<u>(141,824)</u>
Total net assets	<u>\$ 9,893,523</u>

See notes to financial statements.

LUCAS COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Governmental Activities:					
Public safety and legal services	\$ 912,168	\$ 116,834	\$ 14,368	\$ -	(780,966)
Physical health and social services	469,564	36,766	170,957	-	(261,841)
Mental health	799,771	5,995	327,763	-	(466,013)
County environment and education	221,700	17,008	43,913	-	(160,779)
Roads and transportation	2,825,310	120,949	1,863,199	2,061,527	1,220,365
Government services to residents	227,057	156,754	102,744	-	32,441
Administration	730,584	8,917	-	-	(721,667)
Interest on long-term debt	8,287	-	723	-	(7,564)
Total	\$ 6,194,441	\$ 463,223	\$ 2,523,667	\$ 2,061,527	(1,146,024)
General Revenues:					
Property and other county tax levied for:					
General purposes					2,529,940
Debt service					57,683
Penalty and interest on property tax					39,016
State tax credits					180,716
Unrestricted investment earnings					130,969
Miscellaneous					48,857
Total general revenues					2,987,181
Change in net assets					1,841,157
Net assets beginning of year					8,052,366
Net assets end of year					\$ 9,893,523

See notes to financial statements.

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LUCAS COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash and pooled investments	\$ 637,293	\$ 720,876	\$ 189,940	\$ 1,213,819
Receivables:				
Property tax:				
Delinquent	8,879	1,829	1,341	-
Succeeding year	1,499,000	322,000	710,000	-
Interest and penalty on property tax	23,955	-	-	-
Accounts	594	606	-	-
Accrued interest	16,126	-	-	-
Due from other funds (note 3)	-	3,124	-	-
Due from other governments	41,523	-	-	140,209
Contract receivable (note 5)	-	-	-	22,764
Inventories	-	-	-	150,896
Total assets	\$ <u>2,227,370</u>	\$ <u>1,048,435</u>	\$ <u>901,281</u>	\$ <u>1,527,688</u>

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 184,042	\$ 2,945,970
333	12,382
100,000	2,631,000
-	23,955
-	1,200
248	16,374
-	3,124
-	181,732
-	22,764
-	150,896
<u>\$ 284,623</u>	<u>\$ 5,989,397</u>

LUCAS COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 37,858	\$ 14,768	\$ -	\$ 186,592
Salaries and benefits payable	9,947	-	1,631	14,572
Due to other funds (note 3)	3,124	-	-	-
Due to other governments (note 7)	59,129	70,421	274	12,669
Deferred revenue:				
Succeeding year property tax	1,499,000	322,000	710,000	-
Other	32,834	1,829	1,341	22,764
Total liabilities	1,641,892	409,018	713,246	236,597
Fund balance:				
Reserved for:				
Inventories	-	-	-	150,896
Supplemental levy purposes	699,770	-	188,299	-
Debt service	-	-	-	-
Cemetery levy	159	-	-	-
Unreserved, reported in:				
General fund	(114,451)	-	-	-
Special revenue funds	-	639,417	(264)	1,140,195
Capital projects fund	-	-	-	-
Total fund balances	585,478	639,417	188,035	1,291,091
Total liabilities and fund balances	\$ 2,227,370	\$ 1,048,435	\$ 901,281	\$ 1,527,688

See notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,741	\$ 240,959
-	26,150
-	3,124
-	142,493
100,000	2,631,000
333	59,101
102,074	3,102,827
-	150,896
-	888,069
11,239	11,239
-	159
-	(114,451)
161,808	1,941,156
9,502	9,502
182,549	2,886,570
\$ 284,623	\$ 5,989,397

LUCAS COUNTY

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds	\$ 2,886,570
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 as assets in the governmental funds. The cost of assets is \$9,832,672 and the accumulated depreciation is \$2,553,701.	7,278,971
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	59,101
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(566)
Long-term liabilities, including notes payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(330,553)</u>
Net assets of governmental activities	<u><u>\$ 9,893,523</u></u>

See notes to financial statements.

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LUCAS COUNTY

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

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other County tax	\$ 1,517,569	\$ 312,555	\$ 682,897	\$ -
Interest and penalty on property tax	32,950	-	-	-
Intergovernmental	495,493	350,474	43,586	2,108,501
Licenses and permits	250	-	-	320
Charges for service	206,248	5,995	12,749	-
Use of money and property	130,399	-	-	654
Miscellaneous	46,914	-	-	213,603
Total revenues	<u>2,429,823</u>	<u>669,024</u>	<u>739,232</u>	<u>2,323,078</u>
Expenditures:				
Operating:				
Public safety and legal services	807,956	-	87,882	-
Physical health and social services	442,420	-	26,290	-
Mental health	-	797,690	-	-
County environment and education	151,344	-	39,094	-
Roads and transportation	-	-	170,070	2,470,491
Government services to residents	292,624	-	1,670	-
Administration	659,259	-	57,621	-
Debt service	-	-	-	-
Capital projects	-	-	-	815,140
Total expenditures	<u>2,353,603</u>	<u>797,690</u>	<u>382,627</u>	<u>3,285,631</u>
Excess (deficiency) of revenues over (under) expenditures	<u>76,220</u>	<u>(128,666)</u>	<u>356,605</u>	<u>(962,553)</u>
Other financing sources (uses):				
Interfund transfers in (note 4)	-	-	-	469,239
Interfund transfers out (note 4)	(30,401)	-	(438,838)	-
Total other financing sources (uses)	<u>(30,401)</u>	<u>-</u>	<u>(438,838)</u>	<u>469,239</u>

Nonmajor Governmental		
Funds		Total
\$ 57,531	\$	2,570,552
-		32,950
15,705		3,013,759
-		570
18,650		243,642
17,009		148,062
31,657		292,174
<u>140,552</u>		<u>6,301,709</u>
3,702		899,540
-		468,710
-		797,690
1,284		191,722
-		2,640,561
1,974		296,268
-		716,880
61,363		61,363
130,312		945,452
<u>198,635</u>		<u>7,018,186</u>
<u>(58,083)</u>		<u>(716,477)</u>
-		469,239
-		(469,239)
<u>-</u>		<u>-</u>

LUCAS COUNTY

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

		<u>Special Revenue</u>		
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>
Net change in fund balances	\$ 45,819	\$ (128,666)	\$ (82,233)	\$ (493,314)
Fund balances beginning of year	<u>539,659</u>	<u>768,083</u>	<u>270,268</u>	<u>1,784,405</u>
Fund balances end of year	<u>\$ 585,478</u>	<u>\$ 639,417</u>	<u>\$ 188,035</u>	<u>\$ 1,291,091</u>

See notes to financial statements.

Nonmajor Governmental	
<u>Funds</u>	<u>Total</u>
\$ (58,083)	\$ (716,477)
<u>240,632</u>	<u>3,603,047</u>
<u>\$ 182,549</u>	<u>\$ 2,886,570</u>

LUCAS COUNTY

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 \$ (716,477)

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. The amount of capital outlays and
depreciation expense in the current year are as follows:

	Capital outlays	\$ 1,033,331	
Capital assets contributed by the Iowa Department of Transportation		1,723,251	
Depreciation expense		<u>(247,996)</u>	2,508,586

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

	Property tax	4,572	
	Other	<u>6,066</u>	10,638

Repayment of note principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of net
assets. 52,901

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	(14,666)	
Interest on long-term debt		<u>175</u>	<u>(14,491)</u>

Change in net assets of governmental activities \$ 1,841,157

See notes to financial statements.

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

Assets	
Cash and pooled investments:	
County Treasurer	\$ 434,791
Other County officials	33,679
Receivables:	
Property tax:	
Delinquent	40,535
Succeeding year	5,826,000
Accounts	13,043
Accrued interest	<u>142</u>
 Total assets	 <u>6,348,190</u>
 Liabilities	
Accounts payable	1,253
Due to other governments (note 7)	6,290,268
Trusts payable	38,976
Compensated absences	<u>17,693</u>
 Total liabilities	 <u>6,348,190</u>
 Net assets	 \$ <u><u>-</u></u>

See notes to financial statements.

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies

Lucas 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, Lucas 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. Lucas County has no component units which meet the Governmental Accounting Standards Board criteria.

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 County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Lucas County Assessor's Conference Board and Lucas County Joint E-911 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.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Southeast Iowa Case Management, Chariton Valley Rural Economic Development Inc., Ten Fifteen Regional Transit Agency, Southeast Iowa Drug Task Force, Lucas County Law Enforcement Center, South Iowa Area Detention Service Agency, Lucas County Solid Waste Management Commission, South Central Iowa Solid Waste Agency, ADLM Counties Environmental Public Health Agency and the Heartland Group.

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

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.

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Special Revenue (continued):

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the County outside of incorporated city areas.

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

Additionally, the County reports the following funds:

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

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.

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, 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.

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

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

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

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

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

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

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

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Asset Class	Amount
Infrastructure	\$ 65,000
Land, buildings and improvements	30,000
Equipment and vehicles	10,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50
Improvements other than buildings	10-50
Infrastructure	10-65
Equipment	3-20
Vehicles	5-15

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, the succeeding year property tax receivable, delinquent property tax receivables and other receivables not collected within sixty days after year end.

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

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

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the public safety and legal services function and disbursements in two 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. The 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.

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 2. Cash and Pooled Investments (continued)

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,920,743 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Note 3. Due from and Due to Other Funds

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Mental Health	General	\$ <u>3,124</u>

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

Note 4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	General	\$ 30,401
	Special Revenue: Rural Services	<u>438,838</u>
		\$ <u>469,239</u>

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

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 5. Contract Receivable – Secondary Roads

As of June 30, 2006, the County has a long-term interest-free contract receivable from the City of Russell for reimbursements from road paving. A summary of the payment schedule is as follows:

<u>Year Ending June 30,</u>	<u>City of Russell</u>
2007	\$ 3,033
2008	3,033
2009	3,033
2010	3,033
2011	3,033
2012	3,033
2013	3,033
2014	<u>1,533</u>
	\$ <u><u>22,764</u></u>

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 6. Capital Assets

A summary of capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 659,457	\$ -	\$ -	\$ 659,457
Construction in progress	100,350	749,566	584,813	265,103
Total capital assets not being depreciated	<u>759,807</u>	<u>749,566</u>	<u>584,813</u>	<u>924,560</u>
Capital assets being depreciated:				
Buildings	479,705	196,709	-	676,414
Machinery and equipment	3,350,217	226,750	54,127	3,522,840
Infrastructure	2,540,488	2,168,370	-	4,708,858
Total capital assets being depreciated	<u>6,370,410</u>	<u>2,591,829</u>	<u>54,127</u>	<u>8,908,112</u>
Less accumulated depreciation for:				
Buildings	128,474	16,372	-	144,846
Machinery and equipment	1,764,940	201,231	54,127	1,912,044
Infrastructure	466,418	30,393	-	496,811
Total accumulated depreciation	<u>2,359,832</u>	<u>247,996</u>	<u>54,127</u>	<u>2,553,701</u>
Total capital assets being depreciated, net	<u>4,010,578</u>	<u>2,343,833</u>	<u>-</u>	<u>6,354,411</u>
Governmental activities capital assets, net	<u>\$ 4,770,385</u>	<u>\$ 3,093,399</u>	<u>\$ 584,813</u>	<u>\$ 7,278,971</u>

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 6. Capital Assets (continued)

Depreciation expense was charged to the following functions:

Governmental activities:

Public safety and legal services	\$ 12,130
Mental health	1,395
County environment and education	7,634
Roads and transportation	198,746
Government services to residents	16,124
Administration	<u>11,967</u>

Total depreciation expense - governmental activities	<u><u>\$ 247,996</u></u>
--	--------------------------

Note 7. Due to Other Governments

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

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ <u>59,129</u>
Special Revenue:		
Mental Health	Services	70,421
Rural Services	Services	274
Secondary Roads	Services	<u>12,669</u>
		<u>83,364</u>
Total for governmental funds		<u><u>\$ 142,493</u></u>
Agency:		
County Assessor	Collections	\$ 190,111
Schools		3,394,849
Community Colleges		177,850
Corporations		1,477,259
County Hospital		614,149
Auto License and Use Tax		147,075
All Other		<u>288,975</u>
Total for agency funds		<u><u>\$ 6,290,268</u></u>

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 8. Long-Term Liabilities

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

	General Obligation Notes	Compensated Absences	Total
Balance beginning of year	\$ 225,000	\$ 143,788	\$ 368,788
Increases	-	158,454	158,454
Decreases	52,901	143,788	196,689
Balance end of year	<u>\$ 172,099</u>	<u>\$ 158,454</u>	<u>\$ 330,553</u>
Due within one year	<u>\$ 55,108</u>	<u>\$ 158,454</u>	<u>\$ 213,562</u>

General Obligation Notes Payable

During the year ended June 30, 2005, the County issued general obligation notes to pay a portion of the cost of making repairs to the Courthouse roof, installing handicapped accessible doors at the Courthouse and acquiring equipment for use at the Courthouse.

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	3.95 %	\$ 55,108	\$ 6,255	\$ 61,363
2008	3.95	57,306	4,057	61,363
2009	3.95	59,685	1,771	61,456
		<u>\$ 172,099</u>	<u>\$ 12,083</u>	<u>\$ 184,182</u>

Non-current Interfund Loan

During the year ended June 30, 2006, the General Supplemental Fund loaned the General Basic Fund \$200,000 to help temporarily finance operating expenses. The loan will be paid back to the General Supplemental Fund in four equal annual payments including interest at .25%. The County combines these two funds into the General Fund for reporting purposes so this loan is not reflected in the financial statements.

LUCAS COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 9. Short-Term Debt Activity

During the year ended June 30, 2006, the County entered into a short-term loan from the General Supplemental Fund to the General Basic Fund. The loan was necessary to provide temporary financing during a period of low cash flows.

A summary of the short-term debt activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Received	Repaid	Balance End of Year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Interfund loan	\$ <u> </u> -	\$ <u> 300,000</u>	\$ <u> 300,000</u>	\$ <u> </u> -

Note 10. Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$127,291, \$123,806 and \$121,722, respectively, equal to the required contributions for each year.

Note 11. Risk Management

Lucas County is exposed to various risk of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12. Construction Commitment

The County has entered into a contract totaling \$299,000 for bridge construction. As of June 30, 2006, costs of \$265,103 have been incurred against the contract. The balance remaining at June 30, 2006 of \$33,897 will be paid as work on the project progresses.

Required Supplementary Information

LUCAS COUNTY

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

	Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
RECEIPTS:				
Property and other County tax	\$ 2,570,580	\$ 2,612,495	\$ 2,612,495	\$ (41,915)
Interest and penalty on property tax	32,950	13,600	13,600	19,350
Intergovernmental	3,181,666	4,212,940	4,270,629	(1,088,963)
Licenses and permits	620	450	450	170
Charges for service	253,574	240,365	240,365	13,209
Use of money and property	135,068	80,550	80,550	54,518
Miscellaneous	257,441	328,535	328,535	(71,094)
Total receipts	<u>6,431,899</u>	<u>7,488,935</u>	<u>7,546,624</u>	<u>(1,114,725)</u>
DISBURSEMENTS:				
Public safety and legal services	867,497	806,582	806,582	(60,915)
Physical health and social services	476,456	551,096	564,396	87,940
Mental health	784,755	1,073,245	1,073,245	288,490
County environment and education	191,011	224,083	224,083	33,072
Roads and transportation	2,599,190	2,871,492	2,871,492	272,302
Government services to residents	310,082	347,324	360,133	50,051
Administration	746,071	792,312	811,912	65,841
Debt service	61,363	61,865	61,865	502
Capital projects	825,535	2,414,000	2,306,503	1,480,968
Total disbursements	<u>6,861,960</u>	<u>9,141,999</u>	<u>9,080,211</u>	<u>2,218,251</u>
Excess (deficiency) of receipts over (under) disbursements	(430,061)	(1,653,064)	(1,533,587)	1,103,526
Other financing sources	-	225,500	500	(500)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(430,061)	(1,427,564)	(1,533,087)	1,103,026
Balance beginning of year	<u>3,376,031</u>	<u>1,880,900</u>	<u>2,008,603</u>	<u>1,367,428</u>
Balance end of year	<u>\$ 2,945,970</u>	<u>\$ 453,336</u>	<u>\$ 475,516</u>	<u>\$ 2,470,454</u>

See accompanying independent auditor's report.

LUCAS COUNTY

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 6,431,899	\$ (130,190)	\$ 6,301,709
Expenditures	6,861,960	156,226	7,018,186
Net	(430,061)	(286,416)	(716,477)
Beginning fund balances	3,376,031	227,016	3,603,047
Ending fund balances	<u>\$ 2,945,970</u>	<u>\$ (59,400)</u>	<u>\$ 2,886,570</u>

See accompanying independent auditor's report.

LUCAS 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 appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund or fund type. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment decreased budgeted disbursements by \$61,788. This budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board and for the E-911 System by the Joint E-911 Service Board.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the public safety and legal services function and disbursements in two departments exceeded the amounts appropriated.

Other Supplementary Information

LUCAS COUNTY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2006

	Special Revenue			
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhancement and Protection	Conservation Land Acquisition
Assets				
Cash and pooled investments	\$ 24,803	\$ 488	\$ 59,288	\$ 48,842
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Accrued interest	27	2	219	-
Total assets	\$ <u>24,830</u>	\$ <u>490</u>	\$ <u>59,507</u>	\$ <u>48,842</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,102
Deferred revenue:				
Succeeding year property tax	-	-	-	-
Other	-	-	-	-
Total liabilities	-	-	-	1,102
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved	24,830	490	59,507	47,740
Total fund equity	<u>24,830</u>	<u>490</u>	<u>59,507</u>	<u>47,740</u>
Total liabilities and fund equity	\$ <u>24,830</u>	\$ <u>490</u>	\$ <u>59,507</u>	\$ <u>48,842</u>

See accompanying independent auditor's report.

<u>Prisoner Reimbursement</u>	<u>Construction Donation</u>	<u>Landfill Equipment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 14,554	\$ 2,199	\$ 13,127	\$ 11,239	\$ 9,502	\$ 184,042
-	-	-	333	-	333
-	-	-	100,000	-	100,000
-	-	-	-	-	248
<u>\$ 14,554</u>	<u>\$ 2,199</u>	<u>\$ 13,127</u>	<u>\$ 111,572</u>	<u>\$ 9,502</u>	<u>\$ 284,623</u>
\$ 639	\$ -	\$ -	\$ -	\$ -	\$ 1,741
-	-	-	100,000	-	100,000
-	-	-	333	-	333
<u>639</u>	<u>-</u>	<u>-</u>	<u>100,333</u>	<u>-</u>	<u>102,074</u>
-	-	-	11,239	-	11,239
<u>13,915</u>	<u>2,199</u>	<u>13,127</u>	<u>-</u>	<u>9,502</u>	<u>171,310</u>
<u>13,915</u>	<u>2,199</u>	<u>13,127</u>	<u>11,239</u>	<u>9,502</u>	<u>182,549</u>
<u>\$ 14,554</u>	<u>\$ 2,199</u>	<u>\$ 13,127</u>	<u>\$ 111,572</u>	<u>\$ 9,502</u>	<u>\$ 284,623</u>

LUCAS COUNTY

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

	Special Revenue			
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhancement and Protection	Conservation Land Acquisition
Revenues:				
Property and other County tax	\$ -	\$ -	\$ -	-
Intergovernmental	-	-	11,558	-
Charges for service	2,351	-	-	-
Use of money and property	243	111	1,854	14,078
Miscellaneous	-	-	31,657	-
Total revenues	<u>2,594</u>	<u>111</u>	<u>45,069</u>	<u>14,078</u>
Expenditures:				
Operating:				
Public safety and legal services	-	-	-	-
County environment and education	-	-	1,284	-
Government services to residents	-	1,974	-	-
Debt service	-	-	-	-
Capital projects	-	-	693	21,618
Total expenditures	<u>-</u>	<u>1,974</u>	<u>1,977</u>	<u>21,618</u>
Excess (deficiency) of revenues over (under) expenditures	2,594	(1,863)	43,092	(7,540)
Fund balances beginning of year	<u>22,236</u>	<u>2,353</u>	<u>16,415</u>	<u>55,280</u>
Fund balances end of year	<u>\$ 24,830</u>	<u>\$ 490</u>	<u>\$ 59,507</u>	<u>\$ 47,740</u>

See accompanying independent auditor's report.

<u>Prisoner Reimbursement</u>	<u>Construction Donation</u>	<u>Landfill Equipment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ -	\$ -	\$ -	57,531	\$ -	57,531
-	-	-	4,147	-	15,705
13,697	-	2,602	-	-	18,650
-	-	-	723	-	17,009
-	-	-	-	-	31,657
<u>13,697</u>	<u>-</u>	<u>2,602</u>	<u>62,401</u>	<u>-</u>	<u>140,552</u>
3,702	-	-	-	-	3,702
-	-	-	-	-	1,284
-	-	-	-	-	1,974
-	-	-	61,363	-	61,363
-	-	-	-	108,001	130,312
<u>3,702</u>	<u>-</u>	<u>-</u>	<u>61,363</u>	<u>108,001</u>	<u>198,635</u>
9,995	-	2,602	1,038	(108,001)	(58,083)
<u>3,920</u>	<u>2,199</u>	<u>10,525</u>	<u>10,201</u>	<u>117,503</u>	<u>240,632</u>
<u>\$ 13,915</u>	<u>\$ 2,199</u>	<u>\$ 13,127</u>	<u>\$ 11,239</u>	<u>\$ 9,502</u>	<u>\$ 182,549</u>

LUCAS COUNTY

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

	County Offices		Agricultural	
	County Sheriff	Public Health	Extension Education	County Assessor
ASSETS				
Cash and pooled investments:				
County Treasurer	\$ -	\$ -	1,073	\$ 63,215
Other County officials	15,779	17,900	-	-
Receivables:				
Property tax:				
Delinquent	-	-	265	739
Succeeding year	-	-	47,000	144,000
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Total assets	\$ <u>15,779</u>	\$ <u>17,900</u>	\$ <u>48,338</u>	\$ <u>207,954</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	-	\$ 150
Due to other governments	-	-	48,338	190,111
Trusts payable	15,779	17,900	-	-
Compensated absences	-	-	-	17,693
Total liabilities	\$ <u>15,779</u>	\$ <u>17,900</u>	\$ <u>48,338</u>	\$ <u>207,954</u>

<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>	<u>Auto License and Use Tax</u>
\$ 79,511	\$ 3,900	\$ 25,743	\$ 3,464	\$ 13,754	\$ 46	\$ 147,075
-	-	-	-	-	-	-
19,338	950	15,516	327	3,395	5	-
3,296,000	173,000	1,436,000	132,000	597,000	1,000	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 3,394,849</u>	<u>\$ 177,850</u>	<u>\$ 1,477,259</u>	<u>\$ 135,791</u>	<u>\$ 614,149</u>	<u>\$ 1,051</u>	<u>\$ 147,075</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3,394,849	177,850	1,477,259	135,791	614,149	1,051	147,075
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 3,394,849</u>	<u>\$ 177,850</u>	<u>\$ 1,477,259</u>	<u>\$ 135,791</u>	<u>\$ 614,149</u>	<u>\$ 1,051</u>	<u>\$ 147,075</u>

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

	<u>Anatomical Gift, Public Awareness and Transportation</u>	<u>E-911</u>	<u>Emergency Management</u>	<u>Special Assessments</u>
ASSETS				
Cash and pooled investments:				
County Treasurer	\$ 19	\$ 74,158	\$ 1,265	\$ 3
Other County officials	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Accounts	-	13,043	-	-
Accrued interest	-	142	-	-
Total assets	<u>\$ 19</u>	<u>\$ 87,343</u>	<u>\$ 1,265</u>	<u>\$ 3</u>
LIABILITIES				
Accounts payable	\$ -	\$ 660	\$ -	\$ -
Due to other governments	19	86,683	1,265	3
Trusts payable	-	-	-	-
Compensated absences	-	-	-	-
Total liabilities	<u>\$ 19</u>	<u>\$ 87,343</u>	<u>\$ 1,265</u>	<u>\$ 3</u>

See accompanying independent auditor's report.

<u>Advance Tax</u>	<u>County Recorder's Electronic Transaction Fee</u>	<u>Federal Owned Lands</u>	<u>ADLM Counties Environmental Public Health Agency</u>	<u>Total</u>
\$ 5,297	\$ 386	\$ 6,636	\$ 9,246	\$ 434,791
-	-	-	-	33,679
-	-	-	-	40,535
-	-	-	-	5,826,000
-	-	-	-	13,043
-	-	-	-	142
<u>\$ 5,297</u>	<u>\$ 386</u>	<u>\$ 6,636</u>	<u>\$ 9,246</u>	<u>\$ 6,348,190</u>
\$ -	\$ -	\$ -	\$ 443	\$ 1,253
-	386	6,636	8,803	6,290,268
5,297	-	-	-	38,976
-	-	-	-	17,693
<u>\$ 5,297</u>	<u>\$ 386</u>	<u>\$ 6,636</u>	<u>\$ 9,246</u>	<u>\$ 6,348,190</u>

LUCAS COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 Year Ended June 30, 2006

	County Offices			Agricultural Extension Education
	County Recorder	County Sheriff	Public Health	
ASSETS AND LIABILITIES				
Balances beginning of year	\$ -	\$ 17,744	\$ 16,239	\$ 46,333
Additions:				
Property and other County tax	-	-	-	47,320
E-911 surcharge	-	-	-	-
State tax credits	-	-	-	3,288
Payments in lieu of taxes	-	-	-	-
Office fees and collections	135,800	51,303	-	-
Auto license, use tax, drivers license and postage	-	-	-	-
Trusts	-	104,533	8,359	-
Assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total additions	135,800	155,836	8,359	50,608
Deductions:				
Agency remittances:				
To other funds	69,247	51,303	-	-
To other governments	66,553	340	-	48,603
Trusts paid out	-	106,158	6,698	-
Total deductions	135,800	157,801	6,698	48,603
Balances end of year	\$ -	\$ 15,779	\$ 17,900	\$ 48,338

<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>
\$ <u>194,081</u>	\$ <u>3,448,341</u>	\$ <u>169,872</u>	\$ <u>1,367,981</u>	\$ <u>131,558</u>	\$ <u>601,187</u>	\$ <u>1,061</u>
152,127	3,134,278	172,697	1,431,700	131,168	595,007	893
-	-	-	-	-	-	-
9,180	243,815	11,950	106,825	8,613	42,169	65
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
212	-	-	-	-	-	-
<u>161,519</u>	<u>3,378,093</u>	<u>184,647</u>	<u>1,538,525</u>	<u>139,781</u>	<u>637,176</u>	<u>958</u>
-	-	-	-	-	-	-
147,646	3,431,585	176,669	1,429,247	135,548	624,214	968
-	-	-	-	-	-	-
<u>147,646</u>	<u>3,431,585</u>	<u>176,669</u>	<u>1,429,247</u>	<u>135,548</u>	<u>624,214</u>	<u>968</u>
\$ <u><u>207,954</u></u>	\$ <u><u>3,394,849</u></u>	\$ <u><u>177,850</u></u>	\$ <u><u>1,477,259</u></u>	\$ <u><u>135,791</u></u>	\$ <u><u>614,149</u></u>	\$ <u><u>1,051</u></u>

LUCAS COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 Year Ended June 30, 2006

	<u>Auto License and Use Tax</u>	<u>Anatomical Gift, Public Awareness and Transportation</u>	<u>E-911</u>	<u>Emergency Management</u>
ASSETS AND LIABILITIES				
Balances beginning of year	\$ <u>151,814</u>	\$ <u>5</u>	\$ <u>70,908</u>	\$ <u>1,265</u>
Additions:				
Property and other County tax	-	-	-	-
E-911 surcharge	-	-	52,695	-
State tax credits	-	-	-	-
Payments in lieu of taxes	-	-	-	-
Office fees and collections	-	-	-	-
Auto license, use tax, drivers license and postage	1,949,125	-	-	-
Trusts	-	-	-	-
Assessments	-	-	-	-
Miscellaneous	-	120	11,708	11,000
Total additions	<u>1,949,125</u>	<u>120</u>	<u>64,403</u>	<u>11,000</u>
Deductions:				
Agency remittances:				
To other funds	99,841	-	-	-
To other governments	1,854,023	106	47,968	11,000
Trusts paid out	-	-	-	-
Total deductions	<u>1,953,864</u>	<u>106</u>	<u>47,968</u>	<u>11,000</u>
Balances end of year	\$ <u><u>147,075</u></u>	\$ <u><u>19</u></u>	\$ <u><u>87,343</u></u>	\$ <u><u>1,265</u></u>

See accompanying independent auditor's report.

<u>Special Assessments</u>	<u>Advance Tax</u>	<u>Tax Sale Redemption</u>	<u>County Recorder's Electronic Transaction Fee</u>	<u>Federal Owned Lands</u>	<u>ADLM Counties Environmental Public Health Agency</u>	<u>Total</u>
\$ 20	\$ 4,323	\$ 109	\$ 187	\$ -	\$ -	\$ 6,223,028
-	-	-	-	-	-	5,665,190
-	-	-	-	-	-	52,695
-	-	-	-	-	-	425,905
-	-	-	-	6,636	-	6,636
-	-	-	2,358	-	-	189,461
-	-	-	-	-	-	1,949,125
-	974	147,665	-	-	-	261,531
21,668	-	-	-	-	-	21,668
-	-	-	-	-	9,246	32,286
<u>21,668</u>	<u>974</u>	<u>147,665</u>	<u>2,358</u>	<u>6,636</u>	<u>9,246</u>	<u>8,604,497</u>
-	-	-	-	-	-	220,391
21,685	-	-	2,159	-	-	7,998,314
-	-	147,774	-	-	-	260,630
<u>21,685</u>	<u>-</u>	<u>147,774</u>	<u>2,159</u>	<u>-</u>	<u>-</u>	<u>8,479,335</u>
\$ <u>3</u>	\$ <u>5,297</u>	\$ <u>-</u>	\$ <u>386</u>	\$ <u>6,636</u>	\$ <u>9,246</u>	\$ <u>6,348,190</u>

LUCAS COUNTY

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 and other County tax	\$ 2,570,552	\$ 2,237,851	\$ 2,366,415	\$ 2,412,793
Interest and penalty on property tax	32,950	29,974	29,919	33,861
Intergovernmental	3,013,759	2,825,372	2,530,468	3,098,559
Licenses and permits	570	530	545	685
Charges for service	243,642	241,211	321,157	336,046
Use of money and property	148,062	87,911	75,948	81,169
Miscellaneous	292,174	178,076	215,259	77,085
Total	\$ 6,301,709	\$ 5,600,925	\$ 5,539,711	\$ 6,040,198
Expenditures:				
Operating:				
Public safety and legal services	\$ 899,540	\$ 850,361	\$ 774,397	\$ 725,331
Physical health and social services	468,710	475,374	479,713	461,666
Mental health	797,690	716,400	765,304	756,214
County environment and education	191,722	205,009	162,308	197,762
Roads and transportation	2,640,561	2,243,217	2,097,929	2,175,662
Government services to residents	296,268	207,029	160,878	158,622
Administration	716,880	703,562	768,729	655,154
Debt service	61,363	46,133	48,760	105,473
Capital projects	945,452	597,525	395,915	656,048
Total	\$ 7,018,186	\$ 6,044,610	\$ 5,653,933	\$ 5,891,932

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Lucas County:

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lucas 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 Lucas County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of 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 I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lucas 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 the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of 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 Lucas County and other parties to whom Lucas County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Oskaloosa, Iowa
December 27, 2006

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties

Comment – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County’s financial statements. We noted that generally one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
(1) Incoming mail should be opened by an employee who is not authorized to make entries to the accounting records.	Ag Extension, Recorder, Sheriff
(2) The collection, deposit preparation and reconciliation functions are not performed by an individual who does not record and account for cash receipts.	Ag Extension, Recorder, Sheriff, Treasurer
(3) The person who signs checks is not independent of the person preparing the checks, approving disbursements and recording cash disbursements.	Recorder, Sheriff

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by the initials or signature of the reviewer and the date of the review.

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

I-A-06 Segregation of Duties (continued)

Responses –

County Ag Extension – We are trying to segregate duties as much as possible. With limited personnel, this is very difficult.

County Recorder – With only two people in the office at times, it's difficult to share obligations. I'll continue to strive towards that direction.

County Sheriff – We are trying to segregate duties as much as possible. With limited personnel, this is very difficult.

County Treasurer – We are trying to segregate duties as much as possible. With limited personnel, this is very difficult.

Conclusion – Responses accepted.

I-B-06 County Auditor – A separate bank account is maintained for the remaining balance of the self-funded group health program that has been discontinued. The balance in the bank account totaled \$8,344 at June 30, 2006. There was \$162 of expenditures out of this account this year which did not flow through the normal claim and budget process.

Recommendation – The remaining funds in the Lucas County Employee Group Health account should be remitted to the County Treasurer and allocated to the applicable funds based on the percentage those funds had paid premiums into the account originally. Expenditures should then be presented to the County Board of Supervisors for approval and charged against the budget under the normal claims procedure process.

Response – We will discuss what we want to do about this account. It may stay the same for now depending on a decision for the use of the money.

Conclusion – Response acknowledged, however, we feel the remaining funds should be remitted to the County Treasurer as noted in our recommendation.

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

- I-C-06 Sheriff's Commissary Account – A separate bank account is maintained for the jail commissary. Jail commissary account profits are accumulating in the commissary account and have not been remitted to the County Treasurer.

Recommendation – Jail commissary profits should be remitted to the County Treasurer and recorded in a Special Revenue Fund. Expenditures from these profits should be through the normal claims process, approved by the County Board of Supervisors and charged against the commissary budget.

Response – The jail commissary account is used to purchase games, televisions, and items for the inmates as well as other commissary items. These items should not have to be paid for through taxpayers' money. Inmates tend to break these items, and they should have to replace them.

Conclusion – Response acknowledged, however, the commissary fund can be set up as its own budget and Special Revenue Fund. Taxpayer money and the Sheriff's normal operating budget would not be involved. Jail commissary profits should be remitted to the County Treasurer and expenditures other than those for commissary resale items should be presented to the County Board of Supervisors for approval and charged against the commissary budget just like any other County claim. This provides an added safeguard over the control of the asset. Some profits can be left in the account at the Sheriff's office for cash flow purposes to buy resale items for inmates.

- I-D-06 Sheriff's Forfeiture Account – A separate bank account is maintained for the collection and expenditure of forfeiture monies. Forfeiture monies have been accumulating in this account and have not been remitted to the County Treasurer.

Recommendations – The forfeited funds activity should be included in the County's annual budget and financial statements. Proceeds are accepted by the County with the understanding they are not to replace those already budgeted. The receipt and disbursement of proceeds of this type may require a budget amendment before the end of the fiscal year. All proceeds should be remitted to the County Treasurer and disbursements should be charged to the appropriate expenditure account in accordance with the Uniform Chart of Accounts for Iowa County Governments.

Response – We will continue to keep this account as we have in the past. This money belongs to the State of Iowa, and must be approved by the State before any of it is spent.

Conclusion – Response acknowledged, however, forfeiture funds should be remitted to the County Treasurer and expenditures presented to the County Board of Supervisors for approval and charged against the budget. Forfeiture funds may be placed in a Special Revenue Fund to account for the proceeds of these specific revenue sources if legally restricted to expenditures for specified purposes.

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

- I-E-06 Capital Assets – Personnel do not reconcile significant assets with the accounting records. Periodic comparisons are not made of amounts recorded in the accounting system with the physical assets. Capital assets are not tested periodically by an individual with no responsibility for capital assets.

Recommendation – The Board of Supervisors should develop a written policy for capital assets. The policy should include, but not be limited to, responsibilities for custody and safekeeping of assets and periodic comparisons of capital asset records with the physical assets.

Response – We will look into setting up a policy and appointing an individual to oversee this situation.

Conclusion – Response accepted.

- I-F-06 Public Health Department Mental Health Billings – The Mental Health Fund inappropriately paid \$3,124 to the Public Health Department during FY 04. This payment included charges for inappropriate clientele (NEST patients).

Recommendation – Services provided to NEST clients are not proper uses of mental health funding. The General Fund should reimburse the Mental Health Fund \$3,124.

Response – We agree the services provided to NEST clients are not allowable and \$3,124 should be repaid by the General Fund to the Mental Fund by use of a corrective Auditor's transfer in FY 07.

Conclusion – Response accepted.

- I-G-06 Disaster Recovery Plan – The County does not require back-up tapes to be stored off site in a fire proof vault or safe.

Recommendation – Back-up tapes should be stored off site in a fire proof vault or safe.

Response – We will work on this.

Conclusion – Response accepted.

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

- I-H-06 Disbursements – Out of forty disbursements tested, four were not supported by an invoice or receipt at the time of payment. One was paid pursuant to an oral agreement and one was a purchase at an auction. Two others lacked an invoice or receipt at the time they were paid.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation.

Responses –

County Attorney – We have an agreement between myself as County Attorney and the Board of Supervisors concerning the cost of operating the County Attorney’s office. I operate the office and am responsible for all expenses of the office based upon two line items in my budget that cover secretarial expense and all other office expenses. The County reimburses me monthly based on the two budget line items. The agreement was reached to set a fair and reasonable amount that the Board believes is appropriate to operate the County Attorney’s office.

County Auditor – We will make sure that all future disbursements are properly supported by an invoice or receipt.

Conclusion – Response accepted.

- I-I-06 Warrants Written and Held – We noted in our testing of warrants outstanding at year end that four warrants totaling \$31,405 to Pro Map written on June 7, 2006 were not redeemed for several months. Upon inquiry regarding the delay in redemption of the warrants, we noted that the disbursements were made in June to enable the expense to be recorded in the fiscal year ended June 30, 2006, but the warrants were not released by the County Assessor until October 2006.

Recommendation – Writing and holding warrants bypasses the budgeting process, removes controls over the underlying assets and misstates the financial position of the County at any given time any warrants are written and held. The County should avoid the practice by developing guidelines for disbursements that prevent writing and holding warrants. If necessary, the budget should be amended to allow a disbursement to be made in the proper fiscal year.

Response – We will avoid this practice in the future. We will develop practices and procedures which ban the writing and holding of warrants.

Conclusion – Response accepted.

- I-J-06 Payroll Records – Out of twelve employees tested for payroll, timesheets for two hourly employees were not approved by a supervisor or department head.

Recommendation – Timesheets for all employees should be approved by the department head.

Response – We will have the department heads approve employee timesheets authorizing payment for hours worked.

Conclusion – Response accepted.

LUCAS COUNTY
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the public safety and legal services function. Disbursements in the medical examiner and law enforcement center and sheriff departments exceeded the amounts appropriated.

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

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

Response – We will amend the budget when required and appropriations will be watched more closely by the departments.

Conclusion – Response accepted.

II-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-06 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

II-D-06 Business Transactions – The following business transactions between the County and County officials or employees were noted:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Delbert Longley, County Sheriff Owner of Longley Trophy	Nameplates	\$ 62
Cathy Reece, Supervisor Owner of Reece Enterprises	Automotive parts	\$1,141

In accordance with Chapter 331.342 of the Code of Iowa, these transactions do not appear to represent conflicts of interest since the cumulative amount for each individual was less than \$1,500 during the fiscal year.

II-E-06 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be reviewed periodically to insure that the coverage remains adequate for current operations.

II-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting (continued):

- II-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County’s investment policy were noted.
- II-H-06 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-06 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations 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.

The County Treasurer’s bond covered the amount required by Chapter 176A.14(5) of the Code of Iowa.

We noted that the minutes of three meetings of the Extension Council were not properly signed as required by Chapter 176A.14(3) of the Code of Iowa and the minutes of one meeting were not filed in the minutes book. In addition, we noted that the year end deposits-in-transit were not deposited until twenty-five days after year end. We also noted that a former Council Treasurer is still listed as an authorized check signer on one bank account.

Recommendation – All Extension Council minutes should be properly signed and filed in the minutes book. All receipts should be deposited as soon as possible to safeguard the asset. Deposits should be made weekly at a minimum. The Extension Office should update all authorized signers on the bank account. Authorized signers should be updated immediately upon any applicable change of personnel.

Response – We will make sure that all minutes are properly signed and filed and that all receipts are deposited timely. We will update the authorized check signers on our account.

Conclusion – Response accepted.

- II-J-06 Codification of Ordinances – The County has not compiled a code of ordinances containing all of the County ordinances at least once every five years as required by Chapter 331.302(9) of the Code of Iowa.

Recommendation – The County should compile a code of ordinances containing all of the County ordinances at least once every five years.

Response – We are working on compiling a code of ordinances.

Conclusion – Response accepted.

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting (continued):

II-K-06 Pioneer Cemetery Levy – The tax levy for the Pioneer Cemetery was recorded in the General Basic Fund. The General Basic Fund then transferred the amount levied to the Pioneer Cemetery Fund.

Recommendation – The County should record the Pioneer Cemetery tax collections directly in the Pioneer Cemetery Fund.

Response – We have corrected this for the fiscal year ending June 30, 2007.

Conclusion – Response accepted.

II-L-06 Vehicle Usage – The County provides vehicles for certain County employees but does not have a policy regarding vehicle usage for all County vehicles.

Recommendation – The County should adopt a vehicle usage policy which addresses the following areas.

- 1) Incidental personal use
- 2) Commuting
- 3) Assignment of vehicles
- 4) Documentation required
- 5) Restricted vehicle use
- 6) Reimbursement by employees for personal use
- 7) Additional compensation for employees
- 8) Public purpose served
- 9) Any other relevant areas

Response – We will consider adopting such a policy.

Conclusion – Response accepted.

II-M-06 Financial Condition – At June 30, 2006, the General Fund and the Rural Services Fund had negative unreserved, undesignated fund balances of \$114,451 and \$264, respectively.

Recommendation – The County needs to explore alternatives to restore the General Fund and the Rural Services Fund to a sound financial condition.

Response – We will investigate alternatives to eliminate these deficits.

Conclusion – Response accepted.

II-N-06 Employee Handbook – We noted several inconsistencies between the Sheriff employee handbook and the County employee handbook in areas such as work week, length of work day, breaks, sick leave, vacation, and travel.

Recommendation – The Board of Supervisors should address these inconsistencies and develop one employee handbook.

Response – We will work on this with the Sheriff's office.

Conclusion – Response accepted.

LUCAS COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting (continued):

II-O-06 Vacation Hours – We noted that the unused vacation hours for some employees exceeded the maximum allowed carryover as stated in the County policy.

Recommendations – The County should enforce the vacation policy. Any unused vacation over the maximum allowed carryover would be forfeited.

Response – We will look into this situation.

Conclusion – Response accepted.

II-P-06 On Call Pay – We noted that the on call pay for employees was not paid through the payroll system.

Recommendation – According to IRS regulations, all payments to employees for services should go through payroll with the proper withholdings taken out.

Response – We will run this type of transaction through payroll in the future.

Conclusion – Response accepted.