

LYON COUNTY

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

June 30, 2006

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LYON COUNTY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Randy Bosch	Board of Supervisors	December 31, 2006
Craig Block	Board of Supervisors	December 31, 2006
Jasper Ter Wee	Board of Supervisors	December 31, 2006
Mark Behrens	Board of Supervisors	December 31, 2008
Merle Koedam	Board of Supervisors	December 31, 2008
Wayne Grooters	County Auditor	December 31, 2008
Richard Heidloff	County Treasurer	December 31, 2006
Eldon Kruse	County Recorder	December 31, 2006
Blythe Bloemendaal	County Sheriff	December 31, 2008
Carl Petersen	County Attorney	December 31, 2006
Fred Christians	County Assessor	December 31, 2009
Lisa Rockhill	County Central Point Coordinator	Indefinite
Craig Van Otterloo	County Conservation Director	Indefinite
Jeff Williams	County Engineer	Indefinite
Kandace Koll	County Health Services Administrator	Indefinite

Independent Auditor's Report

To the Officials of Lyon County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lyon County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lyon County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006 on our consideration of Lyon County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 and 53 through 55 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon 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 fiscal year ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that were formed directly from this dissolution) previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein). Siebrecht Spitler & De Noble PC expressed unqualified opinions on the fiscal year ended June 30, 2004 financial statements and expressed a qualified opinion on the fiscal year ended June 30, 2003 financial statements. Siebrecht Spitler & De Noble PC qualified their opinion for the fiscal year ended June 30, 2003 based on the fact they were unable to audit the financial statements supporting the financial activities of the Lyon County Conservation Foundation Fund. 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.

De Noble & Company PC
Certified Public Accounting Firm

October 19, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

Lyon 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.

FISCAL YEAR 2006 FINANCIAL HIGHLIGHTS

- The County's governmental fund revenues for fiscal year 2006 were \$9,480,585 compared to \$9,093,928 in fiscal year 2005, an increase of 4.3%, or \$386,657. Property and other county tax for fiscal year 2006 were \$4,116,834 compared to \$3,928,576 in fiscal year 2005, an increase of 4.8%, or \$188,258.
- The County's governmental fund expenditures for fiscal year 2006 were \$9,733,346, compared to \$8,733,723 in fiscal year 2005, an increase of 11.4%, or \$999,623. Roads and transportation expenditures increased by \$308,047, public safety and legal services increased by \$231,269, capital projects expenditures increased by \$209,376 and governmental services to residents expenditures increased by \$121,785.
- The County's net assets for fiscal year 2006 were \$21,764,697 compared to \$18,066,844 in fiscal year 2005, an increase of 20.5%, or \$3,697,853.
- Revenues of the County's governmental activities increased by 14.6%, or \$1,589,696. Capital grants, contributions and restricted interest increased by \$1,190,964 and general purpose property and other county tax increased by \$194,739.
- The County's program expenses increased by 10.3%, or \$820,325. Roads and transportation increased by \$318,914, public safety and legal services increased by \$302,321 and governmental services to residents increased by \$65,176.

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 Lyon 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 Lyon 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 Lyon County acts solely as an agent or custodian for the benefit of those outside of the 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 that further explains and supports the financial statements with a comparison of the County’s budget for the year.
- Other Supplementary Information further provides detailed information about the nonmajor 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 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, non-program current activities, interest on long-term debt, and small capital projects. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

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

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

- 2) Proprietary Funds account for the County’s Internal Service Fund, Employee Group Health. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County’s various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary Funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the County’s own programs. These fiduciary funds include Agency Funds that account for E911 Funds, Emergency Management Services Fund, County Assessor’s Funds, and all the tax funds necessary to collect and distribute property taxes to schools, cities and all other taxing authorities, to name a few.

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

Reconciliation 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. Lyon County’s combined net assets increased \$3,697,853. The analysis that follows focuses on the changes in the net assets for governmental activities from a year ago.

Net Assets of Governmental Activities		
	June 30, 2006	June 30, 2005
Current and Other Assets	\$ 10,019,056	9,586,979
Capital Assets	19,084,542	15,413,240
Total Assets	<u>29,103,598</u>	<u>25,000,219</u>
Long-term liabilities	2,464,414	2,636,812
Other liabilities	4,874,487	4,296,563
Total liabilities	<u>7,338,901</u>	<u>6,933,375</u>
Net Assets:		
Invested in capital assets, net of related debt	16,839,509	12,998,018
Restricted	2,788,898	3,162,066
Unrestricted	<u>2,136,290</u>	<u>1,906,760</u>
Total net assets	<u>\$ 21,764,697</u>	<u>18,066,844</u>

The net assets of Lyon County’s governmental activities increased by 20.5%. The largest portion of the County’s net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements. Unrestricted net assets increased by \$229,530, or 1.3%, from fiscal year 2005.

Changes in Net Assets of Governmental Activities

	Year ended	
	June 30, 2006	June 30, 2005
Revenues:		
Program revenues:		
Charges for service	\$ 1,231,224	1,183,791
Operating grants, contributions and restricted interest	3,506,620	3,494,558
Capital grants, contributions and restricted interest	3,011,607	1,820,643
General revenues:		
Property tax levied for:		
General purposes	3,495,300	3,300,561
Debt service	237,558	238,234
Tax incremental financing revenues	14,797	14,190
Penalty and interest on property tax	19,685	16,800
State tax credits	223,843	211,353
Local option sales tax	383,787	389,263
Grants and contributions not restricted to specific purposes	71,285	63,072
Unrestricted investment earnings	211,234	134,485
Rents	41,054	41,810
Other general revenues	57,879	7,417
Total revenues	12,505,873	10,916,177
Program expenses:		
Public safety and legal services	2,133,256	1,830,935
Physical health and social services	634,520	569,320
Mental health	917,693	928,285
County environment and education	510,848	480,073
Roads and transportation	3,337,424	3,018,510
Governmental services to residents	365,007	299,831
Administration	782,288	735,661
Non-program current	14,797	16,190
Interest on long-term debt	96,375	102,392
Capital projects	15,812	6,498
Total expenses	8,808,020	7,987,695

Increase in net assets	3,697,853	2,928,482
Net assets beginning of year	<u>18,066,844</u>	<u>15,138,362</u>
Net assets end of year	<u>\$ 21,764,697</u>	<u>18,066,844</u>

Lyon County increased countywide property tax rates \$0.24814 per \$1,000 of valuation in the county-wide levy and \$0.18053 per \$1,000 of valuation in the rural levy. Taxable value by levy, actual levy rate per \$1,000 of valuation and total dollars levied are as follows:

	Taxes Levied	
	Fiscal Year 2006	Fiscal Year 2005
	Audit Fiscal	Prior Fiscal
	Year	Year
Countywide Taxable Valuation	\$ 447,077,945	\$ 442,415,580
Countywide Levy Rate Without Debt Service	6.02377	5.76876
Dollars Levied Without Debt	\$ 2,693,095	\$ 2,552,190
Countywide Taxable Valuation for Debt Service	\$ 454,922,084	\$ 450,267,510
Countywide Debt Service Levy	0.54452	0.55139
Dollars Levied for Debt Service	\$ 247,714	\$ 248,273
Total Countywide Levy Rate	6.56829	6.32015
Total Dollars Levied Countywide	\$ 2,940,809	\$ 2,800,463
Rural Taxable Valuation	\$ 324,204,340	\$ 321,739,429
Rural Service Tax Levy	2.92778	2.74725
Dollars Levied for Rural Area Only	\$ 949,199	\$ 883,899
Total Dollars Levied	\$ 3,890,008	\$ 3,684,362

*Note taxable valuation is value without Gas & Electric Utilities

- Lyon County’s fiscal year 2006 countywide taxable valuation was \$447,077,945 compared to fiscal year 2005 taxable valuation of \$442,415,580, this amounts to an increase of \$4,662,365, or 1.1%. Valuations in fiscal year 2006 rose slightly, but are comparable to valuations in fiscal year 1999 and less than the fiscal year 2004 countywide valuation of \$519,712,928 and rural valuation of \$390,043,352.
- Lyon County’s valuations decreased sharply in fiscal year 2005 due to the Iowa Department of Revenue’s productivity formula on agricultural property. Each county has an average productivity value. This value is based on a 5-year average of annual Iowa Crop and Livestock Reporting Service census data. Iowa Code Section 441.21(1)e states “value of agricultural property shall be determined on the basis of productivity and net earnings capacity....applied uniformly among counties and among classes of property”.
- The portion of the costs financed by users (charges for services) increased by \$47,433, or 4.0%.
- Capital grants, contributions and restricted interest increased by \$1,190, 964, or 65.4%. The main capital related assets/projects for which revenue was received included election equipment, the Lake Pahoja recreation trail project, Homeland Security equipment and infrastructure projects.

- Unrestricted investment earnings increased by \$76,749, or 5.7%. This was due mainly to an increase in interest rates.
- Other general revenues increased by \$50,462, or 682.8%. The increase was due mainly to the gain on disposition of capital assets.
- The cost of all governmental activities this year increased by \$820,325, or 10.3%. Roads and transportation increased by \$318,914 (10.6%), public safety and legal services increased by \$302,321 (16.5%), physical health and social services increased by \$65,200 (11.5%), and governmental services to residents increased by \$65,176 (21.7%). Roads and transportation mainly increased in the roadway maintenance and equipment operations areas. Public safety and legal services mainly increased in the law enforcement area. Physical health and social services increased primarily in the health administration area. Governmental services to residents increased primarily in the elections and motor vehicle areas.

INDIVIDUAL MAJOR FUND ANALYSIS

Lyon County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

As Lyon County completed fiscal year 2006, its Governmental Funds reported a combined fund balance of \$4,296,087. This is in comparison to last fiscal year when the fund balance was \$4,541,429. This is a \$245,342 decrease over last year, or 5.4%. The following are the major reasons for the changes in fund balances of the major Governmental Funds from the prior year.

- **GENERAL BASIC FUND:** The General Fund is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. The general operating expenses are paid from this fund. The General Basic Fund ending fund balance was \$1,549,047. This is in comparison to last fiscal year when the fund balance was \$1,197,157. This is a \$351,890 increase over last year or 29.4%. For fiscal year 2006, expenditures totaled \$2,712,880 (fiscal year 2005 = \$2,489,380), an increase of \$223,500, or 9.0% and revenues totaled \$3,081,363 (fiscal year 2005 = \$2,976,478), an increase of \$104,885, or 3.5%. The levy for fiscal year 2006 was 3.50000 (fiscal year 2005 = 3.50000); the maximum amount allowed by law is 3.50000.
 - General Basic Fund balance continues to rise, due to keeping expenditures within estimated revenues.
 - Interest rates continued to increase, which resulted in an increase in investment earnings.
 - Charges for services were higher again this fiscal year, which resulted in an increase of \$24,999.
 - Law enforcement program costs increased by \$100,902.
 - Health administration costs increased by \$35,584.
 - Conservation and recreation services program costs increased by \$38,821.
 - Motor vehicle registrations and licensing costs increased by \$17,711.
 - Policy and administration program costs increased by \$17,283.
 - The ending budgeted fund balance of the General Basic Fund was \$866,380; the actual ending fund balance was \$1,456,252, an increase of \$589,872.

- **GENERAL SUPPLEMENTAL FUND:** The General Supplemental Fund is used when the basic levy is not sufficient to meet the county's needs. Expenditures the board may certify for this fund are listed in Iowa Code Section 331.424. Lyon County currently uses the General Supplemental Fund for employee benefits, liability/property/workcomp insurance and emergency management county contribution. The General Supplemental Fund ending fund balance was \$368,848. This is in comparison to last fiscal year when the fund balance was \$295,895. This is an increase of \$72,953 over last year, or 24.7%. For fiscal year 2006, expenditures totaled \$925,279 (fiscal year 2005 = \$729,067), an increase over last year of \$196,212, or 26.9%, and revenues totaled \$998,232 (fiscal year 2005 = \$774,830), an increase over last year of \$223,402, or 28.8%. The levy for fiscal year 2006 was 1.97837. The levy last fiscal year was 1.71857.

 - Fiscal year 2004 was the first year the county used the supplemental fund. In addition to employee benefits in fiscal year 2006, the county used the supplemental fund to pay the Emergency Management contribution of \$33,500 and to pay the property insurance and liability insurance of approximately \$119,000.
 - Property and other county tax revenue increased by \$118,513 over last year.
 - Lyon County received approximately \$95,335 from the State of Iowa in Federal HAVA funds for new voting equipment. Lyon County spent approximately \$101,802 on new voting equipment as mandated by Federal guidelines.

- **MENTAL HEALTH FUND:** The Mental Health Fund is used to account for property tax and other revenues designated to be used for mental health, mental retardation, and developmental disabilities services. The Mental Health ending fund balance was \$107,151. This is in comparison to last fiscal year when the fund balance was \$154,551. This is a \$47,400 decrease over last year, or 30.7%. For fiscal year 2006, expenditures totaled \$914,771 (fiscal year 2005 = \$929,935), a decrease over last year of \$15,164, or 1.6%, and revenues totaled \$867,371 (fiscal year 2005 = \$937,194), a decrease over last year of \$69,823, or 7.5%. The levy for fiscal year 2006 was 0.54540. The levy last fiscal year was 0.55019. The County continues to look for ways to effectively manage the cost of mental health services.

 - Lyon County entered into a 28E Agreement with Osceola County in fiscal year 2004 to share a Central Point Coordinator. The 28E Agreement continued in fiscal year 2006 with Osceola County currently paying Lyon County 1/3 of the CPC salary including IPERS and FICA.
 - State grants and entitlements revenue decreased by \$64,871 from last year.

- **RURAL SERVICES FUND:** The Rural Service 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, including secondary road services, but excluding services financed by other statutory funds. The Rural Service ending fund balance was \$533,038. This is in comparison to last fiscal year when the fund balance was \$491,039. This is a \$41,999 increase over last year, or 8.6%. For fiscal year 2006, expenditures totaled \$606,494 (fiscal year 2005 = \$522,527), an increase over last year of \$83,967, or 16.1%, and revenues totaled \$1,462,493 (fiscal year 2005 = \$1,404,224), an increase from last year of \$58,269, or 4.2%. The levy for fiscal year 2006 was 2.92778. The levy last fiscal year was 2.74725; the maximum allowed by law is 3.95000.

 - Beside tax dollars collected, local option sales tax is deposited in this fund to reduce property taxes. Major expenditures in this fund are for law enforcement patrol and libraries support.

- Rural Service transferred \$814,000 to the Secondary Road Fund in fiscal year 2006.
 - Two new deputies were hired in the Sheriff's Office; the salary and benefits for these two officers was approximately \$105,600.
- **SECONDARY ROADS FUND:** The Secondary Roads Fund is used to account for secondary road construction and maintenance. The Secondary Roads ending fund balance was \$1,713,655. This is in comparison to last fiscal year when the fund balance was \$2,239,787. This is a \$526,132 decrease from last year, or 23.5%. For fiscal year 2006, expenditures totaled \$4,078,910 (fiscal year 2005 = \$3,731,926), an increase over last year of \$346,984, or 9.3%, and revenues totaled \$2,736,546 (fiscal year 2005 = \$2,661,336), an increase over last year of \$75,210, or 2.8%.
 - Road use tax proceeds increased by \$26,721 from the prior fiscal year.
 - Road maintenance program costs increased by \$229,620 and general roadway expenditures program costs increased by \$140,607.
 - **DEBT SERVICE FUND:** The Debt Service Fund is used to account for property tax and other revenue designed to retire debt. The Debt Service Fund pays for the interest and principal due on the 2001 Law Enforcement Center obligation bonds of \$2,800,000. The Debt Service Fund ending fund balance was \$16,817. This is in comparison to last fiscal year when the fund balance was \$13,030. This is a \$3,787 increase over last year, or 29.1%. For fiscal year 2006, expenditures totaled \$251,885 (fiscal year 2005 = \$252,885), a decrease over last year of \$1,000 and revenues totaled \$255,672 (fiscal year 2005 = \$254,623), an increase over last year of \$1,049. This breaks down to tax collection and credits of \$252,158, interest income \$3,514, principal payment \$155,000, interest payments \$96,485, and bond administration fees \$400.
 - **OTHER SPECIAL REVENUE FUNDS:** The other Special Revenue Funds, which include Recorder's Transaction, REAP, Health Services Grants, County Government Assistance Fund, Recorder's Management Fund, County TIF, Sheriff Asset Forfeiture Fund, CS Projects & Land Acquisition Trust, Well Closing, and Economic Development are classified as nonmajor Special Revenue Funds.

The Economic Development Fund was created in this fiscal year. Lyon Rural Electric donated \$15,720 for the start up costs for this program. Lyon County's public purpose is to aggressively promote economic development with an economic development director. Lyon County and the majority of the cities in the county will pay per capita dues starting next fiscal year to fund this program. A director was hired as of July 1, 2006.

The Conservation Projects and Land Acquisition Trust Fund had two major projects during the fiscal year, the construction of a new bathroom and a recreation trail.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

Over the course of the year, Lyon County amended its budget two (2) times. The first amendment was made April 17, 2006 and resulted in an increase of budgeted revenues of \$166,322 and

an increase in budgeted disbursements of \$162,607. HAVA funds were received and voting equipment was purchased, the Economic Development Fund was created and incurred disbursements, the bathroom project at Lake Pahoja was started, and the Mental Health and Secondary Roads Funds increased their expenditures. The second amendment was made May 30, 2006 and resulted in an increase in budgeted disbursements of \$42,043. The bathroom project at Lake Pahoja was completed with more disbursements needed.

The County ended up exceeding its original budgeted receipts by \$579,743 and coming in below its original budgeted disbursements by \$202,901. The actual ending cash basis balance was \$935,685 higher than originally budgeted.

Capital Assets and Debt Administration

Capital Assets

Lyon County concluded fiscal year 2006 with net capital assets of \$19,084,542 invested in a broad range of capital assets, including public safety equipment, buildings, park activities, roads and bridges. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Capital Assets of Governmental Activities at Year End		
	June 30, 2006	June 30, 2005
Land	\$ 1,490,009	1,481,809
Buildings & Improvements	6,128,278	5,814,812
Vehicles & Equipment	2,073,983	1,864,465
Heavy Equipment	6,166,787	5,855,897
Infrastructure	7,606,925	5,273,356
Construction in Progress	1,209,814	134,785
Total	<u>\$ 24,675,796</u>	<u>20,425,124</u>

This year's major additions included:

New Voting Equipment 11 Scanners & 10 Touch Screens \$92,852

Conservation - New West Bathroom at Lake Pahoja \$60,225

Conservation – Trail Project at Lake Pahoja Phase 1 \$148,700

Conservation – JD 3720 Tractor \$23,659

Homeland Security funds @ Courthouse - Video Cameras \$26,933

Homeland Security funds @ Law Enforcement Center - \$92,400: equipment received

1) Seismic Detector System, 2) GPS System, 3) Communication Equipment Logger,

4) Computer Server, 5) Self Contained Breathing Apparatus, 6) Three Lap-Top Computers

and 7) Centron Mobil Security System.

Sheriff – 2006 Impala \$25,590

Sheriff – 2006 Impala \$25,590

Secondary Road – George Shop Roof \$30,359

Secondary Road – 2006 Sterling Truck \$119,855

Secondary Road – 2006 Sterling Truck \$122,165

Secondary Road – 2006 Ford Pickup \$24,375
 Secondary Road – 2005 Ford 3350 Flatbed \$24,500
 Secondary Road – 2006 Cat Motorgrader \$253,235
 Secondary Road – Culvert Project \$207,597
 Secondary Road – Bridge Project Wheeler Township \$224,164
 Secondary Road – Resurface Project \$1,716,572 – State Farm to Market Project
 Secondary Road – Seal Project/Beloit Road \$109,142
 Secondary Road – Salt Shed Rock Rapids \$62,033

The County had depreciation expense of \$885,495 in fiscal year 2006 and total accumulated depreciation of \$5,591,254 as of June 30, 2006.

Long-Term Debt

Lyon County issued general obligation bonds on November 1, 2001 in the amount of \$2,800,000 for the law enforcement center. The paying agent is Bankers Trust of Des Moines. On June 30, 2006, Lyon County's outstanding debt for general obligation bonds was \$2,210,000; compared to \$2,365,000 on June 30, 2005.

The County entered into a capital lease to purchase GPS survey equipment in fiscal year 2005. The equipment's original cost was \$40,100. The remaining balance on June 30, 2006 for this capital lease acquisition was \$22,279; compared to \$35,646 on June 30, 2005.

Lyon County has a 10 year interest free loan with the State of Iowa. The loan is for the expenses of the winter storms of 1996-1997 and is a Disaster Aid Loan. The original loan amount was \$221,865, dated July 17, 1998. On June 30, 2006, the remaining balance was \$44,373; compared to \$66,559 on June 30, 2005.

The County entered into a 10 year interest free promissory note for property purchased by the Conservation department for real estate in fiscal year 2003. The promissory note is for \$18,220. The promissory note provides for annual principal payments on October 15 in the amount of \$1,822. On June 30, 2006, the remaining balance was \$12,754; compared to \$14,576 on June 30, 2005.

<u>Outstanding Long-Term Debt of Governmental Activities at Year-End</u>		
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Disaster Aid Loan Payable	\$ 44,373	66,559
Land Loan Payable	12,754	14,576
Compensated Absences	176,830	156,853
Capital Lease Payable	22,279	35,646
General Obligation Bonds	2,210,000	2,365,000
Total	<u>\$ 2,466,236</u>	<u>2,638,634</u>

Lyon County does not have a general obligation bond rating but according to the State Treasurer's Office, Lyon County's general obligation bonds were issued with insurance by MBIA; therefore the bonds assume MBIA's credit rating: AAA. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. (This figure is 100% valuation less military exemptions). Lyon County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately

\$30 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates (Fiscal Year 2007)

Lyon County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the economy. Unemployment in Lyon County now stands at 2.0%. This compares with the State's unemployment rate of 3.4% and the national rate of 4.6%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index Increase. The State's September 2006 CPI rate was 193.7 (September 2005 = 192.5). The national September 2006 CPI rate was 202.9 (September 2005 = 200.8). The State's CPI rate was 4.6% lower than the National CPI rate.

These indicators were taken into account when adopting the budget for fiscal year 2007. Total disbursements and transfers in the 2007 operating budget is \$11,264,910, compared to \$10,354,031 in the original budget for fiscal year 2006; an increase of \$910,879, or 8.8%. Utility replacement and property tax dollars in the 2007 budget is \$4,110,941, compared to \$3,957,320 in 2006; an increase of \$153,621, or 3.9%. Countywide valuations (with utilities) for 2007 are \$500,146,731, compared to \$454,920,509 in 2006, an increase of \$45,226,222; Rural valuations (with utilities) for 2007 are \$364,857,400, compared to \$329,600,882 in 2006, an increase of \$35,256,518.

Budgeted disbursements are \$910,800 more than fiscal year 2006. Increase in spending is due to 1) Conservation trail project disbursements (\$200,000); 2) Dues for economic development (\$75,160); 3) Economic development director budget (\$105,000); 4) Rural Service transfer to Secondary Roads (increase \$186,000); 5) Courthouse fulltime position (\$45,000); 6) Mental Health increase in services (\$173,000); and 7) Health insurance and salary increases (\$120,000).

Health insurance costs are expected to increase 17% and wages are expected to increase from 2.3% for supervisors and 3.8% for elected officials, up to 7% for other employees.

Iowa Code limits the General Fund levy rate to \$3.50 per \$1,000 of taxable value. Lyon County is at the maximum levy rate and does levy in the General Supplemental Fund. The General Supplemental levy for fiscal year 2007 is 1.19965. The General Supplemental Fund has a decrease in tax asking of approximately \$300,000 from fiscal year 2006 and the levy was decreased by 0.77872 (fiscal year 2006 = 1.97837).

The Rural Basic levy rate limit is \$3.95 per \$1,000 of taxable value. Rural Service also has a supplemental levy for expenditures if the maximum levy rate is met. Lyon County is below the maximum levy rate. The Rural Service Levy is 3.48500; this is the first time since fiscal year 1998 that the Rural Service Levy is over 3.00000. The tax asking for rural service increased \$306,529. The transfer to Secondary Road will be \$1,000,000 this year; an increase from the prior year of \$186,000.

The rising costs of fuel, asphalt and cement for construction projects is slowing down the construction projects in future years for Secondary Roads. The Secondary Road Fund has currently borrowed into the next 2 ½ year's of Lyon County's share of Farm to Market funding already.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Lyon 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:

Wayne Grooters
Lyon County Auditor
206 South 2nd Avenue
Rock Rapids, Iowa.
(712) 472-3713

Lyon County Board of Supervisors:

Steve Michael	District #1
Merle Koedam	District #2
Mark Behrens	District #3
Randy Bosch, Chairman	District #4
Craig Block	District #5

Sources: Unemployment: <http://www.iowaworkforce.org>
Consumer Price index (Bureau of Labor Statistics): <http://www.bls.gov>
State Auditor's Office: <http://auditor.iowa.gov>
Credit Rating: <http://fitchratings.com>

Lyon County
Basic Financial Statements

Lyon County

Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and Pooled Investments	\$ 4,823,065
Receivables:	
Property Tax:	
Delinquent	104
Succeeding Year	3,890,406
Tax Increment Financing:	
Succeeding Year	17,213
Interest and Penalty on Property Tax	42
Accounts	184,047
Accrued Interest	3,930
Due from Agency Funds	42,066
Due from Other Governments	524,600
Inventories	445,137
Prepaid Expenses	7,653
Prepaid Lease	80,793
Capital Assets (Net of Accumulated Depreciation)	<u>19,084,542</u>
Total Assets	<u>29,103,598</u>
Liabilities	
Accounts Payable	457,099
Accrued Interest Payable	7,421
Salaries and Benefits Payable	36,385
Contracts Payable	369,625
Due to Other Governments	94,516
Deferred Revenue:	
Succeeding Year Property Tax	3,890,406
Succeeding Year Tax Increment Financing	17,213
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Land Loan Payable	1,822
Disaster Aid Loan	22,187
General Obligation Bonds	160,000
Capital Lease Payable	13,367
Compensated Absences	176,830

Lyon County

Statement of Net Assets
June 30, 2006

Liabilities (continued)

Portion Due or Payable After One Year:

Land Loan Payable	10,932
Disaster Aid Loan	22,186
General Obligation Bonds	2,050,000
Capital Lease Payable	8,912

Total Liabilities	<u>7,338,901</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	16,839,509
Restricted for:	
Supplemental Levy Purposes	365,046
Jail Improvements/Courthouse Security	60,183
Mental Health Purposes	104,642
Rural Services Purposes	514,263
Secondary Roads Purposes	1,622,238
Debt Service	9,396
Other Purposes	113,130
Unrestricted	2,136,290

Total Net Assets	<u><u>\$ 21,764,697</u></u>
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See notes to financial statements.

Lyon County
Statement of Activities
Year Ended June 30, 2006

	Program Revenues				Net (Expense) Revenue & Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	
Functions/Programs:					
Governmental Activities:					
Public Safety & Legal Services	\$ 2,133,256	418,393	84,549	84,836	(1,545,478)
Physical Health and Social Services	634,520	312,785	143,440	0	(178,295)
Mental Health	917,693	22,108	597,154	0	(298,431)
County Environment and Education	510,848	173,410	36,446	110,600	(190,392)
Roads and Transportation	3,337,426	91,057	2,644,236	2,717,991	2,115,860
Governmental Services to Residents	365,007	209,000	795	98,180	(57,032)
Administration	782,288	4,471	0	0	(777,817)
Non-Program Current	14,797	0	0	0	(14,797)
Interest on Long-Term Debt	96,375	0	0	0	(96,375)
Capital Projects	15,812	0	0	0	(15,812)
Total	\$ 8,808,020	1,231,224	3,506,620	3,011,607	(1,058,569)
General Revenues:					
Property and Other County Tax Levied for:					
General Purposes					3,495,300
Debt Service					237,558
Tax Increment Financing					14,797
Penalty and Interest on Property Tax					19,685
State Tax Credits					223,843
Local Option Sales Tax					383,787
Grants and Contributions Not Restricted to Specific Purpose					71,285
Unrestricted Investment Earnings					211,234
Rents					41,054
Gain on Disposal of Capital Assets					47,437
Miscellaneous					10,442
Total General Revenues					4,756,422
Change in Net Assets					3,697,853
Net Assets Beginning of Year					18,066,844
Net Assets End of Year					<u>\$ 21,764,697</u>

See notes to financial statements.

Lyon County

Balance Sheet
Governmental Funds
June 30, 2006

	Special Revenue						Total
	General	Mental Health	Rural Services	Secondary Roads	Debt Service	Nonmajor Special Revenue	
Assets							
Cash and Pooled Investments	\$ 1,824,995	213,660	460,135	1,475,726	16,803	150,259	4,141,578
Receivables:							
Property Tax:							
Delinquent	55	6	29	0	14	0	104
Succeeding Year	2,222,047	234,553	1,206,024	0	227,782	0	3,890,406
Tax Increment Financing:							
Succeeding Year	0	0	0	0	0	17,213	17,213
Interest and Penalty on Property Tax	42	0	0	0	0	0	42
Accounts	144,440	2,226	0	3,896	0	15,080	165,642
Accrued Interest	3,930	0	0	0	0	0	3,930
Due from Other County Funds	13,615	0	0	346	0	0	13,961
Due from Agency Funds	41,332	0	0	0	0	734	42,066
Due from Other Governments	91,034	1,104	75,760	260,087	0	96,615	524,600
Inventories	3,631	0	22	441,484	0	0	445,137
Prepaid Expenditures	6,945	0	0	0	0	0	6,945
Prepaid Lease	0	0	0	80,793	0	0	80,793
Total Assets	\$ 4,352,066	451,549	1,741,970	2,262,332	244,599	279,901	9,332,417

Liabilities and Fund Balances

Liabilities:

Accounts Payable	\$ 45,569	28,063	147	228,248	0	5,430	307,457
Salaries and Benefits Payable	16,725	0	0	19,660	0	0	36,385
Contracts Payable	0	0	0	239,459	0	130,166	369,625
Due to Other County Funds	0	0	0	970	0	13,961	14,931
Due to Other Governments	4,630	81,782	0	8,104	0	0	94,516
Deferred Revenue:							
Succeeding Year Property Tax	2,222,047	234,553	1,206,024	0	227,782	0	3,890,406
Succeeding Year Tax Increment Financing	0	0	0	0	0	17,213	17,213
Other	145,200	0	2,761	52,236	0	105,600	305,797
Total Liabilities	2,434,171	344,398	1,208,932	548,677	227,782	272,370	5,036,330

Fund Balances:

Reserved for:

Supplemental Levy Purposes	368,848	0	0	0	0	0	368,848
Debt Service	0	0	0	0	16,817	0	16,817
Jail Improvements/Courthouse Security	8,862	0	0	0	0	0	8,862

Unreserved:

Undesignated, Reported In:

General Fund	1,294,989	0	0	0	0	0	1,294,989
Special Revenue Funds	0	107,151	533,038	1,713,655	0	7,531	2,361,375

Designated For:

Blood Run	100,000	0	0	0	0	0	100,000
Data Processing Replacement	25,500	0	0	0	0	0	25,500
Courthouse Capital Projects	100,000	0	0	0	0	0	100,000
Ambulance Replacement	15,000	0	0	0	0	0	15,000
Ambulance Purposes	1,698	0	0	0	0	0	1,698
School Liaison Equipment	2,998	0	0	0	0	0	2,998

Total Fund Balances	1,917,895	107,151	533,038	1,713,655	16,817	7,531	4,296,087
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Total Liabilities and Fund Balances	\$ 4,352,066	451,549	1,741,970	2,262,332	244,599	279,901	9,332,417
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See notes to financial statements.

Lyon County

Reconciliation of the Balance Sheet –
 Governmental Funds to the Statement of Net Assets
 June 30, 2006

Total Governmental Fund Balances (pages 20-21) \$ 4,296,087

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$24,675,796 and the accumulated depreciation is \$5,591,254. 19,084,542

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 305,797

The Internal Service Fund is used by management to charge the costs of the partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 551,928

Long-term liabilities, including the accrued interest payable, land loan payable, disaster aid loan payable, general obligation bonds payable, capital lease payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (2,473,657)

Net Assets of Governmental Activities (pages 17-18) \$ 21,764,697

Lyon County

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	Special Revenue				Debt Service	Nonmajor Special Revenue	Total
	General	Mental Health	Rural Services	Secondary Roads			
Revenues:							
Property and Other County Tax	\$ 2,348,301	233,785	1,297,179	0	237,569	0	4,116,834
Tax Increment Financing	0	0	0	0	0	14,797	14,797
Interest and Penalty on Property Tax	19,738	0	0	0	0	0	19,738
Intergovernmental	871,267	625,599	159,924	2,644,928	14,589	18,884	4,335,191
Licenses and Permits	35,912	0	5,370	1,905	0	4,518	47,705
Charges for Service	553,308	7,845	0	4,443	0	15,571	581,167
Use of Money and Property	237,959	0	0	475	3,514	3,622	245,570
Miscellaneous	13,110	142	20	84,795	0	21,516	119,583
Total Revenues	4,079,595	867,371	1,462,493	2,736,546	255,672	78,908	9,480,585
Expenditures:							
Operating:							
Public Safety and Legal Services	1,440,083	0	526,845	0	0	194	1,967,122
Physical Health and Social Services	620,532	0	0	0	0	5,157	625,689
Mental Health	0	914,771	0	0	0	0	914,771
County Environment and Education	406,877	0	78,315	0	0	2,347	487,539
Roads and Transportation	0	0	0	3,393,828	0	0	3,393,828
Governmental Services to Residents	431,393	0	1,264	0	0	10,760	443,417
Administration	739,274	0	70	0	0	13,615	752,959
Non-Program Current	0	0	0	0	0	14,797	14,797
Debt Service	0	0	0	35,553	251,885	0	287,438
Capital Projects	0	0	0	649,529	0	196,257	845,786

Total Expenditures	3,638,159	914,771	606,494	4,078,910	251,885	243,127	9,733,346
Excess (Deficiency) of Revenues Over (Under) Expenditures	441,436	(47,400)	855,999	(1,342,364)	3,787	(164,219)	(252,761)
Other Financing Sources (Uses):							
Sale of Capital Assets	5,187	0	0	2,232	0	0	7,419
Operating Transfers In	0	0	0	814,000	0	21,780	835,780
Operating Transfers Out	(21,780)	0	(814,000)	0	0	0	(835,780)
Total Other Financing Sources (Uses)	(16,593)	0	(814,000)	816,232	0	21,780	7,419
Net Change in Fund Balances	424,843	(47,400)	41,999	(526,132)	3,787	(142,439)	(245,342)
Fund Balances Beginning of Year	1,493,052	154,551	491,039	2,239,787	13,030	149,970	4,541,429
Fund Balances End of Year	\$ 1,917,895	107,151	533,038	1,713,655	16,817	7,531	4,296,087

See notes to financial statements.

Lyon 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 (page 23-24) \$(245,342)

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

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

Expenditures for capital assets	\$ 1,737,482	
Capital assets contributed by the Iowa Department of Transportation	2,667,529	
Capital assets contributed from Homeland Security	111,769	
Depreciation expense	(885,495)	
		3,631,285

In the Statement of Activities, the gain on the disposition of capital assets is reported (including values received on traded-in capital assets), whereas the governmental funds report only the proceeds from the sale of capital assets as an increase in financial resources. 40,017

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. The resulting timing difference is as follows:

Property tax	(189)	
Other	174,710	
		174,521

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. There were no current year debt issuances. Current year repayments were as follows:

Repaid		192,375
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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	(19,977)	
Interest on long-term debt	509	
		(19,468)

Lyon 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

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

(75,535)

Change in Net Assets of Governmental Activities (page 19)

\$ 3,697,853

Lyon County

Statement of Net Assets
 Proprietary Fund
 June 30, 2006

	Internal Service – Employee Group Health
Assets	
Cash and Cash Equivalents	\$ 681,487
Accounts Receivable	18,405
Due from Other County Funds	970
Prepaid Expenses	708
Total Assets	701,570
Liabilities	
Accounts Payable	149,642
Net Assets	
Unrestricted	\$ 551,928

See notes to financial statements.

Lyon County

Statement of Revenues, Expenses and Changes
in Fund Net Assets
Proprietary Fund
Year Ended June 30, 2006

		Internal Service – Employee Group Health
Operating Revenues:		
Reimbursements from Governmental Funds		\$ 714,595
Reimbursements from Agency Fund (Assessor)		34,210
Reimbursements from Current Employees		77,280
Reimbursements from Retired Employees		15,345
Insurance Reimbursements		324,444
Pharmacy Rebates		2,805
Total Operating Revenues		1,168,679
Operating Expenses:		
Medical Claims	\$ 989,151	
Insurance Premiums	252,779	
Administrative Fees	18,948	
Certification of Insurance	30	
Iowa Reinsurance Assessment Fee	6,338	
Chapter 509A Filing Fee	1,000	1,268,246
Operating Loss		(99,567)
Non-Operating Revenues:		
Interest Income		24,032
Net Loss		(75,535)
Net Assets Beginning of Year		627,463
Net Assets End of Year		\$ 551,928

See notes to financial statements.

Lyon County

Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2006

	Internal Service – Employee Group Health
Cash Flows from Operating Activities:	
Cash Received from Governmental Fund Reimbursements	\$ 714,595
Cash Received from Agency Fund Reimbursements	34,210
Cash Received from Current and Retired Employees	92,625
Cash Received from Insurance Reimbursements	326,174
Cash Received from Pharmacy Rebates	2,805
Cash Paid to Suppliers for Services/Charges	(1,233,800)
Net Cash Used by Operating Activities	(63,391)
 Cash Flows from Investing Activities:	
Interest on Investments	24,032
Net Decrease in Cash and Cash Equivalents	(39,359)
Cash and Cash Equivalents Beginning of Year	720,846
Cash and Cash Equivalents End of Year	\$ 681,487
 Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	\$ (99,567)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Decrease in Accounts Receivable	2,700
(Increase) in Due from Other County Funds	(970)
(Increase) in Prepaid Expenses	(708)
Increase in Accounts Payable	35,154
Net Cash Used by Operating Activities	\$ (63,391)

See notes to financial statements.

Lyon County

Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Assets

Cash and Pooled Investments:

County Treasurer	\$ 594,746
Other County Officials	39,807

Receivables:

Property Tax:

Delinquent	640
Succeeding Year	9,238,663

Tax Increment Financing:

Succeeding Year	242,711
Accounts	19,198

Due from Other Agency Funds	276
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Inventories	2,521
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Prepaid Expenses	3,324
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Total Assets	<u>10,141,886</u>
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Liabilities

Accounts Payable	3,569
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Due to County Funds	42,066
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Due to Other Agency Funds	276
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Due to Other Governments	10,015,453
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Trusts Payable	72,168
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Compensated Absences	8,354
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Total Liabilities	<u>10,141,886</u>
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Net Assets	<u><u>\$ 0</u></u>
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See notes to financial statements.

Lyon County

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Lyon 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. Appointed/hired officials that assist the Board of Supervisors include the Central Point Coordinator, Conservation Director, Engineer and Health Services Administrator. 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, Lyon 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. Criteria also can include an organization's fiscal dependency on the County or if it would be significantly misleading to exclude an organization because of its relationship with the County. Lyon County has no component units which meet the Governmental Accounting Standards Board Criteria in order to be included in Lyon County's reporting entity.

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: Lyon County Assessor's Conference Board, Lyon County Emergency Management Commission, Lyon County Joint E911 Service Board, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, the Regional Housing Authority, YES (Youth Emergency Services), the Hazardous Material Response Commission (Region III), the Iowa County Engineer's Association, and the Northwest Iowa Contracting Consortium. 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 an Agency Fund of the County for the Assessor, Joint E911 Service, and Emergency Management and not reported for the Northwest Iowa Area Solid Waste Agency, the Economic Development Consortium, the Regional Housing Authority, YES (Youth Emergency Services), the Hazardous Material Response Commission (Region III), the Iowa County Engineer's Association, and the Northwest Iowa Contracting Consortium. During the year ended June 30, 2006, the County did not contribute any money to the Assessor, Joint E911 Service, Northwest Iowa Area Solid Waste Agency, Regional Housing Authority, Region III Hazardous Material Response Commission, Engineer's Association or the Lyon County Economic Development Consortium; while the County paid \$11,250 to YES for juvenile services provided, \$100 in support for the Northwest Iowa Contracting Consortium and \$33,500 in support for the Emergency Management Services. The Joint E911 Service paid the County \$5,000 for sign work, supplies and dispatching services, the Emergency Management Services paid the County \$4,800 for office space rent and \$750 for phone privileges, and the County Assessor contributed \$34,210 to participate in the County's health insurance plan.

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 imposed by management which can be removed or modified.

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

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

The County reports the following major governmental funds:

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

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

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

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

Additionally, the County reports the following funds:

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

Fiduciary Funds – Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments), charges for services, interest and certain miscellaneous revenues associated with the current fiscal year are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, any 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 any general long-term debt and acquisitions under any 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-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund are charges to various funds, current employees and retired employees for health plan costs, insurance reimbursements and pharmacy rebates. Operating expenses for the Internal Service Fund include the cost of services and administrative related expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost, the investment in the Wells Fargo Government Money Market Fund (a money market mutual fund) where the cost and fair market value are considered equal and non-negotiable certificates of deposit which are stated at cost.

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

Property Tax and Tax Increment Financing Receivables – Property tax and tax increment financing in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax and tax increment financing receivables are recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax and tax increment financing receivables represent 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 and tax increment financing receivables have been recorded, the related revenues are deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which each is levied.

Property tax and tax increment financing revenues recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; are based on January 1, 2004 assessed property valuations; are for the tax accrual period July 1, 2005 through June 30, 2006 and reflect 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.

Accounts Receivable – Accounts receivable represents money owed to the County, mainly for services provided by the County, that was not paid to the County as of June 30, 2006. The General Fund accounts receivable total includes \$84,821 in jail fees receivables and \$32,191 in ambulance charges receivables that were not

collected within sixty days after year end. It is possible that a large portion of these jail fees and ambulance charges receivables may not be collected within one year.

Due from County Funds, Due from Agency Funds, Due to County Funds, and Due to Agency Funds – During the course of its normal operations, the County has numerous transactions between the County’s governmental funds, the Employee Group Health Fund and agency funds, and between different agency funds. To the extent that certain transactions between the County’s governmental funds, the Employee Group Health Fund and agency funds, and between different agency funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the 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 governmental funds consist mainly of expendable supplies held for consumption and some supplies available for resale. Inventories of governmental funds are recorded as expenses/expenditures when consumed or sold rather than when purchased. Inventories in the agency funds consist of expendable supplies held for consumption and commissary items held for sale at the jail.

Prepaid Expenses/Expenditures and Prepaid Lease – Prepaid expenses/ expenditures and prepaid lease represent a lease agreement, health insurance coverage and other expenses/expenditures, for other than inventory, that will benefit a future fiscal year. Prepayments are recorded as expenses/expenditures when utilized rather than when paid for.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, drainage systems and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Only costs related to infrastructure assets that are finished on or after July 1, 2004 are reported. Infrastructure assets finished on or before June 30, 2003 are not reported. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 50,000
Land, Buildings and Improvements	5,000
Machinery, Equipment and Vehicles	5,000

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

Asset Class	Estimated Useful lives (In Years)
Buildings and Improvements	25 – 50
Land Improvements	10 – 50
Infrastructure	10 – 65
Machinery and Equipment	3 – 15
Vehicles	3 – 10

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

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

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

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation hours and compensatory time for subsequent use or for payment upon termination, death, or retirement. Sick pay is also accumulated on a limited basis by employees for subsequent use, but is not paid upon termination, death, or retirement. A liability for the cost of vacation and compensatory time termination accumulations is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for the cost of vacation and compensatory time termination accumulations is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated 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 and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets.

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

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

<u>Fund</u>	<u>Purpose</u>
General Fund	Specified for the development of the Blood Run site, mainframe computer improvements/updating, courthouse repairs/ improvements, ambulance equipment and vehicle replacement, various ambulance purposes and equipment for the school liaison program.

Net Assets – The net assets of the Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

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 did not exceed the amounts budgeted in any function; however, disbursements in the Conservation Department exceeded the amount appropriated.

(2) **Cash and Pooled Investments**

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

The County is authorized by statute and its written investment policy 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; and certain joint investment trusts.

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

At June 30, 2006, the County had the following investments:

Type	Pool/Number	Maturity Date	Fair Value
FNMA	#58138	October, 2017	\$ 2,177
FHLMC	SER 2115 CL	January, 2029	147,734
FHLMC	SER 1570 CL	August, 2023	30,985
			\$ 180,896

In addition, the County had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$1,111,539 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and investments in the Wells Fargo Advantage Government Money Market Fund (a money market mutual fund) with a carrying and fair value of \$372,155, that are not subject to risk categorization.

The County also held an investment in a Small Business Association (SBA) loan for most of the fiscal year. The SBA loan was sold for \$224,318 on June 13, 2006.

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

Credit risk. The SBA investment was deemed to be debt guaranteed by the U.S. government and therefore, this investment was considered to have no credit risk. The investments in the Iowa Public Agency Investment Trust and the Wells Fargo Advantage Government Money Market Fund are unrated. The County's FNMA and FHLMC investments at June 30, 2006 are rated Aaa by Moody's Investors service.

Concentration of credit risk. The County places no limit on the amount that may be invested in any one type of investment or any single issuer, except for prime banker's acceptances and commercial paper. Each type of investment, prime banker's acceptances and commercial paper, at the time of purchase, is limited to ten percent of the total investment portfolio. No more than five percent of the total investment portfolio may be invested in the securities of a single issuer for prime banker's acceptances and commercial paper.

(3) Due from County Funds, Due from Agency Funds, Due to County Funds, and Due to Agency Funds

The detail of receivables and payables between the County's governmental funds, the Employee Group Health Fund and agency funds, and between different agency funds for transactions at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
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General	Special Revenue:		
	County Government Assistance	\$	13,615
	Agency:		
	County Offices		32,269
	Auto License and Use Tax		9,063
Special Revenue:	Special Revenue:		
Secondary Roads	CS Projects & Conservation Land Acquisition Trust		346
County Recorder's Records Management	Agency:		
	County Offices		734
Internal Service:	Special Revenue:		
Employee Group Health	Secondary Roads		970
Agency:	Agency:		
Other (Co. Recorder's Electronic Fee)	County Offices (Recorder)		<u>276</u>
Total		\$	<u><u>57,273</u></u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures/expenses occur and money is collected in an agency fund, the transactions/collections are recorded in the accounting system, and the resulting payments are made to the County's appropriate governmental fund, internal service fund or agency fund.

(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:	General	\$ 21,780
CS Projects & Conservation Land Acquisition Trust		
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	<u>814,000</u>
Total		<u><u>\$ 835,780</u></u>

The General Fund transferred money to the CS Projects & Conservation Land Acquisition Trust Fund to provide additional funding for the bathroom project at Lake Pahoja. The

Rural Services Fund transfer to the Secondary Roads Fund was generally to move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,481,809	8,200	0	1,490,009
Construction in Progress	134,785	3,617,523	(2,542,494)	1,209,814
Total Capital Assets Not Being Depreciated	<u>1,616,594</u>	<u>3,625,723</u>	<u>(2,542,494)</u>	<u>2,699,823</u>
Capital Assets Being Depreciated:				
Buildings	5,504,130	167,406	(2,640)	5,668,896
Improvements Other Than Buildings	310,682	148,700	0	459,382
Machinery, Equipment and Vehicles	7,720,362	894,209	(373,801)	8,240,770
Infrastructure	5,273,356	2,333,569	0	7,606,925
Total Capital Assets Being Depreciated	<u>18,808,530</u>	<u>3,543,884</u>	<u>(376,441)</u>	<u>21,975,973</u>
Less Accumulated Depreciation For:				
Buildings	1,062,469	119,078	0	1,181,547
Improvements Other Than Buildings	190,877	11,187	0	202,064
Machinery, Equipment and Vehicles	3,595,696	570,123	(306,125)	3,859,694
Infrastructure	162,842	185,107	0	347,949
Total Accumulated Depreciation	<u>5,011,884</u>	<u>885,495</u>	<u>(306,125)</u>	<u>5,591,254</u>
Total Capital Assets Being Depreciated, Net	<u>13,796,646</u>	<u>2,658,389</u>	<u>(70,316)</u>	<u>16,384,719</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,413,240</u>	<u>6,284,112</u>	<u>(2,612,810)</u>	<u>19,084,542</u>

Depreciation expense was charged to the following functions:

Governmental Activities:	
Public Safety and Legal Services	\$ 180,188
Physical Health and Social Services	429
County Environment and Education	42,541
Roads and Transportation	619,306
Governmental Services to Residents	12,980
Administration	<u>30,051</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 885,495</u>

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	\$ 4,630
Special Revenue:		
Mental Health	Services	81,782
Secondary Roads	Services	8,104
		<u>89,886</u>
Total for Governmental Funds		<u>\$ 94,516</u>
Agency:		
County Offices	Collections	\$ 8,845
Agricultural Extension Education		143,871
County Assessor		199,412
County Assessor – Special Appraisers		80,861
Schools		6,549,106
Community Colleges		316,955
Corporations		2,217,004
Townships		167,329
Auto License and Use Tax		213,914
Special Assessments		151
E911 Surcharge		78,396
E911 Operating		8,008
Emergency Management		28,926
All Other		<u>2,675</u>
Total for Agency Funds		<u>\$ 10,015,453</u>

(7) Changes in Long-Term Liabilities

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

	General Obligation Bonds	Compensated Absences	Disaster Aid Loan	Land Loan	Capital Lease	Total
Balance Beginning of Year	\$ 2,365,000	156,853	66,559	14,576	35,646	2,638,634
Additions	0	225,980	0	0	0	225,980
Reductions	155,000	206,003	22,186	1,822	13,367	398,378
Balance End of Year	<u>\$ 2,210,000</u>	<u>176,830</u>	<u>44,373</u>	<u>12,754</u>	<u>22,279</u>	<u>2,466,236</u>

Due Within One Year	\$ 160,000	176,830	22,187	1,822	13,367	374,206
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Bonds Payable

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.00%	\$ 160,000	90,285	250,285
2008	4.00%	165,000	83,885	248,885
2009	4.10%	175,000	77,285	252,285
2010	4.10%	185,000	70,110	255,110
2011	4.10%	190,000	62,525	252,525
2012	4.10%	200,000	54,735	254,735
2013	4.10%	210,000	46,535	256,535
2014	4.10%	215,000	37,925	252,925
2015	4.10%	225,000	29,110	254,110
2016	4.10%	235,000	19,885	254,885
2017	4.10%	250,000	10,250	260,250
Total		\$ 2,210,000	582,530	2,792,530

The general obligation bonds, which were issued for the new law enforcement center, were issued at a \$35,000 discount (total general obligation bonds issued = \$2,800,000; net proceeds = \$2,765,000). Taking into consideration the discount amount, the actual net interest rate is 4.219% on these bonds.

During the year ended June 30, 2006, the County retired \$155,000 of the general obligation bonds issued for the new law enforcement center. These general obligation bonds are being redeemed through the Debt Service Fund.

Disaster Aid Loan

The County received a Contingency Fund Loan from the State of Iowa on July 17, 1998 for \$221,865. The loan carries a 0% interest rate and is to be paid back at \$22,186.50 per year for ten years. The County paid off \$22,186.50 of the loan during the fiscal year ending June 30, 2006. The loan is for the excessive winter storms during 1997-1998.

A summary of the County’s June 30, 2006 disaster aid loan indebtedness is as follows:

Year Ending June 30,	Interest Rates	Principal
2007	0%	\$ 22,187
2008	0%	22,186

\$ 44,373

The disaster aid loan proceeds were recorded in the Secondary Roads Fund and are being repaid through the Secondary Roads Fund.

Land Loan Payable

During the fiscal year ended June 30, 2003, the County purchased real estate for conservation purposes for \$59,620. The County paid for most of the purchase price from the General Fund with a portion of the cost being set up to be paid as a promissory note to the seller. The note carries a 0% interest rate. The promissory note provides for payment of principal in the amount of \$1,822 on the 15th of each October until the note is satisfied. Payments of the \$1,822 are scheduled to be paid annually until October 15, 2012. The County paid off \$1,822 of the loan during the fiscal year ended June 30, 2006, resulting in a loan balance of \$12,754 on June 30, 2006. This loan is being satisfied through the General Fund.

Capital Lease Purchase Agreement

During the year ended June 30, 2005, the County entered into a capital lease purchase agreement to acquire GPS tracking equipment with a historical cost of \$40,100 through the Secondary Roads Fund. The GPS tracking equipment is included in the machinery, equipment and vehicles class. The GPS tracking equipment has accumulated depreciation of \$12,030 as of June 30, 2006, which results in a book value of \$28,070 on June 30, 2006. The lease agreement contains a 0% interest rate (the outright purchase price and the lease purchase price were equivalent per the County Engineer).

The following is a schedule of the future lease payments as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2007	\$ 13,367
2008	8,912
Total	<u>\$ 22,279</u>

Payments under this capital lease purchase agreement totaled \$13,367 from the Secondary Roads Fund for the year ended June 30, 2006.

(8) Conduit Community Economic Betterment Account (CEBA) Loan

The County is acting as a conduit agent for a CEBA loan between a local business in Lyon County and the Iowa Department of Economic Development. The award date for this CEBA Loan Agreement was September 18, 1997. The terms of the loan include a forgivable portion in the amount of \$26,250 with an interest rate of 6% for five years and an unforgivable portion in the amount of \$26,250 with an interest rate of 0% for ten years. The forgivable portion of the loan is dependent upon the business attaining certain requirements relating to job creation/retention. As of June 30, 2006 and the date of this audit report, the business's status toward meeting the requirements was not yet determined. Therefore, the forgivable portion of \$26,250 was still deemed outstanding

as of June 30, 2006. The loan balance of the unforfeitable portion as of June 30, 2006 was \$8,094.

The County's liability under this loan agreement is limited to those amounts which the County recovers from the business in unused loan proceeds, enforcement of judgments against the business and through its good faith enforcement of the security instruments executed by the business. Nothing shall limit the recovery of principal and interest by the Iowa Department of Economic Development from the County in the event of the County's failure to file, or improper or untimely filing, of any security instrument executed by the business, fraud, negligence or gross mismanagement in the application for, or use of, sums loaned. Based on the County's limited liability, the conduit CEBA loan is not reported on the County's financial statements. Please also see "Schedule of Findings – Other Findings Related to Required Statutory Reporting: Comment 06-11" for a related comment.

(9) Operating Lease Arrangements

Fair Building

On September 25, 2000, the County entered into a written agreement with the Lyon County Fair Association to share in the costs of constructing a building to be located on the fairgrounds. The building is to be owned by the Lyon County Fair Association, but under the terms of the agreement, the building can be used for storage by the County's Secondary Road Department for the majority of the year. The County agreed to pay up to one-half of the building costs up to \$100,000. The County did pay \$100,000 for the building costs in 2000.

This agreement will terminate thirty years from September 25, 2000. This agreement may be extended upon such additional terms as is satisfactory to both parties. Any extension agreement and its terms must be executed prior to sixty days of the date of the termination of this agreement. Lyon County shall have the just right to refusal upon the offering of the fair building for sale. In such event, Lyon County shall have thirty days to meet any other offers for purchase.

The \$80,793, reported as a prepaid lease asset in the Statement of Net Assets and the Balance Sheet (governmental funds) in the Secondary Roads Fund, represents the amortized value of the lease benefit remaining from July 1, 2006 until September 24, 2030.

Office Space in the Annex Building

The Secondary Roads Fund paid the General Fund \$12,000 during fiscal year ended June 30, 2006 for the County Engineer's department office space in the Lyon County Annex Building.

(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 \$200,721, \$184,806 and \$181,579, respectively, equal to the required contributions for each year.

(11) Risk Management

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

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2006 were \$169,161.

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

up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$2,000,000, employee blanket bonding in the amount of \$20,000 and the additional Treasurer's bonding in the amount of \$100,000. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with First Administrators, Inc. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$30,000. Claims in excess of coverage are insured through purchase of stop loss insurance from Hartford Insurance. The stop loss insurance coverage has a maximum lifetime reimbursement amount of \$2,000,000 per eligible participant and an annual maximum aggregate reimbursement of \$1,000,000.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees, stop loss insurance premiums,

and claims processed are paid to First Administrators, Inc. from the Employee Group Health Fund. The County's contributions from governmental funds to this fund for the year ended June 30, 2006 were \$714,595. The County Assessor contributed \$34,210 to this fund during the fiscal year.

Amounts payable from the Employee Group Health Fund at June 30, 2006 total \$149,642, \$143,304 of which is for incurred but not reported (IBNR) and reported but not paid medical claims and \$6,338 for an Iowa reinsurance assessment fee. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims, and to establish a reserve for catastrophic losses. That reserve was \$551,928 at June 30, 2006 and is reported as a designation of the Internal Service, Employee Group Health Fund net assets. A liability has been established based on the requirements of Government Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid medical claims beginning of fiscal year	<u>\$ 109,515</u>
Incurred medical claims (including medical claims incurred but not reported as of June 30, 2006):	
Current year events	1,051,219
Prior year events	<u>(62,068)</u>
Total incurred medical claims	<u>989,151</u>
Payments:	
Current year events	907,915
Prior year events	<u>47,447</u>
Total payments	<u>955,362</u>
Unpaid medical claims end of fiscal year	<u>\$ 143,304</u>

Effective July 1, 2006, the County is assuming liability for claims up to an individual stop loss limitation of \$35,000.

(13) Intergovernmental Agreement

The County has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the County. The County did not have to make any payments under this agreement for the fiscal year ended June 30, 2006.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County by resolution has approved to act as a "Local Government Guarantee" in order to provide a financial

assurance mechanism instrument for the Agency. The closure and postclosure costs to the Agency have been estimated at \$1,821,025 as of June 30, 2006 and the portion of the liability that has been recognized by the Agency as of June 30, 2006 is \$896,505. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2006, assets of \$1,254,884 are restricted for these purposes and the Agency has fully demonstrated financial assurance for closure and postclosure care costs as required by Chapter 111 of the Iowa Administrative Code. No estimate has been made as to any possible future assessments to the County.

(14) Deficit Fund Balance

The Special Revenue, CS Projects and Conservation Land Acquisition Trust Fund had a deficit fund balance of \$121,141 at June 30, 2006. The deficit was due to Lake Pahoja recreation trail project costs incurred prior to the receipt of an intergovernmental grant, a donation and operating transfers from the General Basic and REAP Funds. The deficit will be eliminated upon the receipt of these revenue sources.

(15) Commitments

The County has an agreement with the City of Sioux City, Iowa for the provision of hazardous materials response services. The agreement is in effect until June 30, 2008, unless terminated for cause earlier. The County is committed to pay or reimburse the City of Sioux City for all costs incurred by the City to staff and equip a HAZMAT team to respond to hazardous condition emergencies in the County. The County is also responsible for an annual base charge. The annual base charges for fiscal years ending June 30, 2007-2008 are \$8,822 per year for a total of \$17,644. The payments for these charges are scheduled to be paid through Lyon County Emergency Management Services. The Emergency Management Services paid \$8,822 on this commitment during the fiscal year ended June 30, 2006.

The County has passed a resolution to continue support of the Family Crisis Center of Northwest Iowa at a minimum amount of \$2,500 per year through fiscal year ending June 30, 2010. The County's minimum commitment under this resolution for fiscal years ending June 30, 2007-2010 is \$10,000. The County paid \$2,500 out of the General Fund on this commitment during the fiscal year ended June 30, 2006.

The County has an agreement to assist with the funding for a school liaison officer position. The County's maximum commitment is \$3,000 per year through fiscal year ending June 30, 2010. The County's maximum commitment for fiscal years ending June 30, 2007 – 2010 is \$12,000. This agreement may be revoked at the end of a fiscal year by providing written notice ninety days prior to the beginning of the next fiscal year. The County expended \$1,400 out of the General Fund on this commitment during the fiscal year ended June 30, 2006.

On October 17, 2005, the County entered into a contract for road resurfacing work for a total of \$136,979 after change orders. As of June 30, 2006, costs of \$130,317 had been incurred. The \$6,662 balance remaining on the project at June 30, 2006 was paid from the Secondary Roads Fund as work on the project progressed.

In March 2006, the County entered into an agreement for the rental of a mailing system from July 1, 2006 to June 30, 2011. The annual payment due in quarterly installments is \$1,200 for fiscal year ending June 30, 2007 and \$1,380 per year from July 1, 2007 to June 30, 2011 for a total amount of \$6,720. If specified budgetary funding criteria are not met by the County, this agreement can be terminated at the end of any fiscal year.

On June 26, 2006, the County entered into a contract to install new windows and to refurbish the doors of the courthouse for a total of \$234,481. As of June 30, 2006, no costs on this project have been incurred. This contract will be paid from the General Fund as work on the project progresses.

(16) Subsequent Events

Events that have occurred subsequent to June 30, 2006 include the following:

- a. On July 10, 2006, the Board of Supervisors approved a short term interest free loan from the General Fund to the CS Projects and Conservation Land Acquisition Trust Fund for \$105,600 to provide funding for the recreation trail project at Lake Pahoja until revenue sources for the project are received.
- b. On July 10, 2006, the Board of Supervisors approved \$35,578 in operating transfers to the CS Projects and Conservation Land Acquisition Trust Fund with \$6,228 coming from the General Fund and \$29,350 from the REAP Fund.
- c. In August 2006, the \$6,662 balance remaining on the road resurfacing work contract was paid by the Secondary Roads Fund.
- d. In August 2006, a snow blower that was authorized by the Board of Supervisors on February 6, 2006, was purchased for \$138,416 by the Secondary Roads Fund.
- e. In August and October 2006, \$135,000 and \$19,745, respectively, was paid out of the General Fund on the contract to install new windows and to refurbish the doors of the courthouse.
- f. In October 2006, gravel was purchased by the Secondary Roads Fund for \$73,750.

(17) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Lyon County

Required Supplementary Information

Lyon 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 Actual Variance
		Original	Final	
Receipts:				
Property and Other County Tax	\$ 4,129,757	4,112,271	4,112,877	16,880
Interest and Penalty on Property Tax	19,883	13,200	13,200	6,683
Intergovernmental	4,322,034	4,093,526	4,188,861	133,173
Licenses and Permits	47,563	41,160	41,160	6,403
Charges for Service	582,046	467,571	513,139	68,907
Use of Money and Property	254,533	141,894	141,894	112,639
Miscellaneous	120,998	27,450	30,483	90,515
Total Receipts	9,476,814	8,897,072	9,041,614	435,200
Disbursements				
Public Safety and Legal Services	1,938,728	1,999,054	1,999,054	(60,326)
Physical Health and Social Services	623,193	661,943	664,443	(41,250)
Mental Health	924,119	838,980	944,888	(20,769)
County Environment and Education	486,008	510,938	524,569	(38,561)
Roads and Transportation	3,292,319	3,126,640	3,407,973	(115,654)
Governmental Services to Residents	440,111	484,469	484,469	(44,358)
Administration	750,980	805,941	805,941	(54,961)
Non-Program Current	14,797	14,191	14,797	0
Debt Service	287,438	274,175	287,542	(104)
Capital Projects	579,437	823,700	589,225	(9,788)
Total Disbursements	9,337,130	9,540,031	9,722,901	(385,771)
Excess (Deficiency) of Receipts Over (Under) Disbursements	139,684	(642,959)	(681,287)	820,971
Other Financing Sources, Net	7,419	0	0	7,419
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	147,103	(642,959)	(681,287)	828,390
Balances Beginning of Year	3,994,475	3,848,852	3,848,852	145,623
Balances End of Year	\$ 4,141,578	3,205,893	3,167,565	974,013

See accompanying independent auditor's report.

Lyon County

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

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 9,476,814	3,771	9,480,585
Expenditures	9,337,130	396,216	9,733,346
Net	139,684	(392,445)	(252,761)
Other Financing Sources, Net	7,419	0	7,419
Beginning Fund Balances	3,994,475	546,954	4,541,429
Ending Fund Balances	\$ 4,141,578	154,509	4,296,087

See accompanying independent auditor's report.

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program current, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and any 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, two budget amendments increased budgeted disbursements by \$182,870. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission. These budgets may also be amended during the year utilizing similar statutorily prescribed procedures.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any function; however, disbursements in the Conservation Department exceeded the amount appropriated.

Lyon County

Other Supplementary Information

Lyon County
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006

	County Government Assistance	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff's Asset Forfeiture
Assets				
Cash and Pooled Investments	\$ 31,864	44,829	19,953	2,518
Receivables:				
Tax Increment Financing:				
Succeeding Year	0	0	0	0
Accounts Receivable	0	0	0	0
Due from Agency Funds	0	0	734	0
Due from Other Governments	0	5,131	0	0
Total Assets	\$ 31,864	49,960	20,687	2,518
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 0	0	0	0
Contracts Payable	0	0	0	0
Due to Other County Funds	13,615	0	0	0
Deferred Revenue:				
Succeeding Year Tax Increment Financing	0	0	0	0
Other	0	0	0	0
Total Liabilities	13,615	0	0	0
Fund Equity:				
Fund Balances:				
Unreserved	18,249	49,960	20,687	2,518
Total Liabilities and Fund Balances	\$ 31,864	49,960	20,687	2,518

See accompanying independent auditor's report.

Health Services Grants	County Recorder's Transaction Fee	County Tax Increment Financing	CS Projects & Conservation Land Acquisition Trust	Well Closing Trust	Economic Development	Total
353	497	0	14,245	22,627	13,373	150,259
0	0	17,213	0	0	0	17,213
0	0	0	15,080	0	0	15,080
0	0	0	0	0	0	734
0	0	0	90,600	884	0	96,615
353	497	17,213	119,925	23,511	13,373	279,901
0	0	0	4,954	476	0	5,430
0	0	0	130,166	0	0	130,166
0	0	0	346	0	0	13,961
0	0	17,213	0	0	0	17,213
0	0	0	105,600	0	0	105,600
0	0	17,213	241,066	476	0	272,370
353	497	0	(121,141)	23,035	13,373	7,531
353	497	17,213	119,925	23,511	13,373	279,901

Lyon County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

	County Government Assistance	Resource Enhancement and Protection	County Recorder's Records Management
Revenues:			
Tax Increment Financing	\$ 0	0	0
Intergovernmental	0	9,856	0
Licenses and Permits	0	0	0
Charges for Service	0	0	3,199
Uses of Money and Property	0	1,546	680
Miscellaneous	0	0	0
Total Revenues	0	11,402	3,879
Expenditures:			
Operating:			
Public Safety and Legal Services	0	0	0
Physical Health and Social Services	0	0	0
County Environment and Education	0	0	0
Governmental Services to Residences	0	0	0
Administration	13,615	0	0
Non-Program Current	0	0	0
Capital Projects	0	0	0
Total Expenditures	13,615	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,615)	11,402	3,879
Other Financing Source:			
Operating Transfer In	0	0	0
Net Change in Fund Balances	(13,615)	11,402	3,879
Fund Balances Beginning of Year	31,864	38,558	16,808
Fund Balance End of Year	\$ 18,249	49,960	20,687

See accompanying independent auditor's report.

Schedule 2

Sheriff's Asset Forfeiture	Health Services Grants	County Recorder's Transaction Fee	County Tax Increment Financing	CS Project & Conservation Land Acquisition Trust	Well Closing Trust	Economic Development	Total
0	0	0	14,797	0	0	0	14,797
0	0	0	0	5,000	4,028	0	18,884
0	0	0	0	4,518	0	0	4,518
0	0	0	0	12,372	0	0	15,571
0	0	115	0	1,281	0	0	3,622
1,515	0	0	0	3,067	1,214	15,720	21,516
1,515	0	115	14,797	26,238	5,242	15,720	78,908
194	0	0	0	0	0	0	194
0	333	0	0	0	4,824	0	5,157
0	0	0	0	0	0	2,347	2,347
0	0	10,760	0	0	0	0	10,760
0	0	0	0	0	0	0	13,615
0	0	0	14,797	0	0	0	14,797
0	0	0	0	196,257	0	0	196,257
194	333	10,760	14,797	196,257	4,824	2,347	243,127
1,321	(333)	(10,645)	0	(170,019)	418	13,373	(164,219)
0	0	0	0	21,780	0	0	21,780
1,321	(333)	(10,645)	0	(148,239)	418	13,373	(142,439)
1,197	686	11,142	0	27,098	22,617	0	149,970
2,518	353	497	0	(121,141)	23,035	13,373	7,531

Lyon County

Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	County Assessor – Special Appraisers
Assets				
Cash and Pooled Investments:				
County Treasurer	\$ 0	2,024	62,612	10,254
Other County Officials	39,807	0	0	0
Receivables:				
Property Tax:				
Delinquent	0	4	3	2
Succeeding Year	0	141,843	144,478	67,281
Tax Increment Financing:				
Succeeding Year	0	0	0	0
Accounts	984	0	103	0
Due from Other Agency Funds	0	0	0	0
Inventories	1,633	0	888	0
Prepaid Expenses	0	0	0	3,324
Total Assets	\$ 42,424	143,871	208,084	80,861
Liabilities				
Accounts Payable	\$ 0	0	318	0
Due to County Funds	33,003	0	0	0
Due to Other Agency Funds	276	0	0	0
Due to Other Governments	8,845	143,871	199,412	80,861
Trusts Payable	300	0	0	0
Compensated Absences	0	0	8,354	0
Total Liabilities	\$ 42,424	143,871	208,084	80,861

Schedule 3

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Special Assessments	E911 Surcharge
90,047	3,937	27,513	2,385	222,977	151	63,536
0	0	0	0	0	0	0
166	8	453	4	0	0	0
6,458,893	313,010	1,946,327	164,940	0	0	0
0	0	242,711	0	0	0	0
0	0	0	0	0	0	18,111
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
6,549,106	316,955	2,217,004	167,329	222,977	151	81,647
0	0	0	0	0	0	3,251
0	0	0	0	9,063	0	0
0	0	0	0	0	0	0
6,549,106	316,955	2,217,004	167,329	213,914	151	78,396
0	0	0	0	0	0	0
0	0	0	0	0	0	0
6,549,106	316,955	2,217,004	167,329	222,977	151	81,647

Lyon County

Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds
 June 30, 2006

	E911 Operating	Emergency Management	Other	Total
Assets				
Cash and Pooled Investments:				
County Treasurer	\$ 8,008	28,926	72,376	594,746
Other County Officials	0	0	0	39,807
Receivables:				
Property Tax:				
Delinquent	0	0	0	640
Succeeding Year	0	0	1,891	9,238,663
Tax Increment Financing:				
Succeeding Year	0	0	0	242,711
Accounts	0	0	0	19,198
Due from Other Agency Funds	0	0	276	276
Inventories	0	0	0	2,521
Prepaid Expenses	0	0	0	3,324
Total Assets	\$ 8,008	28,926	74,543	10,141,886
Liabilities				
Accounts Payable	\$ 0	0	0	3,569
Due to County Funds	0	0	0	42,066
Due to Other Agency Funds	0	0	0	276
Due to Other Governments	8,008	28,926	2,675	10,015,453
Trusts Payable	0	0	71,868	72,168
Compensated Absences	0	0	0	8,354
Total Liabilities	\$ 8,008	28,926	74,543	10,141,886

See accompanying independent auditor's report.

Lyon County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
 Agency Funds
 Year Ended June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	County Assessor – Special Appraisers
Assets and Liabilities				
Balances Beginning of Year	\$ 46,022	129,919	168,898	108,670
Additions:				
Property and Other County Tax	0	141,819	144,448	67,268
E911 Surcharge	0	0	0	0
State Tax Credits	0	7,878	8,142	4,098
Intergovernmental Replacements, Grants and Revenues	96,160	96	99	50
Contribution from Lyon County	0	0	0	0
Transfer from Special Appraisers Fund	0	0	88,500	0
Office Fees and Collections	240,461	0	912	0
Elections	8,486	0	0	0
Electronic Transaction Fee	0	0	0	0
Auto & Drivers Licenses, Use Tax and Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	11,352	0	0	0
Interest	60	0	0	0
Total Additions	356,519	149,793	242,101	71,416
Deductions:				
Agency Remittances:				
To Other Funds	236,496	0	34,210	88,500
To Other Governments	113,333	135,841	168,705	10,725
Trusts Paid Out	10,288	0	0	0
Total Deductions	360,117	135,841	202,915	99,225
Balances End of Year	\$ 42,424	143,871	208,084	80,861

Schedule 4

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Special Assessments	E911 Surcharge
6,010,756	269,223	1,959,874	153,677	220,222	1,045	40,799
6,220,359	312,963	2,190,264	164,862	0	0	0
0	0	0	0	0	0	72,804
350,361	15,329	135,259	8,442	0	0	0
4,264	186	3,004	60	0	0	10,928
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	2,504,911	0	0
0	0	0	0	0	22,628	0
0	0	0	0	0	0	0
0	0	0	0	0	0	1,735
6,574,984	328,478	2,328,527	173,364	2,504,911	22,628	85,467
0	0	0	0	104,030	0	5,000
6,036,634	280,746	2,071,397	159,712	2,398,126	23,522	39,619
0	0	0	0	0	0	0
6,036,634	280,746	2,071,397	159,712	2,502,156	23,522	44,619
6,549,106	316,955	2,217,004	167,329	222,977	151	81,647

Lyon County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
 Agency Funds
 Year Ended June 30, 2006

	E911 Operating	Emergency Management	Other	Total
Assets and Liabilities				
Balances Beginning of Year	\$ 8,008	33,310	82,420	9,232,843
Additions:				
Property and Other County Tax	0	0	1,889	9,243,872
E911 Surcharge	0	0	0	72,804
State Tax Credits	0	0	105	529,614
Intergovernmental Replacements, Grants and Revenues	0	14,431	1	129,279
Contribution from Lyon County	0	33,500	0	33,500
Transfer from Special Appraisers Fund	0	0	0	88,500
Office Fees and Collections	0	0	0	241,373
Elections	0	0	0	8,486
Electronic Transaction Fee	0	0	3,199	3,199
Auto & Drivers Licenses, Use Tax and Postage	0	0	0	2,504,911
Assessments	0	0	0	22,628
Trusts	0	0	183,552	194,904
Interest	0	0	3	1,798
Total Additions	0	47,931	188,749	13,074,868
Deductions:				
Agency Remittances:				
To Other Funds	0	5,550	0	473,786
To Other Governments	0	46,765	5,062	11,490,187
Trusts Paid Out	0	0	191,564	201,852
Total Deductions	0	52,315	196,626	12,165,825
Balances End of Year	\$ 8,008	28,926	74,543	10,141,886

See accompanying independent auditor's report.

Lyon County

Schedule of Revenue 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	\$ 4,116,834	3,928,576	3,953,748	3,302,716
Tax Increment Financing	14,797	14,190	261	0
Interest and Penalty on Property Tax	19,738	17,152	15,291	17,093
Intergovernmental	4,335,191	4,287,056	4,808,141	3,600,775
Licenses and Permits	47,705	41,479	38,800	38,196
Charges for Service	581,167	575,013	586,045	607,605
Use of Money and Property	245,570	181,556	125,310	175,541
Miscellaneous	119,583	48,906	63,215	175,689
Total	\$ 9,480,585	9,093,928	9,590,811	7,917,615
Expenditures:				
Operating:				
Public Safety and Legal Services	\$ 1,967,122	1,735,753	1,683,355	1,707,894
Physical Health and Social Services	625,689	577,077	610,516	627,654
Mental Health	914,771	929,935	839,397	897,363
County Environment and Education	487,539	436,917	450,422	505,595
Roads and Transportation	3,393,828	3,085,781	2,645,446	2,935,233
Governmental Services to Residents	443,417	321,632	289,005	268,630
Administration	752,959	714,501	692,475	765,681
Non-Program Current	14,797	16,190	627,685	86,576
Debt Service	287,438	279,527	275,772	276,372
Capital Projects	845,786	636,410	432,796	891,803
Total	\$ 9,733,346	8,733,723	8,546,869	8,962,801

See accompanying independent auditor's report.

Lyon County

**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***

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 Lyon County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lyon County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated October 19, 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 Lyon 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 Lyon County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 06-A, E, G, I and J are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in 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 Lyon County and other parties to whom Lyon County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

De Noble & Company PC
Certified Public Accounting Firm

October 19, 2006

Lyon County
Schedule of Findings

Lyon County
Schedule of Findings
Year Ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

06-A Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County’s financial statements. We noted a lack of segregation of duties over financial transactions, record-keeping, and reconciling functions in several offices. This comment also applies, as applicable, to the County Assessor, County Extension, Emergency Management and E911.

Recommendations – The following recommendations should be considered to improve the segregation of duties within the various offices of the County:

- a) All cash receipts should be handled by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The list should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to supporting receipt documentation that should be retained, to the cash receipt records and to the actual deposit made by an independent person.
- b) Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.
- c) A person in the office who has no responsibility for custody of investments should periodically inspect investments, verify County ownership of investments, and reconcile documents to the investment records. In addition, reconciliations of delinquencies, abatement of taxes, and monthly auto license and use tax reports should be done by independent people.
- d) Supplies and fixed assets ordered should be received by someone other than the person who initiated the order. The person responsible for making sure all items ordered are received and the proper amounts are charged should be separate from the purchasing and cash disbursement functions.
- e) Authorization of transactions, handling of source documents, and custody of assets should be segregated.
- f) Reconciliations and investigations of unusual reconciling items in the accounting records should be reviewed and approved by a person who is not responsible for receipts and disbursements.
- g) Billings for services, the recordkeeping of accounts receivable, and the handling of cash receipts should be segregated.
- h) Checks should be signed by an individual who does not otherwise participate in the preparation of the checks. Prior to signing, the checks and the supporting documentation should be reviewed

Lyon County
Schedule of Findings
Year Ended June 30, 2006

for propriety. After signing, the checks should be mailed without allowing them to return to individuals who prepare the checks or approve payment. Dual signatures should be required on all checks.

- i) Complete, detailed personnel records should be maintained outside the payroll section. The personnel records should periodically be compared to the actual payroll by an independent person.

We realize that with a limited number of office employees, segregation of duties is difficult. However, each official or person in-charge should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The official or person in-charge should utilize current personnel in their office or from another office 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 initials or signature of the reviewer and the date of the review.

Response – We will have each office evaluate these recommendations and we will develop strategies to implement each of the recommendations as economically practicable.

Conclusion – Response Accepted. It is important that you attempt to implement these recommendations.

06-B Accounting Procedures Manual – The County does not have an accounting procedures manual for all aspects of the County’s accounting systems (mainly some of the individual offices).

Recommendation – An accounting procedures manual should be prepared and implemented for all aspects of the County’s accounting systems.

Response – We will have each applicable office attempt to create an accounting procedures manual for their accounting system.

Conclusion – Response accepted. Please do attempt to have each appropriate office work on this.

06-C Written Job Descriptions – For legal purposes, written job descriptions should possibly be in place. Lyon County does not have written job descriptions for each employee.

Recommendation – For the benefit of the County and its employees, the County should consider establishing written job descriptions for each employee delineating specific duties, reporting relationships, and constraints. Please have the County Attorney address this.

Response –The County Attorney is in the process of evaluating/developing written job descriptions.

Conclusion – Response accepted. Please have the County Attorney continue to work on this.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

- 06-D Prevention Controls Review – Prevention controls need to be reviewed specifically at the County Conservation Office, but it would be beneficial for all offices to review.
- Recommendation – Prevention controls (example: smoke detectors should be considered for fire prevention and detection) should be reviewed for adequacy.
- Response – We will review our prevention controls and take any necessary steps that are deemed needed.
- Conclusion – Response accepted. Please do review prevention controls.
- 06-E Capital Assets – Capital assets are not being marked for identification purposes.
- Recommendation – On a yearly basis, an independent person should be responsible for verifying the existence of the capital assets under each office’s control. Any capital assets disposed of or sold should be adequately documented. Capital assets should be marked for identification purposes to assist in the existence and accountability functions.
- Response – We will stress the need for security over capital assets until we can get your recommendation implemented.
- Conclusion – Response accepted. Please attempt to work on this issue.
- 06-F Off-Site Storage of Data – All offices, including Emergency Management and E911, should have as a standard policy or procedure the off-site storage of computer backup data, especially for any data not backed up as part of the mainframe computer system. All offices, including the County Assessor, County Extension, Emergency Management and E911, should consider the need to store copies of critical manual records off-site.
- Recommendation – Critical manual records should be stored at an off-site location. Computer backups need to be done for all important computer data on a regular basis and this backed up data should be stored at an off-site location.
- Response – We will have each office evaluate this recommendation and attempt to implement accordingly.
- Conclusion – Response accepted. Please do have each office consider this.
- 06-G Job Rotations – Financial personnel’s duties are not always rotated for a period of time each fiscal year.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

Recommendation – The County should consider the need for financial personnel to annually take a minimum amount of vacation time and each person’s duties should be done by another employee when a person is on vacation.

Response – We will have each department consider this.

Conclusion – Response accepted. Please do have each department consider this.

06-H Vehicle Usage/Fuel Test – When using County credit cards for fueling, the vehicle’s identification and the mileage at the time of fueling are not always noted on the credit card receipt. Vehicle/piece of machinery mileage should be compared to fuel consumption on a regular basis.

Recommendations – When using County credit cards for fueling, the vehicle’s identification and the mileage at the time of fueling should always be noted on the credit card receipt. Mileage and fuel logs should be kept on each vehicle/piece of machinery and tested against the fuel charged to each vehicle/piece of machinery to verify reasonableness of mileage per gallon.

Response – We will have the appropriate departments address this.

Conclusion – Response accepted. Please make sure the appropriate departments do consider this.

06-I Information Systems – During our review of internal control, the existing control activities in the computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the computer based systems were noted:

There are no written policies for:

- automatic log-off provisions in certain offices when left unattended for a period of time. Upon log-off, the user should have to again enter a password to re-access information.
- requiring password changes in certain offices because the software does not require the user to change log-ins/passwords periodically.
- requiring all computer users to set up passwords to limit access to certain software programs in one office.
- Requiring the password to use multiple characters on the keyboard.
- daily backup of the information on the computers in certain offices.

Recommendation – Written policies should be developed addressing the above procedures in order to improve the control over computer based systems.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

Response – We will address these computer related issues.

Conclusion – Response accepted. Please attempt to implement these recommendations.

06-J Payroll Issues – The Conservation Department allowed compensated time off to be carried over in excess of the time frame allowed by the County personnel policy.

There appears that employees took an unusual amount of sick leave on Friday afternoons during the fiscal year. Also, there were some days where the compensated absences leave was split between vacation time off and sick leave.

There was at least one employee personnel policy acknowledgement form not signed and on file in the employee's personnel records.

Please see "Other Findings Related to Required Statutory Reporting: 06-4" for a related comment.

Recommendation – Compensated time off should only be allowed to be carried over in accordance with the personnel policy unless approval is given by the controlling Board. This approval should be documented in the controlling Board's minutes.

The approval process for allowing compensated absences to be taken needs to be reviewed to ensure that employees are properly taking the correct type of compensated absence (compensation time, vacation or sick leave) for each particular day.

All needed employee personnel policy acknowledgement forms should be signed and on file in each employee's personnel records.

Response – We will address each of the payroll recommendations.

Conclusion – Response accepted.

06-K Supporting Documentation – We noted at least one instance where an employee reimbursement was allowed without a supporting receipt. We noted a couple instances where the only support for some credit card charges was a copy of the credit card slips, there was no additional supporting documentation/invoice.

Recommendation – All employee reimbursements and credit card charges should be supported by an actual receipt or invoice that supports the charge/reimbursement in detail.

Response – We will stress to employees the need to submit receipts/invoices.

Conclusion – Response accepted. Please stress the importance of needing to submit supporting documentation.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

06-L Holding of Checks – We noted that a check was being held by the Conservation Office on June 30, 2006. The check was issued during the fiscal year for budgetary purposes, but the check was not released by the Conservation Office.

Recommendation – A check should not be issued just to get the disbursement in a particular budget period if there is some reason why the check cannot be released. The County should establish a written policy that all checks are to be released upon proper Board approval and signature.

Response – We will comply with your recommendation.

Conclusion – Response accepted.

06-M Credit Card Fees – The County paid \$129 in finance charges and late fees on credit card bills during the fiscal year ended June 30, 2006.

Recommendation – The County needs to establish procedures to ensure all credit card bills are paid timely in order to eliminate finance charges and late fees.

Response – We will implement your recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

06-1 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amount budgeted in any of the functions. Disbursements in the Conservation Department exceeded the amount appropriated.

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

Response – We will make sure the reason the departmental appropriation was exceeded is eliminated.

Conclusion – Response accepted.

06-2 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

The County paid \$206 for ambulance personnel to host a Christmas party, \$118 for a retirement gift for an employee and \$336 for cable television in order to have access to local weather reports.

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

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

Response – We will address your recommendation and take appropriate actions.

Conclusion – Response accepted.

06-3 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted. However, please see “Findings Related to the Financial Statements: 06-K” for a possible related comment.

Lyon County
 Schedule of Findings
 Year Ended June 30, 2006

06-4 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jerry Smit, Husband of Jennifer Smit, Auditor's Office Clerk	Custodial services	\$ 11,124
Todd Reinke, Conservation Board Member, Owner of Todd's True Value	Supplies	1,278
Arthur Flier, Husband of Roberta Flier, Dispatcher	Snow removal	1,453
Bob Dreke, Husband of Barb Dreke, Deputy Treasurer	Repair Work	173
Kent Peters, Brother of Kyle Peters, Engineering Tech	ATV rent for surveying	315
Gary Vogel, Road Superintendent	Lake Pahoja project inspection	1,710
Kyle Peters, Engineering Tech	Survey, inspection and plans for Lake Pahoja project	2,142
Jay Vogel, Road Maintenance	Lake Pahoja project inspection	780

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Todd's True Value, Arthur Flier, Bob Dreke, Kent Peters and Jay Vogel (however, see issue discussed in the next paragraph) do not appear to represent conflicts of interest since the total transactions with each were less than \$1,500 during the fiscal year. The transactions with Jerry Smit do not appear to represent conflicts of interest since the transactions were entered into through competitive bidding.

The transactions with Gary Vogel and Kyle Peters appear to represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and were not entered into through competitive bidding. Also, the transactions with Gary Vogel, Kyle Peters and Jay Vogel appear to be in competition for services provided by the County, appear to have been performed utilizing some County equipment, and for a few of the hours where vacation was taken by Kyle Peters to personally work on the Lake Pahoja project, vacation time was paid using the overtime payroll rate.

Recommendation – The County should comply with the Iowa Code regarding business transactions between the County and County officials and employees. The Board of

Lyon County
Schedule of Findings
Year Ended June 30, 2006

Supervisors should address the personal competition, personal use of County equipment and overtime pay for vacation time issues with each of the County departments. The County should consult with the County Attorney to determine the disposition of these matters.

Response – We will discuss these compliance issues with the County Attorney and implement appropriate procedures.

Conclusion – Response accepted.

06-5 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

06-6 Board Minutes – No transactions were found that we believe should have been approved in the Board of Supervisors minutes but were not.

06-7 Deposits and Investments – The County complied with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy except for the County Treasurer did not submit the investment reports required by Section 11 of the written investment policy which was in effect for almost the entire fiscal year and did not provide copies of the newly adopted written investment policy to all the entities listed in Section 1 of that policy.

Recommendation – The County Treasurer should have complied with the reporting requirements of Section 11 of the written investment policy which was in effect for almost the entire fiscal year (until June 26, 2006). Section 11 of that written investment policy stated that “the Treasurer shall submit at least monthly an investment report that summarizes recent market conditions and investment strategies employed since the last investment report. The investment report shall set out the current portfolio in terms of maturity, rates of return and other features and summarizes all investment transactions that have occurred during the reporting period and compare the investment results with the budgetary expectations. Copies of this report shall be sent to the independent auditor.” Also, Section 1 of the new written investment policy, which was approved on June 26, 2006, should have been complied with by issuing the new investment policy to all depository institutions or fiduciaries for public funds of Lyon County, the auditor engaged to audit any fund of Lyon County and to every fiduciary or third party assisting with or facilitating investment of the funds of Lyon County.

The County needs to establish procedures to ensure all aspects of the written investment policy are being complied with.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

Response – We will implement your recommendation.

Conclusion – Response accepted.

06-8 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).

06-9 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2006, for the County Extension Office did not exceed the amount budgeted.

The County Extension needs to review the “Findings Related to the Financial Statements” for reportable conditions that relate to the Extension or could improve the Extension’s internal control also.

There are no procedures in place to ensure there aren’t certain types of duplicated expenditures between Lyon and Osceola County Extensions related to the shared Extension Director position.

The Extension paid \$262 for Extension personnel and Council members to have a Christmas party.

The Extension needs to remove from the authorized signers’ lists individuals who are no longer authorized to make disbursements. The Extension needs to get bank accounts updated at all banks to include only the properly authorized signers.

Although the Extension did comply with Chapter 176A.8 (16) of the Code of Iowa, the Extension’s “FY06 Carryover Allowed by Law” report contained significant errors.

Recommendations – Procedures need to be established in correlation with Osceola County’s Extension to ensure that there is not any duplication of expenditures in relation to sharing the Extension Director position.

The Extension Council should determine and document the public purpose served by having a Christmas party before authorizing any further payments. If this practice is continued, the Extension should establish written policies and procedures, including requirements for proper documentation.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

The Extension needs to correct the authorized bank accounts signers' lists to allow only all eligible current officials/employees to make transactions. Procedures need to be established to ensure that individuals who are no longer authorized to make financial transactions are immediately removed from all authorized signers' lists and that the new individuals are properly authorized to do so on the signers' lists.

The Extension's "FY 06 Carryover Allowed by Law" report should be corrected and re-filed.

Response – We will attempt to implement your recommendations accordingly.

Conclusion – Response accepted.

06-10 Internal Revenue Service Reporting Compliance – The County is currently not reporting on employees' W-2s the non-cash taxable fringe benefit for any personal use, including commuting, of County provided vehicles that do not qualify as non-personal use vehicles in accordance with Internal Revenue Service standards.

Recommendation – The County should be determining the actual value of this fringe benefit for each employee and include this taxable value on the employee's W-2 income.

Response – We will evaluate this compliance issue.

Conclusion – Response accepted. The County should comply with the Internal Revenue Service Code.

06-11 CEBA Loan Agreement – The County is a conduit participant in a CEBA loan between the Iowa Department of Economic Development and a local business. Contrary to what the CEBA loan agreement states, the County has been informed by a CEBA project manager that the County's only responsibility is to monitor the payments made by the company.

Recommendation – The County needs to receive written confirmation from the Iowa Department of Economic Development that the County's only requirement to be considered in good standing with the CEBA loan agreement is to monitor the payments made by the Company. This written confirmation could be critical if the company defaults on the loan.

Response – We have been informed that the Department of Economic Development is in the process of finalizing the CEBA loan. However, we will continue to attempt to receive a written confirmation until we are informed in writing that our responsibilities are being satisfied.

Conclusion – Response accepted.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

06-12 Fuel Tax Refunds – It appears the County may have submitted for fuel tax refunds on gallons where the fuel tax was never charged in prior fiscal years.

Recommendation – For the prior fiscal years, the County needs to compare the fuel tax returns submitted to fuel invoices to verify the accuracy of the returns filed. If any errors are found, the County needs to submit amended fuel tax returns.

Response – We are in the process of evaluating your recommendation.

Conclusion – Response accepted.

06-13 Financial Condition – The Special Revenue, CS Projects and Conservation Land Acquisition Trust Fund had a deficit fund balance at June 30, 2006 of \$121,141.

Recommendation – The County should investigate alternatives to eliminate this deficit fund balance in order to return this fund to a sound financial position.

Response – The deficit was due to Lake Pahoja recreation trail project costs incurred prior to the receipt of an intergovernmental grant, a donation and operating transfers from the General Basic and REAP Funds. The deficit will be eliminated.

Conclusion – Response accepted.

06-14 Veteran Affairs and Emergency Management Meetings – Public notice was not provided for Veteran Affairs and Emergency Management meetings.

Recommendation – Veteran Affairs and Emergency Management meetings should be preceded by proper public notice in accordance with Chapter 21.4 of the Code of Iowa. Notice should be given of the time, date and place of each meeting, and its tentative agenda, in a manner reasonably calculated to apprise the public of that information.

Response – We will have the Veteran Affairs and Emergency Management give the proper notice when meetings are held.

Conclusion – Response accepted.

06-15 Public Hearing and Bidding Requirements – The County did not follow the public hearing and bidding requirements specified in Chapters 309.40 and 309.43 of the Code of Iowa for a road construction chip seal project.

Lyon County
Schedule of Findings
Year Ended June 30, 2006

Recommendation – Public hearing and bidding requirements should be followed for contracts for road or bridge construction work where the engineer’s estimate exceeds the amount authorized by the bid threshold committee per Chapter 314.1B of the Code of Iowa.

Response – The road construction chip seal project was unique due to several circumstances. We will comply with your recommendation in the future.

Conclusion – Response accepted.

Lyon County

Listing of Auditors

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
James Fisher, CPA, Assistant Auditor
Jerry Stubbe, Assistant Auditor
Stephenie Korthals, Assistant Auditor

De Noble & Company PC
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NEWS RELEASE

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CONTACTS: Wayne Grooters, County Auditor
LeAnn Krull, Deputy County Auditor
(712) 472-3713

De Noble & Company PC today released an audit report on Lyon County, Iowa.

The County had local tax revenue of \$13,730,187 for the year ended June 30, 2006, which included \$753,457 in tax credits from the state. The County forwarded \$9,773,486 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,956,701 of the local tax revenue to finance County operations, a 5.5 percent increase from the prior year. Other revenues included charges for service of \$1,231,224, operating grants, contributions and restricted interest of \$3,506,620, capital grants, contributions and restricted interest of \$3,011,607, tax increment financing of \$14,797, local option sales tax of \$383,787, unrestricted investment earnings of \$211,234 and other general revenues of \$189,903.

Expenses for County operations totaled \$8,808,020, a 10.3 percent increase from the prior year. Expenses included \$3,337,424 for Roads and Transportation, \$2,133,256 for Public Safety and Legal Services and \$917,693 for Mental Health.

There was a significant increase in revenues due to an increase in property taxes, capital project related grants and investment earnings. There was a significant increase in expenses in the Roads and Transportation, Public Safety and Legal Services, and Governmental Services to Residents functions.

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