

FRANKLIN COUNTY
Hampton, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

FRANKLIN COUNTY, IOWA
Hampton, Iowa

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**FRANKLIN COUNTY
Hampton, Iowa**

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Nolte	Board of Supervisors	January 2015
Jerry Plagge	Board of Supervisors	January 2015
Corey Eberling	Board of Supervisors	January 2013
Michelle Giddings	County Auditor.....	January 2013
Chad Murray	County Treasurer	January 2015
Toni Wilkinson	County Recorder	January 2015
Larry Richtsmeier	County Sheriff	January 2013
Daniel Wiechmann.....	County Attorney.....	January 2015
Danielle Naumann.....	County Assessor.....	Appointed



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Officials of Franklin County
Hampton, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Franklin County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County as of June 30, 2012, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013, on our consideration of Franklin County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 – 10 and 43 – 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Franklin County's financial statements as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 – 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organization, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

January 9, 2013

Gardiner Thomson, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- ◆ Revenues of the County's governmental activities increased by \$2,215,138, or approximately 17% from 2011 to 2012. Property taxes increased approximately \$77,199, including debt service, and grants and contributions increased by approximately \$2,072,017 from 2011 to 2012, largely due to an increase in DOT contributed infrastructure received during the fiscal year ended June 30, 2012. Charges for service increased by \$103,937.
- ◆ Program expenses of the County's governmental activities were \$495,833 or approximately 3.59% more in fiscal year 2012 than in fiscal year 2011. Roads and transportation expense increased approximately \$130,833 and Mental Health expenses increased approximately \$129,308.
- ◆ The County's net assets increased approximately \$934,019 or 5.66%, from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report Franklin 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 Franklin County acts solely as an agent or custodian for the benefit of those outside of County governments (Agency Funds).

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

- 2) Proprietary funds account for the County's Internal Service, Employee Group Health Fund. 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 which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for corporations, townships and the County Assessor, to name a few.

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

Reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Franklin County's combined net assets increased by \$934,019 from approximately \$16,496,780 to \$17,430,799. The analysis that follows focuses on the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	2012	2011
Assets:		
Current and Other Assets	\$14,871	\$21,796
Capital Assets	29,667	21,497
Total Assets	\$44,538	\$43,293
Current Liabilities	\$ 6,420	\$ 6,078
Long-Term Liabilities	20,687	20,718
Total Liabilities	\$27,107	\$26,796
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$15,226	\$13,654
Restricted	4,008	13,845
Unrestricted	(1,803)	(11,002)
Total Net Assets	\$17,431	\$16,497

Net assets of Franklin County's governmental activities increased by 5.66% (\$17.431 million compared to \$16.497 million). One of the largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

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

	Year Ended June 30,	
	2012	2011
Revenues:		
Program Revenues:		
Charges for Service	\$ 2,346	\$ 2,242
Operating Grants, Contributions and Restricted Interest	4,298	4,338
Capital Grants, Contributions and Restricted Interest	2,153	41
General Revenues:		
Property Tax – General Purpose	5,392	5,134
Property Tax – Debt Service	154	334
Penalty and Interest on Property Tax	37	44
State Tax Credits	190	210
Local Option Sales Tax	460	431
Tax Increment Financing	97	66
Unrestricted Investment Earnings	67	108
Other General Revenues	59	90
Total Revenues	15,253	13,038
Program Expenses:		
Public Safety and Legal Services	1,425	1,385
Physical Health and Social Services	1,961	1,857
Mental Health	1,359	1,230
County Environment and Education	678	712
Roads and Transportation	5,741	5,610
Government Services to Residents	422	414
Administration	1,602	1,480
Non-Program	463	414
Interest on Long-Term Debt	668	721
Total Expenses	14,319	13,823
Increase (Decrease) in Net Assets	934	(785)
Net Assets Beginning of Year	16,497	17,282
Net Assets End of Year	\$17,431	\$16,497

Governmental Activities

Revenues for Franklin County's governmental activities increased 16.98%, while total expenses increased 3.59%. The increase in net assets in governmental activities totaled \$934,019 in fiscal 2012.

Revenues for governmental activities were \$15,252,541 while expenses amounted to \$14,318,522.

The cost of all governmental activities this year was \$14,318,522. The portion of the cost financed by users of the County's programs was \$2,346,018. The federal and state governments and private contributors subsidized certain programs with grants and contributions totaling \$6,450,943. The net cost portion of governmental activities was financed with \$5,678,712 in property tax and penalties, \$190,228 in state tax credits, \$459,902 in local option sales tax, and \$66,929 in unrestricted interest income.

INDIVIDUAL MAJOR FUND ANALYSIS

As Franklin County completed the year, its governmental funds reported a combined fund balance of \$8,292,899, a decrease of \$7,242,536 overall from last year's total of \$15,535,435. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues were increased \$596,126 from last year partially due to the receipt of grant funds for the construction of the Rolling Prairie Trail. Expenditures increased by \$250,321 from last year. This increase can also be attributed to the Rolling Prairie Trail Project. The ending fund balances showed a decrease of \$496,050 from the prior year.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,346,355, an increase of 10% from the prior year. The Mental Health Fund balance at year ended increased by approximately \$88,618 from the prior year.
- Secondary Roads Fund expenditures increased by approximately \$487,815 from the prior year, due principally to road repair and equipment purchases. This increase in expenditures, along with a decrease in revenues of \$199,241, resulted in a decrease in the Secondary Roads Fund ending balance of approximately \$116,959, or 9% under the prior year.
- Rural Basic Fund balances increased by \$75,984.
- The Whispering Willow East Fund was established during the fiscal year ended June 30, 2010 to account for the tax increment financing associated with the Whispering Willow Wind Farm.
- There were no significant changes in the fund balance of the Debt Service Fund.
- The Capital Project Whispering Willow Fund was established during the fiscal year ended June 30, 2010 to account for the road improvement projects. The projects are progressing with \$6,164,232 spent this year.

BUDGETARY HIGHLIGHTS

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

Over the course of the year, Franklin County amended its budget two times. These amendments resulted in an increase in budgeted revenue of \$968,236, and an increase in budgeted expenditures of \$1,666,744. The County exceeded the budgeted amount in the debt service function during the year, however, an amendment was adopted in May 2012 so this function was not over expended at June 30, 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the County had \$39,343,097 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$9,432,919, or 38% over last year. More detailed information about capital assets is available in Note 4 to the financial statements.

Capital Assets at Year End of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2012	2011
Land	\$ 1,075	\$ 1,075
Buildings & Improvements	5,008	4,894
Machinery & Equipment	7,586	7,265
Infrastructure	21,472	14,264
Construction in Process	4,202	2,412
Totals	\$39,343	\$29,910
This year's major additions included (in thousands):		
Secondary Road Equipment	\$ 514	
Sheriff Department Vehicles	88	
Conservation Equipment	31	
Courthouse Basement Renovation	68	
Infrastructure	7,208	
	\$ 7,909	

The County had depreciation expense of \$1,564,928 for the year ended June 30, 2012 and total accumulated depreciation of \$9,676,550.

The County's fiscal year 2012 capital budget included \$9,134,208 for capital projects, \$7,882,054 for road construction and \$1,252,154 for conservation land acquisition.

Long-Term Debt

At June 30, 2012, Franklin County had approximately \$20,469,614 in notes and other debt (Landfill liability), compared to approximately \$20,584,536 at June 30, 2011, as shown below.

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

	June 30,	
	2012	2011
General Obligation Notes	\$ 351	\$ 414
General Obligation Bonds	18,520	18,665
Capital Lease Purchase Agreement	38	75
Drainage Warrants and Improvement Certificates	396	297
Compensated Absences	309	271
Postclosure Estimate	855	863
 Totals	 \$20,469	 \$20,585

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Franklin County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the current economic picture for Franklin County and its residents. Secondary Road Whispering Willow TIF projects were in full force in FY12. Many road projects were started, completed. The Special Project Fund involved expenses on the Law Enforcement Center and Courthouse basement renovation in FY12.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Franklin County's finances and to show the County's accountability for the money it expends and receives. If you have questions about this report or need additional financial information, contact the Franklin County Auditor's Office, 12 1st Ave NW, PO Box 26, Hampton, IA 50441.

FRANKLIN COUNTY
Hampton, Iowa
STATEMENT OF NET ASSETS
 June 30, 2012

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$ 8,048,178
Receivables:	
Property Tax:	
Delinquent	13,372
Succeeding Year	5,685,753
Interest & Penalty on Property Tax	426
Accounts	71,024
Accrued Interest	25,344
Drainage Assessments	51,488
Due From Other Governments	431,073
Inventories	466,093
Prepaid Insurance	78,629
Capital Assets (Net of Accumulated Depreciation)	29,666,547
TOTAL ASSETS	44,537,927
LIABILITIES	
Accounts Payable	375,797
Accrued Interest Payable	74,924
Salaries & Benefits Payable	99,775
Due To Other Governments	183,585
Deferred Revenue:	
Succeeding Year Property Tax	5,685,753
Long-Term Liabilities:	
Portion Due Or Payable Within One Year:	
Capital Lease Purchase Agreements	38,307
General Obligation Bonds	211,651
Compensated Absences	309,352
Portion Due Or Payable After One Year:	
General Obligation Bonds	18,659,391
Postclosure Care Costs	855,295
Drainage Warrants/Drainage Improvement Certificates Payable	395,618
Net OPEB Liability	217,680
TOTAL LIABILITIES	27,107,128
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	15,225,639
Restricted For:	
Supplemental Levy Purposes	344,575
Mental Health Purposes	286,474
Rural Services Purposes	729,336
Secondary Roads Purposes	1,037,491
Debt Service	28,893
Other Purposes	1,581,436
Unrestricted	(1,803,045)
TOTAL NET ASSETS	\$17,430,799

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

	Expenses	Program Revenues			Net (Expense) Revenue & Changes In Net Assets
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions And Restricted Interest	
FUNCTIONS/PROGRAMS:					
Governmental Activities:					
Public Safety and Legal Services	\$ 1,425,496	\$ 59,391	\$ 47,761	\$ 0	\$ (1,318,344)
Physical Health and Social Services	1,960,541	1,287,586	321,021	0	(351,934)
Mental Health	1,359,380	265,685	809,391	0	(284,304)
County Environment and Education	677,858	16,505	67,321	370,373	(223,659)
Roads and Transportation	5,740,799	149,256	3,030,091	1,782,575	(778,877)
Governmental Services to Residents	421,455	198,445	17,989	0	(205,021)
Administration	1,602,079	58,981	1,465	0	(1,541,633)
Non-Program	463,445	310,169	2,956	0	(150,320)
Interest and Fees on Long-Term Debt	667,469	0	0	0	(667,469)
TOTAL	\$14,318,522	\$2,346,018	\$4,297,995	\$2,152,948	(5,521,561)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					5,391,582
Debt Service					153,682
Penalty and Interest on Property Tax					36,861
State Tax Credits					190,228
Local Option Sales Tax					459,902
Tax Increment Financing					96,587
Unrestricted Investment Earnings					66,929
Miscellaneous					59,809
TOTAL GENERAL REVENUES					6,455,580
CHANGE IN NET ASSETS					934,019
NET ASSETS BEGINNING OF YEAR					16,496,780
NET ASSETS END OF YEAR					\$17,430,799

See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	Special Revenue	
		Mental Health	Rural Services
ASSETS			
Cash and Pooled Investments	\$2,078,693	\$451,535	\$ 705,278
Receivables:			
Property Tax:			
Delinquent	9,449	923	2,605
Succeeding Year	3,427,925	334,783	1,776,068
Interest & Penalty on Property Tax	426	0	0
Accounts	68,525	0	0
Accrued Interest	25,341	0	0
Drainage Assessments	0	0	0
Due From Other Governments	169,967	3,264	30,716
Inventories	0	0	0
Prepaid Insurance	78,629	0	0
TOTAL ASSETS	\$5,858,955	\$790,505	\$2,514,667
LIABILITIES & FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 62,105	\$ 15,035	\$ 7,395
Salaries & Benefits Payable	33,319	8,617	1,868
Interest Payable	0	0	0
Due To Other Governments	38,107	144,913	0
Compensated Absences	826	683	0
Deferred Revenue:	0		
Succeeding Year Property Tax	3,427,925	334,783	1,776,068
Other	30,487	849	2,143
Total Liabilities	3,592,769	504,880	1,787,474
Fund Balances			
Nonspendable:			
Inventories	0	0	0
Prepaid Insurance	78,629	0	0
Restricted For:			
Supplemental Levy Purposes	341,242	0	0
Mental Health Purposes	0	285,625	0
Rural Services Purposes	0	0	727,193
Secondary Roads Purposes	0	0	0
Drainage Warrants/Drainage Improvement Certificates	0	0	0
Conservation Land Acquisition	20,661	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Other Purposes	0	0	0
Committed for Election Equipment	20,000	0	0
Assigned	771,170	0	0
Unassigned	1,034,484	0	0
Total Fund Balances	2,266,186	285,625	727,193
TOTAL LIABILITIES & FUND BALANCES	\$5,858,955	\$790,505	\$2,514,667

See Notes To Financial Statements

Exhibit C

Special Revenue		Debt Service	Capital Projects		Total
Secondary Roads	Whispering Willow East		Whispering Willow	Nonmajor	
\$ 712,110	\$320,443	\$ 84,742	\$2,833,465	\$709,144	\$ 7,895,410
0	0	395	0	0	13,372
0	0	146,977	0	0	5,685,753
0	0	0	0	0	426
2,281	0	0	0	218	71,024
0	0	0	0	3	25,344
0	0	0	0	51,488	51,488
210,106	0	0	0	17,020	431,073
466,093	0	0	0	0	466,093
0	0	0	0	0	78,629
\$1,390,590	\$320,443	\$232,114	\$2,833,465	\$777,873	\$14,718,612
\$ 147,926	\$ 4,182	\$ 0	\$ 135,416	\$ 2,005	\$ 374,064
55,971	0	0	0	0	99,775
0	0	0	0	18,680	18,680
565	0	0	0	0	183,585
4,846	0	0	0	0	6,355
0	0	0	0	0	0
0	0	146,977	0	0	5,685,753
0	0	364	0	23,658	57,501
209,308	4,182	147,341	135,416	44,343	6,425,713
466,093	0	0	0	0	466,093
0	0	0	0	0	78,629
0	0	0	0	0	341,242
0	0	0	0	0	285,625
0	0	0	0	0	727,193
715,189	0	0	0	0	715,189
0	0	0	0	245,261	245,261
0	0	0	0	0	20,661
0	0	84,773	0	0	84,773
0	0	0	2,698,049	0	2,698,049
0	316,261	0	0	488,269	804,530
0	0	0	0	0	20,000
0	0	0	0	0	771,170
0	0	0	0	0	1,034,484
1,181,282	316,261	84,773	2,698,049	733,530	8,292,899
\$1,390,590	\$320,443	\$232,114	\$2,833,465	\$777,873	\$14,718,612

FRANKLIN COUNTY
Hampton, Iowa

RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total Governmental Fund Balances – Page 13 & 14 (Exhibit C) \$8,292,899

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$39,343,097 and the accumulated depreciation is \$9,676,550. 29,666,547

Other long-term assets are not available to pay current expenditures and, therefore, are deferred in the funds. 57,501

The Internal Service Fund is used by management to charge the costs 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. 151,035

Long-term liabilities, including capital lease purchase agreements payable, bonds payable, compensated absences payable, other post employment benefits payable, accrued interest payable, postclosure costs payable and drainage warrants and improvement certificates payable are not due and payable in the current period and, therefore, are not reported in the funds. (20,737,183)

Net Assets of Governmental Activities – Page 11 (Exhibit A) \$17,430,799

See Notes To Financial Statements.

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	Special Revenue		
	General	Mental Health	Rural Services
REVENUES:			
Property and Other County Tax	\$3,177,016	\$ 342,379	\$ 1,871,078
Local Option Sales Tax	0	0	153,301
Interest and Penalty on Property Tax	36,861	0	0
Intergovernmental	1,785,155	1,089,877	105,802
Licenses and Permits	11,338	0	19,650
Charges for Service	664,804	0	1,400
Use of Money and Property	63,744	0	0
Fines, Forfeitures and Defaults	560	0	0
Miscellaneous	49,899	2,717	2,362
Total Revenues	<u>5,789,377</u>	<u>1,434,973</u>	<u>2,153,593</u>
EXPENDITURES:			
Operating:			
Public Safety and Legal Services	985,422	0	425,059
Physical Health and Social Services	1,937,318	0	1,800
Mental Health	0	1,346,355	0
County Environment and Education	300,421	0	179,325
Roads and Transportation	0	0	0
Governmental Services to Residents	411,925	0	0
Administrative	1,591,498	0	3,258
Non – Program	0	0	0
Debt Service	0	0	0
Capital Projects	951,006	0	0
Total Expenditures	<u>6,177,590</u>	<u>1,346,355</u>	<u>609,442</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>(388,213)</u>	<u>88,618</u>	<u>1,544,151</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	0	0	0
Transfers In	991	0	0
Transfers Out	(108,828)	0	(1,468,167)
Drainage Warrants/Improvement Certificates Issued	0	0	0
Total Other Financing Sources (Uses)	<u>(107,837)</u>	<u>0</u>	<u>(1,468,167)</u>
Net Change in Fund Balances	(496,050)	88,618	75,984
Fund Balances Beginning of Year	2,762,236	197,007	651,209
Decrease in Reserve for Inventories	0	0	0
Fund Balances End of Year	<u>\$2,266,186</u>	<u>\$ 285,625</u>	<u>\$ 727,193</u>

See Notes to Financial Statements

Exhibit E

Special Revenue		Debt Service	Capital Projects		Nonmajor	Total
Secondary Roads	Whispering Willow East		Whispering Willow			
\$ 0	\$ 1,322	\$153,665	\$ 0	\$ 95,265	\$ 5,640,725	
153,300	0	0	0	153,301	459,902	
0	0	0	0	0	36,861	
3,038,153	0	5,375	0	65,294	6,089,656	
3,808	0	0	0	0	34,796	
7	0	0	0	2,735	668,946	
19,403	0	0	3,488	1,972	88,607	
0	0	0	0	0	560	
118,130	0	0	0	232,574	405,682	
3,332,801	1,322	159,040	3,488	551,141	13,425,735	
0	0	0	0	11,977	1,422,458	
0	0	0	0	0	1,939,118	
0	0	0	0	0	1,346,355	
0	0	0	0	177,673	657,419	
4,777,677	0	0	0	0	4,777,677	
0	0	0	0	1,188	413,113	
0	0	0	0	0	1,594,756	
0	0	0	0	599,601	599,601	
39,992	634,067	158,958	0	82,018	915,035	
202,968	0	0	6,164,232	0	7,318,206	
5,020,637	634,067	158,958	6,164,232	872,457	20,983,738	
(1,687,836)	(632,745)	82	(6,160,744)	(321,316)	(7,558,003)	
14,750	0	0	0	0	14,750	
1,576,995	0	0	0	0	1,577,986	
0	0	0	0	(991)	(1,577,986)	
0	0	0	0	321,585	321,585	
1,591,745	0	0	0	320,594	336,335	
(96,091)	(632,745)	82	(6,160,744)	(722)	(7,221,668)	
1,298,241	949,006	84,691	8,858,793	734,252	15,535,435	
(20,868)	0	0	0	0	(20,868)	
\$ 1,181,282	\$ 316,261	\$ 84,773	\$ 2,698,049	\$ 733,530	\$ 8,292,899	

**FRANKLIN COUNTY
Hampton, Iowa**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2012

**Net Change in Fund Balances - Total Governmental Funds –
Page 16 & 17 (Exhibit E)** **\$ (7,221,668)**

*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	\$7,973,437	
Capital Assets Contributed by Others	1,782,575	
Depreciation Expense	<u>(1,564,928)</u>	8,191,084

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (21,131)

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

Property Tax	1,126	
Other	<u>(37,554)</u>	(36,428)

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

Issued	(324,034)	
Repaid	<u>477,333</u>	153,299

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	(33,604)	
Other Post Employment Benefits	(83,800)	
Interest on Long-Term Debt	<u>2,990</u>	(114,414)

Inventories in the governmental funds have been recorded as expenditures when paid. However, the statement of activities will report these items as expenditures in the period that the corresponding net asset is exhausted. (20,868)

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. 4,145

Change in Net Assets of Governmental Activities – Page 12 (Exhibit B) **\$ 934,019**

See Notes to Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012**

	<u>Internal Service Employee Group Health</u>
ASSETS	
Cash and Cash Equivalents	<u>\$152,768</u>
Total Assets	<u><u>\$152,768</u></u>
 LIABILITIES	
Accounts Payable	<u>\$ 1,733</u>
 NET ASSETS	
Unrestricted	<u><u>\$151,035</u></u>

See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2012

	Internal Service Employee Group Health
OPERATING REVENUES:	
Reimbursements From Operating Funds	\$1,243,665
Reimbursements From Employees	107,452
Other Reimbursements	19,220
Total Operating Revenues	<u>1,370,337</u>
OPERATING EXPENSES:	
Claims Paid	32,120
Insurance Premiums	1,332,063
Administrative Fees	2,009
Total Operating Expenses	<u>1,366,192</u>
Net Income	4,145
Net Assets Beginning of Year	<u>146,890</u>
Net Assets End of Year	<u><u>\$ 151,035</u></u>

See Notes to Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2012

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received From Operating Fund Reimbursements	\$ 1,243,665
Cash Received From Employees and Others	126,672
Cash Payments To Suppliers for Services	<u>(1,369,761)</u>
Net Cash Provided by Operating Activities	<u>576</u>
Cash & Cash Equivalents Beginning of Year	<u>152,192</u>
Cash & Cash Equivalents End of Year	<u>\$ 152,768</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 4,145
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Decrease In Accounts Payable	<u>(3,569)</u>
Net Cash Provided by Operating Activities	<u>\$ 576</u>

See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2012

ASSETS

Cash & Pooled Investments:	
County Treasurer	\$ 987,153
Other County Officials	8,118
Receivables:	
Property Tax:	
Delinquent	2,817
Succeeding Year	13,433,481
Accounts	10,437
Accrued Interest	24
Assessments	83,184
Due From Other Governments	6
TOTAL ASSETS	<u>14,525,220</u>

LIABILITIES

Accounts Payable	9,144
Due To Other Governments	14,465,785
Trusts Payable	41,139
Compensated Absences	9,152
TOTAL LIABILITIES	<u>14,525,220</u>

NET ASSETS

See Notes To Financial Statements

\$ 0

FRANKLIN COUNTY
Hampton, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

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

A. REPORTING ENTITY

For financial reporting purposes, Franklin County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

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

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

Two hundred seventy four drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Franklin County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Franklin County Auditor's office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Franklin County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Franklin County Assessor's Conference Board, and Franklin County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue (Continued)

The Secondary Roads Fund is used to account for the road use allocation from the State of Iowa, required transfers from the General and the Special Revenue, Rural Services funds and other revenues to be used for secondary road construction and maintenance.

The Whispering Willow East Fund is used to account for the tax increment financing of the Whispering Willow Wind Farm projects.

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

The Capital Projects Whispering Willow Fund is used to account for all resources used in the road improvement projects in the TIF area.

Additionally the County reports the following funds:

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

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

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

D. ASSETS, LIABILITIES AND FUND EQUITY

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

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

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

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2011.

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Supervisors through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned – Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned – All amounts not included in other classifications.

Net Assets – The net assets of the Internal Service, 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, 2012, disbursements exceeded the amounts budgeted in the debt service function.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Iowa Public Agency Investment Trust which are valued at amortized cost of \$120,545, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Notes to Financial Statements (Continued)

Note 2: Cash and Pooled Investments (Continued)

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

Concentration of credit risk. The County places no limit on the amount that may be invested in any one issuer.

Note 3: Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
General Fund	Special Revenue:	
	Hwy 65 Urban Renewal	\$ 989
	Debt Service	2
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	1,468,167
Secondary Roads	General Fund	108,828
Total		<u>\$1,577,986</u>

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

Note 4: Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
Capital assets, not being depreciated/amortized:				
Land	\$ 1,074,647	\$ 0	\$ 0	\$ 1,074,647
Construction in progress	2,412,050	3,849,809	2,059,756	4,202,103
Total capital assets, not being depreciated/amortized	<u>3,486,697</u>	<u>3,849,809</u>	<u>2,059,756</u>	<u>5,276,750</u>
Capital assets, being depreciated/amortized:				
Buildings	2,126,847	0	0	2,126,847
Improvements other than buildings	2,767,319	113,540	0	2,880,859
Machinery and equipment	7,265,069	644,352	323,094	7,586,327
Infrastructure	14,264,246	7,208,068	0	21,472,314
Total capital assets, being depreciated/amortized	<u>26,423,481</u>	<u>7,965,960</u>	<u>323,094</u>	<u>34,066,347</u>
Less accumulated depreciation/amortization for:				
Buildings	627,348	41,512	0	668,860
Improvements other than buildings	161,260	63,727	0	224,987
Machinery and equipment	4,601,586	507,676	301,963	4,807,299
Infrastructure	3,023,391	952,013	0	3,975,404
Total accumulated depreciation/amortization	<u>8,413,585</u>	<u>1,564,928</u>	<u>301,963</u>	<u>9,676,550</u>
Total capital assets, being depreciated/amortized, net	<u>18,009,896</u>	<u>6,401,032</u>	<u>21,131</u>	<u>24,389,797</u>
Governmental activities capital assets, net	<u>\$21,496,593</u>	<u>\$10,250,841</u>	<u>\$2,080,887</u>	<u>\$29,666,547</u>

Notes to Financial Statements (Continued)

Note 4: Capital Assets (Continued)

Depreciation/amortization expense was charged to the following functions:

Public Safety and Legal Services	\$ 76,577
Physical Health and Social Services	10,802
Mental Health	7,264
County Environment and Education	38,086
Roads and Transportation	1,337,782
Governmental Services to Residents	1,654
Administration	<u>92,763</u>
Total depreciation/amortization expense – governmental activities	<u>\$1,564,928</u>

Note 5: Due to Other Governments

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

Fund	Description	Amount
General	Services	\$ 38,107
Special Revenue:		
Mental Health	Services	144,913
Secondary Roads	Services	<u>565</u>
Total for governmental funds		<u>\$ 183,585</u>
Agency:		
Agricultural Extension	Collections	\$ 184,213
Assessor		455,453
Schools		8,334,200
Community Colleges		579,040
Corporations		2,804,164
Auto License & Use Tax		238,250
All Others		<u>1,870,465</u>
Total for agency funds		<u>\$14,465,785</u>

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012, is as follows:

	General Obligation Notes	General Obligation Bonds	Estimated Liability for Landfill Postclosure Care Costs	Capital Lease Purchase	Drainage Warrants
Balance Beginning of Year	\$413,926	\$18,665,000	\$862,675	\$74,999	\$266,953
Increases	0	0	0	0	321,585
Decreases	62,884	145,000	7,380	36,692	216,578
Balance End of Year	<u>\$351,042</u>	<u>\$18,520,000</u>	<u>\$855,295</u>	<u>\$38,307</u>	<u>\$371,960</u>
Due Within One Year	<u>\$ 66,651</u>	<u>\$ 145,000</u>	<u>\$ 0</u>	<u>\$38,307</u>	<u>\$ 0</u>

	Drainage Improvement Certificates	Compensated Absences	Total
Balance Beginning of Year	\$30,007	\$270,974	\$20,584,534
Increases	2,449	32,022	356,056
Decreases	8,798	0	477,332
Balance End of Year	<u>\$23,658</u>	<u>\$302,996</u>	<u>\$20,463,258</u>
Due Within One Year	<u>\$ 3,429</u>	<u>\$302,996</u>	<u>\$ 556,383</u>

Notes Payable

During the fiscal year ended June 30, 2007, the County issued debt to finance the Northern Pipe Urban Renewal Project.

A summary of the County's June 30, 2012 general obligations note indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2013	5.95%	\$ 49,651	\$5,238	\$ 54,889
2014	5.95%	53,391	2,428	55,819
		<u>\$103,042</u>	<u>\$7,666</u>	<u>\$110,708</u>

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

During the fiscal year ended June 30, 2009, Franklin County issued \$280,000 of General Obligation Urban Renewable Economic Development Notes to fund an economic development grant in connection with the Dows Travel Center Project.

A summary of the County's June 30, 2012 general obligation note indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2013	2.85%	\$ 17,000	\$10,612	\$ 27,612
2014	3.10%	18,000	10,128	28,128
2015	3.35%	18,000	9,570	27,570
2016	3.60%	19,000	8,966	27,966
2017-2021	3.85-4.85%	104,000	33,079	137,079
2022-2024	5.10-5.30%	72,000	7,644	79,644
		<u>\$248,000</u>	<u>\$79,999</u>	<u>\$327,999</u>

Bonds Payable

During the fiscal year ended June 30, 2006, Franklin County issued \$1,865,000 of General Obligation County Purpose Bonds to finance the restoration of the Courthouse Clock Tower, Courthouse Remodeling, and other capital expenditures. The Bonds were refunded in fiscal 2010 by the issuance of \$895,000 General Obligation Refunding Bonds. The County saved approximately \$36,000 by refunding the County Purpose Bonds.

A summary of the County's June 30, 2012 general obligation bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2013	1.40%	\$145,000	\$11,862	\$156,862
2014	1.75%	150,000	9,833	159,833
2015	2.15%	155,000	7,207	162,207
2016	2.50%	155,000	3,875	158,875
		<u>\$605,000</u>	<u>\$32,777</u>	<u>\$637,777</u>

During the year ended June 30, 2010, Franklin County issued \$17,915,000 of General Obligation Urban Renewal Road Improvement Bonds to finance, along with other available funds, the costs of various 2010 County Road projects. The Bonds are binding general obligations of the County, and are payable from general ad valorem taxes, as well as tax increment financing revenues from the Urban Renewal Area.

A summary of the County's June 30, 2012 general obligation bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2013	2.15%	\$ 0	\$ 628,135	\$ 628,135
2014	2.15%	265,000	628,135	893,135
2015	2.50%	690,000	622,438	1,312,438
2016	2.75%	1,220,000	605,187	1,825,187
2017-2021	3.00-3.70%	8,125,000	2,361,278	10,486,278
2022-2025	3.80-4.05%	7,615,000	772,910	8,387,910
		<u>\$17,915,000</u>	<u>\$5,618,083</u>	<u>\$23,533,083</u>

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

Capital Lease Purchase Agreement

On December 30, 2009, the Secondary Road Department entered into a Capital Lease Agreement for the purchase of a Cat Wheel Loader. The agreement was for \$155,100 with a \$43,000 down payment of the day of the agreement. Payments are due annually on August 1, for three years, commencing August 1, 2010.

The following is a schedule of the future minimum lease payments, including interest at a rate of 4.4%, and the present value of net minimum lease payments under the agreement in effect at June 30, 2012.

Year Ending June 30, 2013	<u>\$39,992</u>
Total Minimum Lease Payments	<u>39,992</u>
Less Amount Representing Interest	<u>1,685</u>
Present Value of Net Minimum Lease Payments	<u>\$38,307</u>

Landfill – Postclosure Care Costs

State and Federal Laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County stopped accepting waste at the landfill on June 20, 1994. The County closed the landfill during the year ended June 30, 1995, incurring a total cost of \$100,118. The County has also incurred \$173,705 for the years ended June 30, 1996 through 2012, in costs for postclosure expenditures. The \$855,295 reported as estimated liability for landfill postclosure costs at June 30, 2012, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all postclosure care during the year ended June 30, 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Drainage Warrants/Drainage Improvement Certificates

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

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

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

Notes to Financial Statements (Continued)

Note 7: 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 5.38% of their annual covered salary and the County is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$340,552, \$285,346, and \$260,223, equal to the required contributions for each year.

Note 8: Risk Management

Franklin County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2012 was \$180,083.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

Notes to Financial Statements (Continued)

Note 8: Risk Management (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2012, no liability has been recorded in the County's financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

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

Note 9: Employee Health Insurance Plan

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

Monthly payments of service fees and plan contributions to the Franklin County Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative service agreement, monthly payments of premiums and service fees are paid to Wellmark from the Franklin County Employee Group Health Fund. The County records the plan assets and related liabilities of the Franklin County Employee Group Health Fund as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2012 was \$1,243,665.

Note 10: Other Postemployment Benefits (OPEB)

Franklin County implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions during the year ended June 30, 2010.

Plan Description. The County operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 93 active and 2 retired members in the plan. Employees must be age 55 or older at retirement.

Notes to Financial Statements (Continued)

Note 10: Other Postemployment Benefits (OPEB) (Continued)

The medical/prescription drug benefit, which is a premium based medical plan, is administered by Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost is calculated based on the annual required contribution of the County (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The table shows the components of the County's annual OPEB cost for June 30, 2012, the amount actually contributed to the plan and the changes in the County's net OPEB obligation:

Annual required contribution	\$ 90,314
Interest on net OPEB obligation	3,347
Adjustment to annual required contribution	(8,584)
Annual OPEB cost (expense)	<u>85,077</u>
Contributions made	<u>1,277</u>
Increase in net OPEB obligation	83,800
Net OPEB obligation – beginning of year	<u>133,880</u>
Net OPEB obligation – end of the year	<u><u>\$217,680</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plan's actual contributions for the year ended June 30, 2012.

For the fiscal year 2012, the County contributed \$1,277 to the medical plan. Plan members receiving benefits contributed \$16,069, or 93% of the premium costs.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$77,437	1.26%	\$ 67,649
June 30, 2011	83,815	14.28	133,880
June 30, 2012	90,314	1.41	217,680

Funded Status and Funding Progress. As of July 17, 2012, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$557,578, with no actuarial value of assets, resulting in an unfunded actuarial liability (UAAL) of \$557,578. The covered payroll (annual payroll of active employees covered by the plan) was \$3,889,915, and the ratio of the UAAL to the covered payroll was 14.33%. As of June 30, 2012, there were no trust fund assets.

Notes to Financial Statements (Continued)

Note 10: Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

As of July 17, 2012 actuarial date, the Frozen Entry Age Actuarial Cost method was used. The actuarial assumptions included a 2.5% discount rate based on the County's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2007 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$480 per month for retirees less than 65. The UAAL is being amortized on a level dollar basis over 30 years.

Note 11: Landfill of North Iowa

Franklin County, in conjunction with seventeen other municipalities, has created the Landfill of North Iowa. The Landfill was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Landfill will be prorated among the municipalities. The Landfill is governed by a board composed of an appointed representative of the governing body of each participating governmental jurisdiction.

The Landfill is not accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, Franklin County has an ongoing financial responsibility. The County is also obligated to remit a share of the operating administration costs. During the year ended June 30, 2012, Franklin County paid \$5,954 for its share of the costs. Completed financial statements for the Landfill can be obtained from the Landfill of North Iowa.

Notes to Financial Statements (Continued)

Note 12: Subsequent Events

Management evaluated subsequent events through January 9, 2013, the date the financial statements were available to be issued.

FRANKLIN COUNTY
Hampton, Iowa

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2012

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS:						
Property & Other County Tax	\$ 6,087,272	\$ 0	\$ 6,087,272	\$ 5,985,214	\$ 6,015,214	\$ 72,058
Interest & Penalty on Property Tax	36,477	0	36,477	10,275	10,275	26,202
Intergovernmental	6,156,954	22,884	6,134,070	6,172,028	6,963,932	(829,862)
Licenses & Permits	34,228	0	34,228	11,300	29,300	4,928
Charges for Services	679,412	0	679,412	635,685	635,685	43,727
Use of Money & Property	84,087	0	84,087	17,010	18,072	66,015
Miscellaneous	425,201	239,341	185,860	56,365	183,635	2,225
Total Receipts	13,503,631	262,225	13,241,406	12,887,877	13,856,113	(614,707)
DISBURSEMENTS:						
Public Safety & Legal Services	1,412,642	0	1,412,642	1,680,056	1,720,920	308,278
Physical Health & Social Services	1,942,597	0	1,942,597	1,951,158	1,994,634	52,037
Mental Health	1,310,063	0	1,310,063	1,426,923	1,587,164	277,101
County Environment & Education	676,216	0	676,216	780,310	862,769	186,553
Roads & Transportation	4,782,355	0	4,782,355	4,271,000	4,977,600	195,245
Governmental Services to Residents	412,079	0	412,079	469,984	469,984	57,905
Administrative Services	1,636,720	0	1,636,720	1,538,776	2,139,737	503,017
Non - Program	591,656	591,656	0	0	0	0
Debt Service	910,853	0	910,853	870,998	912,241	1,388
Capital Projects	7,256,752	0	7,256,752	9,143,308	9,134,208	1,877,456
Total Disbursements	20,931,933	591,656	20,340,277	22,132,513	23,799,257	3,458,980
Excess (Deficiency) of Receipts Over (Under) Disbursements	(7,428,302)	(329,431)	(7,098,871)	(9,244,636)	(9,943,144)	2,844,273
Other Financing Sources, Net	336,335	321,585	14,750	3,000	3,000	11,750
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements	(7,091,967)	(7,846)	(7,084,121)	(9,241,636)	(9,940,144)	2,856,023
Balance Beginning of Year	14,987,377	243,957	14,743,420	12,257,222	12,257,222	2,486,198
Balance End of Year	\$ 7,895,410	\$ 236,111	\$ 7,659,299	\$ 3,015,586	\$ 2,317,078	\$ 5,342,221

See Accompanying Independent Auditors' Report

FRANKLIN COUNTY
Hampton, Iowa

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2012

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$13,503,631	\$ (77,896)	\$13,425,735
Expenditures	20,931,933	51,805	20,983,738
Net	(7,428,302)	(129,701)	(7,558,003)
Other Financing Sources – Net	336,335	0	336,335
Beginning Fund Balances	14,987,377	548,058	15,535,435
Decrease in Reserve For:			
Inventories	0	(20,868)	(20,868)
Ending Fund Balances	\$ 7,895,410	\$ 397,489	\$ 8,292,899

See Accompanying Independent Auditors' Report

Franklin County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$1,666,744. 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.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

Franklin County

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan (In Thousands)

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
2010	July 1, 2009	\$0	\$622	\$622	0%	\$3,663	16.90%
2011	July 1, 2009	\$0	\$622	\$622	0%	\$3,782	16.45%
2012	July 17, 2012	\$0	\$558	\$558	0%	\$3,890	14.33%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB costs and Net OPEB Obligation, and the funded status and funding progress.

FRANKLIN COUNTY
Hampton, Iowa

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Landfill	County Recorder's Records Management & Protection	Resource Enhancement & Protection	Rural County Betterment
ASSETS				
Cash & Pooled Investments	\$220,602	\$14,117	\$85,745	\$66,389
Receivables:				
Accounts	0	218	0	0
Accrued Interest	0	0	0	0
Drainage Assessments	0	0	0	0
Due From Other Governments	0	0	0	17,020
TOTAL ASSETS	\$220,602	\$14,335	\$85,745	\$83,409
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 1,984	\$ 0	\$ 0	\$ 0
Interest Payable	0	0	0	0
Deferred Revenue	0	0	0	0
Total Liabilities	1,984	0	0	0
Fund Balances:				
Restricted For:				
Drainage Warrants/Improvement Certificates	0	0	0	0
Other Purposes	218,618	14,335	85,745	83,409
Total Fund Equity	218,618	14,335	85,745	83,409
TOTAL LIABILITIES AND FUND BALANCES	\$220,602	\$14,335	\$85,745	\$83,409

See Accompanying Independent Auditors' Report

Schedule 1

Northern Pipe Urban Renewal	Dows Travel Center Urban Renewal	Drainage	Sheriff's Forfeiture	Attorney Forfeiture	Memorial Hall Wolf Bequest	Total
\$41,604	\$13,274	\$236,111	\$14,457	\$5,034	\$11,811	\$709,144
0	0	0	0	0	0	218
0	0	0	1	0	2	3
0	0	51,488	0	0	0	51,488
0	0	0	0	0	0	17,020
<u>\$41,604</u>	<u>\$13,274</u>	<u>\$287,599</u>	<u>\$14,458</u>	<u>\$5,034</u>	<u>\$11,813</u>	<u>\$777,873</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 21	\$ 0	\$ 2,005
0	0	18,680	0	0	0	18,680
0	0	23,658	0	0	0	23,658
0	0	42,338	0	21	0	44,343
0	0	245,261	0	0	0	245,261
41,604	13,274	0	14,458	5,013	11,813	488,269
41,604	13,274	245,261	14,458	5,013	11,813	733,530
<u>\$41,604</u>	<u>\$13,274</u>	<u>\$287,599</u>	<u>\$14,458</u>	<u>\$5,034</u>	<u>\$11,813</u>	<u>\$777,873</u>

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	Landfill	County Recorder's Records Management	Resource Enhancement & Protection	Rural County Betterment	Highway 65 Urban Renewal
Revenues:					
Property and Other County Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Local Option Sales Tax	0	0	0	153,301	0
Intergovernmental	47,235	0	10,086	0	0
Charges for Services	0	2,735	0	0	0
Use of Money and Property	1,672	6	201	0	0
Miscellaneous	665	0	0	0	0
Total Revenues	<u>49,572</u>	<u>2,741</u>	<u>10,287</u>	<u>153,301</u>	<u>0</u>
Expenditures:					
Operating:					
Public Safety and Legal Services	0	0	0	10,000	0
County Environment and Education	21,346	0	3,200	153,127	0
Non-Program	0	1,188	0	0	0
Debt Service	0	0	0	0	0
Capital Projects	0	0	0	0	0
Total Expenditures	<u>21,346</u>	<u>1,188</u>	<u>3,200</u>	<u>163,127</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>28,226</u>	<u>1,553</u>	<u>7,087</u>	<u>(9,826)</u>	<u>0</u>
Other Financing Sources:					
Operating Transfers In	0	0	0	0	(989)
Drainage Warrants/Improvement Certificates Issued	0	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(989)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>28,226</u>	<u>1,553</u>	<u>7,087</u>	<u>(9,826)</u>	<u>(989)</u>
Fund Balances Beginning of Year, as Restated	<u>190,392</u>	<u>12,782</u>	<u>78,658</u>	<u>93,235</u>	<u>989</u>
Fund Balances End of Year	<u>\$218,618</u>	<u>\$14,335</u>	<u>\$85,745</u>	<u>\$ 83,409</u>	<u>\$ 0</u>

See Accompanying Independent Auditors' Report

Schedule 2

Northern Pipe Urban Renewal	Dows Travel Center Urban Renewal	Drainage	Sheriff's Forfeiture	Attorney Forfeiture	Memorial Hall Wolf Bequest	Capital Projects	Total
\$55,280	\$39,985	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 95,265
0	0	0	0	0	0	0	153,301
0	0	7,973	0	0	0	0	65,294
0	0	0	0	0	0	0	2,735
0	0	0	38	9	46	0	1,972
0	0	226,137	5,772	0	0	0	232,574
55,280	39,985	234,110	5,810	9	46	0	551,141
0	0	0	1,956	21	0	0	11,977
0	0	0	0	0	0	0	177,673
0	0	0	0	0	0	0	1,188
0	0	599,601	0	0	0	0	599,601
54,990	27,028	0	0	0	0	0	82,018
54,990	27,028	599,601	1,956	21	0	0	872,457
290	12,957	(365,491)	3,854	(12)	46	0	(321,316)
0	0	0	0	0	0	(2)	(991)
0	0	321,585	0	0	0	0	321,585
0	0	321,585	0	0	0	(2)	320,594
290	12,957	(43,906)	3,854	(12)	46	(2)	(722)
41,314	317	289,167	10,604	5,025	11,767	2	734,252
\$41,604	\$13,274	\$245,261	\$14,458	\$5,013	\$11,813	\$ 0	\$ 733,530

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2012

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash and Pooled Investments:				
County Treasurer	\$ 0	\$ 3,228	\$166,495	\$ 90,610
Other County Officials	8,118	0	0	0
Receivables:				
Property Tax:				
Delinquent	0	40	67	2,093
Succeeding Year	0	180,945	305,847	8,241,497
Accounts	917	0	0	0
Accrued Interest	0	0	0	0
Assessments	0	0	0	0
Due From Other Governments	0	0	6	0
TOTAL ASSETS	\$9,035	\$184,213	\$472,415	\$8,334,200
LIABILITIES				
Accounts Payable	\$ 0	\$ 0	\$ 8,495	\$ 0
Due to Other Governments	880	184,213	455,453	8,334,200
Trusts Payable	8,155	0	0	0
Compensated Absences	0	0	8,467	0
TOTAL LIABILITIES	\$9,035	\$184,213	\$472,415	\$8,334,200

See Accompanying Independent Auditors' Report

Schedule 3

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$ 5,938	\$ 32,084	\$ 1,391	\$ 1,966	\$238,250	\$ 447,191	\$ 987,153
0	0	0	0	0	0	8,118
88	227	59	0	0	243	2,817
573,014	2,771,853	146,887	0	0	1,213,438	13,433,481
0	0	0	0	0	9,520	10,437
0	0	0	0	0	24	24
0	0	0	83,184	0	0	83,184
0	0	0	0	0	0	6
\$579,040	\$2,804,164	\$148,337	\$85,150	\$238,250	\$1,670,416	\$14,525,220
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 649	\$ 9,144
579,040	2,804,164	148,337	85,150	238,250	1,636,098	14,465,785
0	0	0	0	0	32,984	41,139
0	0	0	0	0	685	9,152
\$579,040	\$2,804,164	\$148,337	\$85,150	\$238,250	\$1,670,416	\$14,525,220

FRANKLIN COUNTY
Hampton, Iowa

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS**
Year Ended June 30, 2012

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances Beginning of Year	\$ 15,547	\$153,815	\$328,446	\$8,573,803
Additions:				
Property and Other County Tax	0	185,364	310,850	8,489,213
E911 Surcharge	0	0	0	0
State Tax Credits	0	5,432	6,128	309,119
Drivers License Fees	0	0	0	0
Office Fees and Collections	298,840	0	0	0
Auto Licenses, Use Tax and Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	1,755,152	0	0	0
Miscellaneous	0	42	1,895	2,724
Total Additions	<u>2,053,992</u>	<u>190,838</u>	<u>318,873</u>	<u>8,801,056</u>
Deductions:				
Agency Remittances:				
To Other Funds	179,255	0	0	0
To Other Governments	120,213	160,440	174,904	9,040,659
Trusts Paid Out	1,761,036	0	0	0
Total Deductions	<u>2,060,504</u>	<u>160,440</u>	<u>174,904</u>	<u>9,040,659</u>
Balances End of Year	<u>\$ 9,035</u>	<u>\$184,213</u>	<u>\$472,415</u>	<u>\$8,334,200</u>

See Accompanying Independent Auditors' Report

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Totals
\$591,506	\$2,344,312	\$144,388	\$142,718	\$ 253,541	\$1,742,904	\$14,290,980
			0			
591,047	2,756,134	150,591	0	0	1,252,901	13,736,100
0	0	0	0	0	53,580	53,580
20,428	87,544	4,974	0	0	48,534	482,159
0	0	0	0	30,718	0	30,718
0	0	0	0	0	0	298,840
0	0	0	0	3,237,353	0	3,237,353
0	0	0	1,125	0	0	1,125
0	0	0	0	0	175,767	1,930,919
113	2,382	0	0	0	38,223	45,379
611,588	2,846,060	155,565	1,125	3,268,071	1,569,005	19,816,173
0	0	0	0	117,134	0	296,389
624,054	2,386,208	151,616	58,693	3,166,228	1,478,425	17,361,440
0	0	0	0	0	163,068	1,924,104
624,054	2,386,208	151,616	58,693	3,283,362	1,641,493	19,581,933
\$579,040	\$2,804,164	\$148,337	\$ 85,150	\$ 238,250	\$1,670,416	\$14,525,220

FRANKLIN COUNTY
Hampton, Iowa

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

For the Last Ten Years

	Modified Accrual Basis			
	2012	2011	2010	2009
Revenues:				
Property & Other County Tax	\$ 5,640,725	\$ 5,533,651	\$ 5,321,335	\$ 5,005,231
Local Option Sales Tax	459,902	430,665	460,365	416,353
Interest & Penalty On Property Tax	36,861	44,335	41,339	38,270
Intergovernmental	6,089,656	5,608,930	5,207,206	5,301,453
Licenses & Permits	34,796	15,450	17,075	69,518
Charges For Service	668,946	665,080	674,883	701,473
Use of Money & Property	88,607	122,262	415,149	180,822
Miscellaneous	406,242	452,800	400,927	989,225
Total	<u>\$13,425,735</u>	<u>\$12,873,173</u>	<u>\$12,538,279</u>	<u>\$12,702,345</u>
Expenditures:				
Operating:				
Public Safety & Legal Services	\$ 1,422,458	\$ 1,391,026	\$ 1,324,343	\$ 1,347,201
Physical Health & Social Services	1,939,118	1,830,637	1,734,045	1,719,999
Mental Health	1,346,355	1,219,112	1,026,945	1,076,638
County Environment & Education Services	657,419	782,225	591,970	928,555
Roads & Transportation	4,777,677	4,360,339	4,879,566	4,269,560
Governmental Services To Residents	413,113	416,181	416,889	343,619
Administrative Services	1,594,756	2,299,237	1,681,685	1,413,255
Non-Program	599,601	470,588	938,659	391,507
Debt Services	915,035	1,131,891	1,748,734	433,668
Capital Projects	7,318,206	7,094,795	571,585	487,344
Total	<u>\$20,983,738</u>	<u>\$20,996,031</u>	<u>\$14,914,421</u>	<u>\$12,411,346</u>

See Accompanying Independent Auditors' Report

Schedule 5

Modified Accrual Basis

2008	2007	2006	2005	2004	2003
\$ 4,723,132	\$ 4,502,328	\$ 4,158,756	\$4,081,938	\$3,883,153	\$3,836,049
385,184	432,704	353,164	317,941	339,015	324,856
31,114	30,992	28,600	34,055	27,087	27,745
5,253,937	5,054,862	4,546,289	4,197,553	4,216,205	3,680,055
17,118	9,890	13,047	8,169	4,850	3,015
718,725	627,225	536,805	557,917	476,618	474,960
231,306	277,305	264,019	123,448	80,141	103,768
177,600	498,169	300,446	136,784	355,073	210,219
\$11,538,116	\$11,433,475	\$10,201,126	\$9,457,805	\$9,382,142	\$8,660,667
\$ 1,618,405	\$ 1,650,947	\$ 1,607,465	\$1,065,327	\$1,011,949	\$1,026,679
1,666,620	1,461,638	1,400,209	1,224,960	1,218,394	1,255,053
1,191,752	1,057,193	1,221,761	1,032,808	1,005,413	995,789
617,456	612,619	535,013	476,768	507,341	943,424
3,913,208	3,713,721	3,587,349	2,964,754	2,708,995	3,013,516
303,601	325,827	481,711	297,391	248,222	234,555
1,426,991	1,612,365	1,444,700	1,196,279	1,309,166	1,207,662
116,516	391,050	479,641	52,097	164,159	301,484
411,419	391,603	283,943	63,000	32,488	7,796
208,306	180,253	1,894,508	13,955	633,578	9,053
\$11,474,274	\$11,397,216	\$12,936,300	\$8,387,339	\$8,839,705	\$8,995,011

Franklin County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Grantor/Program	CFDA Numbers	Agency or Pass-Through Number	Program Expenditures
Indirect			
U.S Department of Agriculture			
Iowa Department of Human Services			
Human Services Administrative			
Reimbursements			
State Administrative Matching Grants for the			
Supplemental Nutrition Assistance Program	10.561		\$ 3,370
U.S. Department of Transportation			
Iowa Department of Transportation			
Highway Planning & Construction	20.205	STP-ES-C035(59)—81-35	435,443
Highway Planning & Construction	20.205	STP-E-C035(64)—8V-35	174,323
Highway Planning & Construction	20.205	NRT-035(65)—9G-35	96,062
Highway Planning & Construction	20.205	NRT-035(66)—9G-35	71,595
			<u>777,423</u>
U.S Department of Health and Human Services			
Iowa Department of Elder Affairs			
Retired Area Agency on Aging			
Special Programs for the Aging-Title III			
Part B- Medication Management	93.043		4,680
Iowa Department of Public Health			
Immunization Services	93.268	58811430	3,433
Iowa Department of Human Services			
Human Services Administrative Reimbursement			
Refugee	93.566		6
Child Care Mandatory & Matching Funds of the			
Development Fund	93.596		747
Foster Care Title IV-E	93.658		1,230
Adoption Assistance	93.659		359
Medical Assistance Program	93.778		3,166
Expansion Title XXI	93.767		12
Social Services Block Grant	93.667		1,079
Social Services Block Grant	93.667		40,829
			<u>41,908</u>

Grantor/Program	CFDA Numbers	Agency or Pass-Through Number	Program Expenditures
U.S Department of Homeland Security Iowa Homeland Security & Emergency Management Division Public Assistance	97.036	DR-IA-1763	<u>\$112,726</u>
Total Indirect			<u>\$949,060</u>
Total			<u>\$949,060</u>

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

See accompanying independent auditor's report.



Gardiner Thomsen
Certified Public Accountants

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

To the Officials of Franklin County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated January 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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

The management of Franklin County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Franklin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Franklin County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Franklin County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 and II-C-12 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned costs as items II-B-12 and II-D-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2012 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.

Franklin County's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the County's responses, we did not audit Franklin County's responses and, accordingly, we express no opinion on them.

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

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

January 9, 2013

Gardiner Thomsen, P.C.



Gardiner Thomsen
Certified Public Accountants

**Independent Auditors' Report on Compliance with Requirements That
Could Have a Direct and Material Effect on
Each Major Program And on Internal Control over Compliance in
Accordance with OMB Circular A-133**

To the Officials of Franklin County:

Compliance

We have audited Franklin County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2012. Franklin County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Franklin County's management. Our responsibility is to express and opinion on Franklin County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Franklin County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Franklin County's compliance with those requirements.

In our opinion, Franklin County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Franklin County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Franklin County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express and opinion on the effectiveness of Franklin County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any internal control over compliance that we consider to be material weaknesses or significant deficiencies as defined above.

A deficiency in the County's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

January 9, 2013

Gardiner Thompson, P.C.

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (e) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (f) The major program was CFDA Number 20.205-Highway Planning and Construction.
- (g) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (h) Franklin County did not qualify as a low-risk auditee.

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

II-A-12 Segregation of Duties

Finding – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. We noted that various functions of the County are performed by the same person.

Criteria – A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition – Various functions of the Auditor, Treasurer, Recorder and Sheriff Offices are performed by the same person.

Effect – Transaction errors could occur and not be detected in a timely manner.

Cause – Limited staff available to segregate duties.

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

Response and Corrective Action Planned – We have reviewed procedures as suggested. We are in the process of cross training employees to further segregate duties.

II-B-12 Financial Reporting

Finding – During our audit, we identified material amounts of capital assets and depreciation not recorded or incorrectly recorded in the County’s financial statement.

Criteria – A good financial reporting system.

Condition – Capital asset additions were not always included in the capital asset listing at the proper acquisition value. Capital asset disposals were not always disposed of on the capital asset listing. The depreciation was not calculated correctly.

Effect – The capital asset listing and depreciation schedule were not correct.

Cause – Limited staff.

Recommendation – The County should implement procedures to ensure all capital assets are recorded in the financial statements and all depreciation is calculated correctly.

Response and Corrective Action Planned – We will adjust our financial statements to properly include these amounts and will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Findings Related to the Financial Statements (Continued):

II-C-12 Preparation of Full Disclosure Financial Statements

Finding – During the audit, we noted that Franklin County does not have the internal resources to prepare full disclosure financial statements required by U.S. Generally Accepted Accounting Principles (GAAP) for external reporting

Criteria – Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements for external reporting in conformity with GAAP.

Condition – Management requested that Gardiner Thomsen, P.C. assist in preparing the draft of the financial statements, including the related footnote disclosures.

Effect – Although Gardiner Thomsen, P.C. assists in the preparation of the full disclosure financial statements, the management of the County thoroughly reviews them and accepts responsibility for their completeness and accuracy.

Cause – The County does not have the internal resources to prepare the full disclosure financial statements required by GAAP for external reporting.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting is difficult. However, we recommend that County officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response and Corrective Action Planned – We recognize our limitations, however, it is not fiscally responsible to add additional staff at this time.

II-D-12 Treasurer's Office

Finding – During our audit, it was noted that the Treasurer's office was not performing monthly reconciliations of the general ledger and cash and investments. It was noted that the Treasurer was not maintaining investment ledgers for investments in certificates of deposit and stamped drainage warrants.

Criteria – A monthly reconciliation process and a way to maintain investment activity.

Condition – Interest earned on investments was not always recorded and recorded timely on the general ledger. A certificate of deposit ledger was not available for the monthly reconciliation process. A stamped drainage warrant ledger was not available for the monthly reconciliation process.

Effect – The general ledger did not include all amounts of interest earned on investments during the year. These items were not detected by County personnel.

Cause – Limited staff availability and ability to complete these procedures.

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Findings Related to the Financial Statements (Continued):

Recommendation – The Treasurer should perform monthly reconciliations to determine that all bank accounts, certificates of deposit and stamped warrants are reconciled to the general ledger. The Treasurer should maintain investment ledgers for investments in certificates of deposit and stamped drainage warrants.

Response and Corrective Action Planned – We will reconcile monthly and we will maintain investment ledgers as recommended.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Non-Compliance

No matters were noted.

Internal Control Deficiencies:

No matters were noted.

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 **Certified Budget** – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the debt service function.

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

Response – We will amend the budget when required.

Conclusion – Response accepted.

IV-B-12 **Questionable Expenditures** – No expenditures that may not meet the requirements of public purpose as defined by an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-12 **Travel Expenses** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-D-12 **Business Transaction** – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Michelle Giddings, Auditor Husband owns Gidding Signs	Signs	\$451

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Giddings Signs do not appear to represent conflicts of interest since Michelle did not participate in the acquisition of these services.

IV-E-12 **Bond Coverages** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed periodically to ensure that coverage is adequate for current operations.

IV-F-12 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

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

IV-G-12 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy were noted. However, it was noted that interest earned on proceeds from the General Obligation Urban Renewal County Road Improvement Bonds was not credited to the proper fund.

Recommendation – Chapter 12C9.2 of the Code of Iowa states that interest earned on proceeds of notes, bonds, refunding bonds and other evidence of indebtedness be used to pay the principal or interest as it comes due on the indebtedness or be credited to the Capital Projects Fund for which the indebtedness was issued. The interest earned on these proceeds should be credited to the appropriate fund in accordance with the Code of Iowa.

Response – We will make this correction immediately.

Conclusion – Response accepted.

IV-H-12 **Resource Enhancement and Protection Certification** – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-I-12 **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, 2012 for the County Extension Office did not exceed the amount budgeted.