



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 1, 2007

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on Story County, Iowa.

The County had local tax revenue of \$93,592,192 for the year ended June 30, 2006, which included \$2,357,256 in tax credits from the state. The County forwarded \$76,481,008 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$17,111,184 of the local tax revenue to finance County operations, a 4.5 percent increase over the prior year. Other revenues included charges for service of \$2,930,615, operating grants, contributions and restricted interest of \$9,250,546, capital grants, contributions and restricted interest of \$2,926,298, local option sales tax of \$1,678,208, unrestricted investment earnings of \$662,603 and other general revenues of \$624,741.

Expenses for County operations totaled \$31,154,446, a less than 1 percent increase over the prior year. Expenses included \$7,903,168 for mental health, \$7,893,657 for public safety and legal services, and \$5,176,814 for roads and transportation.

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

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STORY COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 16
Statement of Activities	B 17
Governmental Fund Financial Statements:	
Balance Sheet	C 18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D 21
Statement of Revenues, Expenditures and Changes in Fund Balances	E 22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F 24
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Assets and Liabilities – Agency Funds	G 25
Notes to Financial Statements	26-36
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds	38-39
Budget to GAAP Reconciliation	40
Notes to Required Supplementary Information – Budgetary Reporting	41
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 44-45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 46-47
Agency Funds:	
Combining Schedule of Fiduciary Assets and Liabilities	3 48-49
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4 50-51
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	5 52-53
Schedule of Expenditures of Federal Awards	6 54-55
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	57-58
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	61-62
Schedule of Findings and Questioned Costs	63-70
Staff	71

Story County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jane E. Halliburton	Board of Supervisors	Jan 2007
Donald L. Toms	Board of Supervisors	Jan 2007
Wayne E. Clinton	Board of Supervisors	Jan 2009
Mary L. Mosiman	County Auditor	Jan 2009
David Jamison	County Treasurer	Jan 2007
Susan Vande Kamp	County Recorder	Jan 2007
Paul H. Fitzgerald	County Sheriff	Jan 2009
Stephen Holmes	County Attorney	Jan 2007
Wayne Schwickerath	County Assessor	Jan 2010
Richard Horn	City Assessor	Resigned
Gregory P. Lynch (Appointed)	City Assessor	Jan 2009

Story County



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Independent Auditor's Report

To the Officials of Story County:

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

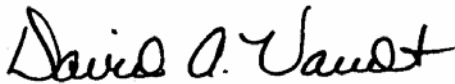
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2006 on our consideration of Story County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 38 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Story County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State

December 1, 2006



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

MANAGEMENT'S DISCUSSION AND ANALYSIS

Story County provides this Management's Discussion and Analysis as a narrative overview of the financial activities of the County for the year ended June 30, 2006, along with comparative data for the year ended June 30, 2005. Readers are encouraged to consider this information in conjunction with the County's financial statements which follow.

2006 FINANCIAL HIGHLIGHTS

- Governmental activities revenue increased approximately \$2.5 million from fiscal 2005 (FY05). This included a property tax revenue increase of approximately \$733,000 and an increase in grants and contributions of approximately \$1.1 million.
- Program expenses had minimal changes, with an increase of approximately \$98,000 from FY05.
- Net assets increased approximately \$4 million from FY05. This increase is due primarily to the continued progress of the re-model of the Story County Administration Building, as well as the increase in property tax revenues, grants and contributions.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as 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 consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Story 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 Story 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 Story County acts solely as an agent or custodian for the benefit of those outside of County government.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

REPORTING THE COUNTY AS A WHOLE:

The Statement of Net Assets and the Statement of Activities

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

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

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

The County's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, 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.

REPORTING THE COUNTY BY FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about individual, significant funds, not the County as a whole. Some funds are required to be established by Iowa law or by bond covenants. The County can establish other funds to help it control and manage money for particular purposes.

The County has two kinds of funds:

- 1) Governmental funds account for most of the County's basic services. These fund statements 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 modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

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

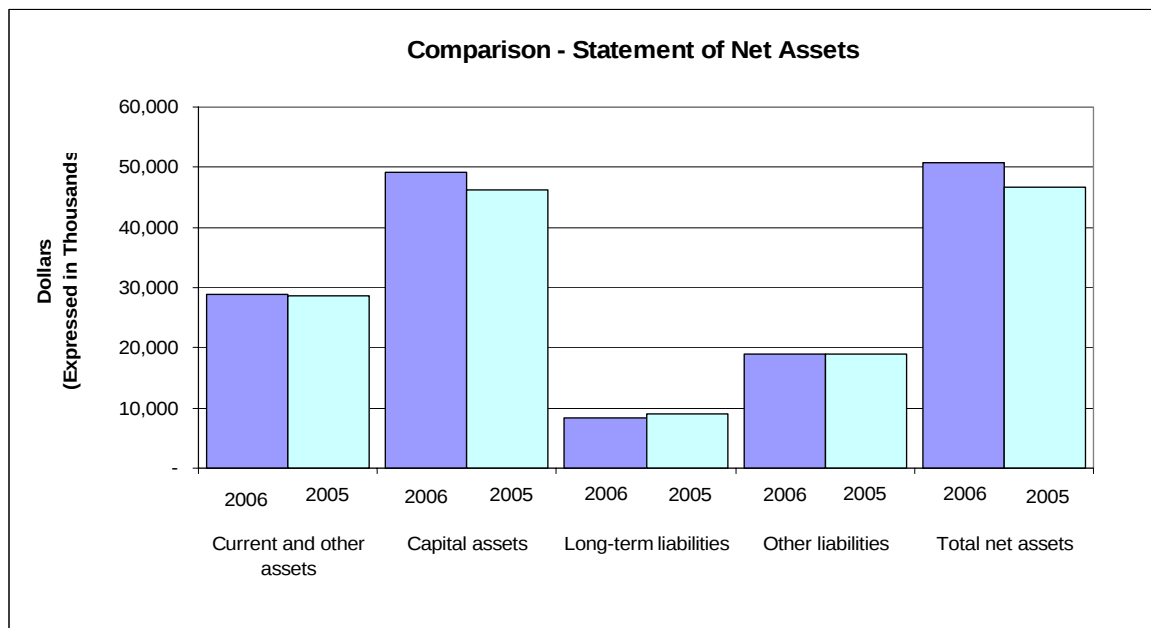
The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

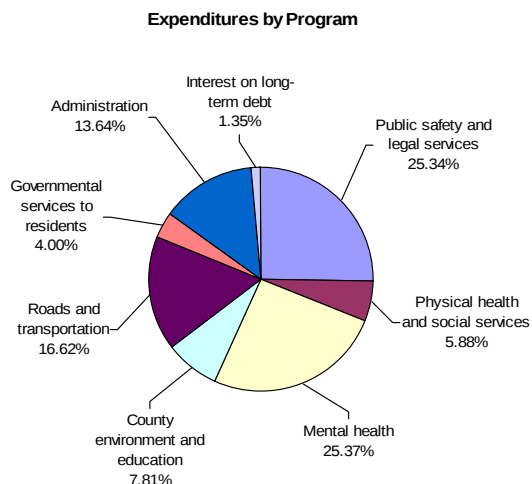
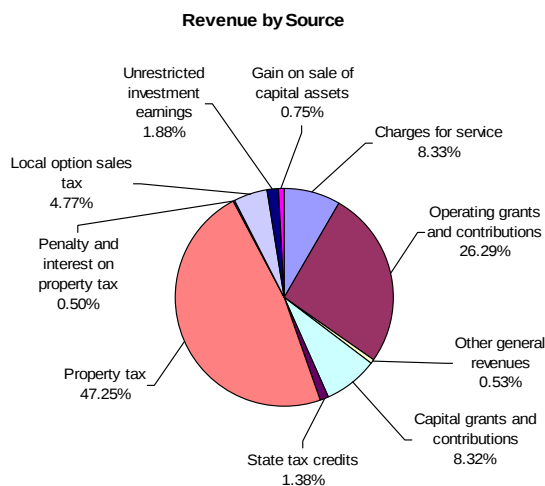
As noted earlier, net assets may serve over time as a useful indicator of financial position. Story County's net assets for FY06 totaled approximately \$51 million. This compares to FY05 at \$47 million. The analysis that follows focuses on the net assets for our governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)			
		June 30,	
		2006	2005
Current and other assets	\$	28,953	28,548
Capital assets		49,138	46,208
Total assets		78,091	74,756
Long-term liabilities		8,362	9,083
Other liabilities		18,965	18,939
Total liabilities		27,327	28,022
Net assets:			
Invested in capital assets, net of related debt		41,433	37,722
Restricted		5,266	4,383
Unrestricted		4,065	4,629
Total net assets	\$	50,764	46,734



Total net assets of Story County's governmental activities increased approximately \$4 million from the previous year. Capital assets (land, infrastructure, buildings and equipment) are the largest portion of the County's assets. This increase is due primarily to the continued remodeling of the County Administration Building with the installation of geothermal heating and cooling. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. This amount increased primarily for mental health purposes and secondary roads purposes.

Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 2,931	2,793
Operating grants and contributions	9,251	8,904
Capital grants and contributions	2,926	2,171
General revenues:		
Property tax	16,626	15,893
Penalty and interest on property tax	176	214
State tax credits	485	483
Local option sales tax	1,678	1,641
Unrestricted investment earnings	663	446
Gain on sale of capital assets	264	38
Other general revenues	185	147
Total revenues	35,185	32,730
Program expenses:		
Public safety and legal services	7,894	7,587
Physical health and social services	1,832	1,723
Mental health	7,903	7,766
County environment and education	2,434	3,009
Roads and transportation	5,177	5,312
Governmental services to residents	1,245	1,122
Administration	4,250	4,082
Interest on long-term debt	420	456
Total expenses	31,155	31,057
Increase in net assets	4,030	1,673
Net assets beginning of year	46,734	45,061
Net assets end of year	\$ 50,764	46,734



Revenues increased approximately \$2.5 million from FY05, due primarily to increases in property tax, interest on investments, operating and capital grants. A gain was recognized on the sale of an obsolete motor grader through a state auction.

The increase in property tax for FY06 is due to the increase in the rural levy rate of \$.13 to \$3.17 per \$1,000 of taxable valuation and an increase in the countywide levy rate of \$.07 to \$5.56 per \$1,000 of taxable valuation. These rates were multiplied by the rural taxable property valuation of \$549,681,663 and the countywide taxable property valuation of \$2,747,067,500.

Expenses in FY06 remained proportional to those of FY05. Increases in public safety, administration and mental health were offset by decreases in county environment and education.

INDIVIDUAL MAJOR FUND ANALYSIS

As Story County completed the year, its governmental funds reported a combined fund balance of \$9,778,669, which is slightly more than the \$9,541,983 combined fund balance at the end of FY05. The difference is explained by individual fund.

The General Fund, the operating fund for Story County, ended FY06 with an ending balance totaling \$4,382,396. This is a decrease of approximately \$297,000. This decrease is primarily due to increased expenditures for election equipment and various computer software expenses. An additional expenditure was related to economic development for support of the National Special Olympics. Longevity pay was initiated for all pay-plan staff effective FY06. The increase in various expenditures was offset by taxable valuation increases from \$2,663,485,748 in FY05 to \$2,747,067,500 in FY06. The levy rate increased from \$5.49 in FY05 to \$5.56 in FY06. State-funded credits for FY06 were at the following levels: Homestead at 78% and Military and Elderly/Disabled at 100%.

Story County has continued to look for ways to effectively manage the cost of mental health services in the Mental Health Fund. FY06 ended with a \$1,984,011 balance compared to \$1,251,317 at the end of FY05. The increase is due primarily to increased revenues for case management and decreased expenditures for prescription medicines due to the implementation of the National Association of Counties prescription drug program. Story County averages 220 clients per month for mental health administration.

The Rural Service Fund ended FY06 with an \$801,175 balance compared to the prior year balance of \$839,734. The slight decrease is due primarily to transferring the maximum amount to the Secondary Roads Fund, the purchase of a vehicle for the animal control department and an increase in library funding.

The Secondary Roads Fund ended FY06 with a \$1,906,613 balance compared to the prior year balance of \$1,752,781. Expenditures for bridges and culverts decreased in FY06; six were repaired in FY06 compared to twelve in FY05. Ten road maintenance districts were maintained for FY06. The department maintained 720 miles of gravel, 22 miles of dirt and over 200 miles of paved roads. Seven construction projects were completed during FY06.

The Debt Service Fund ended FY06 with a \$54,531 balance compared to the prior year balance of \$47,296. Bond principal and interest payments are made according to the bond maturity schedule.

The Capital Projects Fund FY06 ending fund balance was (\$100,798) compared to the prior year balance of \$366,944. The deficit was created by project expenditures that exceeded available funds due to payables at year end. The County transferred funds from the General fund in FY07 to cover these expenses. The remodel of the County Administration building and the installation of the geothermal heating and cooling system is paid from the Capital Projects Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Story County amended the General Fund budget once. The amendment was made in May 2006 to accurately reflect both receipts and disbursements in various departments. The General Fund transferred \$600,000 to the Capital Projects Fund and \$350,000 to the Secondary Roads Fund.

The County's receipts were \$761,035 more than budgeted, a variance of slightly more than 2%. The most significant variances resulted from the County receiving more interest than anticipated, as well as miscellaneous receipts and proceeds from the sale of a capital asset.

Total disbursements were \$2,143,965 less than the amended budget. Actual disbursements for public safety and legal services, mental health, roads and transportation, governmental services to residents and administration were \$211,308, \$645,431, \$252,535, \$98,157 and \$279,063, respectively, less than budgeted. These decreases were due primarily to lower than anticipated personnel overtime costs, fuel and maintenance costs, and communication services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY06, Story County had approximately \$49.1 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount is an increase of approximately \$2.9 million over FY05. The increases came from the progress for the remodel of the Administration Building, secondary roads infrastructure, equipment and vehicles.

Story County had depreciation expense in FY06 of \$2,198,387 and total accumulated depreciation of \$20,013,146 on the capital assets. This is an increase of \$140,110 in depreciation expense and \$1,597,073 for accumulated depreciation from FY05. Story County takes a full year's depreciation in the year of acquisition of a capital asset and in the year of disposal. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Debt

Story County retired \$780,000 of general obligation bonds during FY06 and had \$7,705,000 outstanding at the end of FY06, compared to \$8,485,000 at the end of FY05.

Outstanding debt decreased as a result of the general obligation bond payments for the Justice Center. Story County's general obligation bond rating continues to carry the Aa2 rating assigned by Moody's Investors Service, a national rating agency. The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the county's corporate limits. Story County's outstanding general obligation debt is significantly below its constitutional debt limit of \$222 million. Additional information about the County's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTS AND NEXT YEAR'S BUDGET AND RATES

Story County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that apply for the various County services. One of those factors is the economy. According to information from Iowa Workforce Development, at the end of FY06 unemployment in Story County stood at 2.9% versus 3.3% a year ago. This compared with the State's unemployment rate of 3.6% and the national rate of 4.5% for the same period ending June 30, 2006.

These indicators were taken into account when adopting the General Fund budget for fiscal year 2007. The County had a FY07 valuation increase countywide of \$92,651,816. However, the County had a rural valuation decrease of \$3,130,588 from FY06. The rollback decreased to 45.996% for FY07 as compared to the FY06 rollback of 47.9642%. The FY07 budget proposed a 2.75% increase in receipts over the FY06 budget, along with a 3.46% decrease in disbursements. The increase in revenues is primarily from property taxes. Story County added no major programs or initiatives to the 2007 budget. Pay plan staff and union members received a 2.5% increase in salary and wages. Flex reimbursement for all employees remained unchanged at \$550 per month. Re-estimated ending fund balances were anticipated to be lower with the General Fund estimated to be 23% of disbursements at the end of FY06 and approximately 15% of disbursements by the close of FY07.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Story County's finances, and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Story County Auditor's Office, 900 6th Street, Nevada, Iowa 50201.

Story County

Basic Financial Statements

Exhibit A

Story County
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 10,119,915
Receivables:	
Property tax:	
Delinquent	44,127
Succeeding year	17,278,000
Interest and penalty on property tax	50,763
Accounts	84,289
Accrued interest	160,172
Assessments	701
Due from other governments	997,840
Inventories	216,316
Capital assets - nondepreciable	7,512,838
Capital assets - depreciable, net	41,625,538
Total assets	<u>78,090,499</u>
Liabilities	
Accounts payable	578,993
Accrued interest payable	31,985
Salaries and benefits payable	278,229
Contracts payable	108,553
Due to other governments	689,318
Deferred revenue:	
Succeeding year property tax	17,278,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	815,000
Compensated absences	656,495
Portion due or payable after one year:	
General obligation bonds	6,890,000
Total liabilities	<u>27,326,573</u>
Net Assets	
Invested in capital assets, net of related debt	41,433,376
Restricted for:	
Supplemental levy purposes	472,757
Mental health purposes	1,845,212
Secondary roads purposes	1,809,094
Debt service	24,841
Community betterment	362,818
Other purposes	750,741
Unrestricted	4,065,087
Total net assets	<u>\$ 50,763,926</u>

See notes to financial statements.

Story County
Statement of Activities
Year ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 7,893,657	1,250,434	225,395	9,500	(6,408,328)
Physical health and social services	1,832,135	33,640	544,693	-	(1,253,802)
Mental health	7,903,168	191,043	5,335,813	-	(2,376,312)
County environment and education	2,433,661	193,477	223,453	14,500	(2,002,231)
Roads and transportation	5,176,814	125,947	2,678,643	2,902,298	530,074
Governmental services to residents	1,244,801	1,106,600	125,094	-	(13,107)
Administration	4,250,053	29,474	106,540	-	(4,114,039)
Interest on long-term debt	420,157	-	10,915	-	(409,242)
Total	\$ 31,154,446	2,930,615	9,250,546	2,926,298	(16,046,987)
General Revenues:					
Property and other county tax levied for:					
General purposes					15,457,769
Debt service					1,168,164
Penalty and interest on property tax					175,977
State tax credits					485,251
Local option sales tax					1,678,208
Unrestricted investment earnings					662,603
Gain on sale of capital assets					263,577
Miscellaneous					185,187
Total general revenues					20,076,736
Change in net assets					4,029,749
Net assets beginning of year					46,734,177
Net assets end of year					\$ 50,763,926

See notes to financial statements.

Story County
Balance Sheet
Governmental Funds

June 30, 2006

		Special Revenue	
	General	Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 4,553,033	2,574,860	559,860
Receivables:			
Property tax:			
Delinquent	24,439	6,355	10,975
Succeeding year	11,500,000	2,991,000	1,627,000
Interest and penalty on property tax	50,763	-	-
Accounts	50,089	21,446	1,200
Accrued interest	160,172	-	-
Assessments	-	-	-
Due from other governments	262,196	222,165	282,121
Inventories	-	-	-
Total assets	\$ 16,600,692	5,815,826	2,481,156
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 326,372	109,725	13,855
Salaries and benefits payable	154,172	54,104	28,291
Contracts payable	-	-	-
Due to other governments	16,674	670,801	32
Deferred revenue:			
Succeeding year property tax	11,500,000	2,991,000	1,627,000
Other	221,078	6,185	10,803
Total liabilities	12,218,296	3,831,815	1,679,981
Fund balances:			
Reserved for:			
Supplemental levy purposes	508,947	-	-
Debt service	-	-	-
Community betterment	-	-	362,818
Unreserved:			
Designated for:	170,000	-	-
Election equipment			
Real estate software	110,000	-	-
Centralized dispatch software	90,000	-	-
Analysis of social services evaluation team (ASSET)	7,500	-	-
Undesignated, reported in:			
General fund	3,495,949	-	-
Special revenue funds	-	1,984,011	438,357
Capital projects fund	-	-	-
Total fund balances	4,382,396	1,984,011	801,175
Total liabilities and fund balances	\$ 16,600,692	5,815,826	2,481,156

See notes to financial statements.

Secondary Roads	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
1,591,996	54,284	57,248	728,634	10,119,915
-	2,358	-	-	44,127
-	1,160,000	-	-	17,278,000
-	-	-	-	50,763
597	184	-	10,773	84,289
-	-	-	-	160,172
-	-	-	701	701
217,667	-	-	13,691	997,840
216,316	-	-	-	216,316
2,026,576	1,216,826	57,248	753,799	28,952,123
77,328	-	49,493	2,220	578,993
41,662	-	-	-	278,229
-	-	108,553	-	108,553
973	-	-	838	689,318
-	1,160,000	-	-	17,278,000
-	2,295	-	-	240,361
119,963	1,162,295	158,046	3,058	19,173,454
-	-	-	-	508,947
-	54,531	-	-	54,531
-	-	-	-	362,818
-	-	-	-	170,000
-	-	-	-	110,000
-	-	-	-	90,000
-	-	-	-	7,500
-	-	-	-	3,495,949
1,906,613	-	-	750,741	5,079,722
-	-	(100,798)	-	(100,798)
1,906,613	54,531	(100,798)	750,741	9,778,669
2,026,576	1,216,826	57,248	753,799	28,952,123

Story County

Story County

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets

June 30, 2006

Total governmental fund balances (page 19) \$ 9,778,669

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$69,151,522 and the accumulated depreciation is \$20,013,146. 49,138,376

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 240,361

Long-term liabilities, including bonds payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (8,393,480)

Net assets of governmental activities (page 16) \$ 50,763,926

See notes to financial statements.

Story County

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 10,800,120	2,993,164	3,336,591	-
Interest and penalty on property tax	165,595	-	-	-
Intergovernmental	1,807,101	5,416,712	485,130	2,732,838
Licenses and permits	13,890	-	12,360	9,320
Charges for service	1,474,901	191,043	32,859	16,314
Use of money and property	515,299	-	-	-
Miscellaneous	106,033	29,423	7,466	281,525
Total revenues	14,882,939	8,630,342	3,874,406	3,039,997
Expenditures:				
Operating:				
Public safety and legal services	5,940,859	-	1,555,163	-
Physical health and social services	1,831,092	-	-	-
Mental health	-	7,899,548	-	-
County environment and education	1,153,560	-	1,101,992	-
Roads and transportation	-	-	200,000	3,945,529
Governmental services to residents	1,219,268	-	2,284	-
Administration	4,028,562	-	15,100	-
Debt service	-	-	-	-
Capital projects	58,059	-	-	345,882
Total expenditures	14,231,400	7,899,548	2,874,539	4,291,411
Excess (deficiency) of revenues over (under) expenditures	651,539	730,794	999,867	(1,251,414)
Other financing sources (uses):				
Sale of capital assets	1,500	1,900	-	16,820
Operating transfers in	-	-	-	1,388,426
Operating transfers out	(950,000)	-	(1,038,426)	-
Total other financing sources (uses)	(948,500)	1,900	(1,038,426)	1,405,246
Net change in fund balances	(296,961)	732,694	(38,559)	153,832
Fund balances beginning of year	4,679,357	1,251,317	839,734	1,752,781
Fund balances end of year	\$ 4,382,396	1,984,011	801,175	1,906,613

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Special Revenue	Total
1,167,894	-	-	18,297,769
-	-	-	165,595
31,768	-	153,793	10,627,342
-	-	-	35,570
-	-	25,033	1,740,150
10,915	-	117,526	643,740
-	47,813	142,473	614,733
1,210,577	47,813	438,825	32,124,899
-	-	123,146	7,619,168
-	-	-	1,831,092
-	-	-	7,899,548
-	-	137,589	2,393,141
-	-	-	4,145,529
-	-	2,083	1,223,635
-	-	320	4,043,982
1,203,342	-	-	1,203,342
-	1,115,555	2,500	1,521,996
1,203,342	1,115,555	265,638	31,881,433
7,235	(1,067,742)	173,187	243,466
-	-	-	20,220
-	600,000	-	1,988,426
-	-	-	(1,988,426)
-	600,000	-	20,220
7,235	(467,742)	173,187	263,686
47,296	366,944	577,554	9,514,983
54,531	(100,798)	750,741	9,778,669

Story County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement
of Activities

Year ended June 30, 2006

Net change in fund balances - Total governmental funds (page 23) \$ 263,686***Amounts reported for governmental activities in the Statement of Activities are different because:***

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

Expenditures for capital assets	\$ 2,200,721	
Capital assets contributed by the Iowa Department of Transportation and others	2,926,298	
Depreciation expense	<u>(2,198,387)</u>	2,928,632

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

2,081

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	6,113	
Other	<u>104,584</u>	110,697

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.

780,000

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 the governmental funds, as follows:

Compensated absences	(58,532)	
Interest on long-term debt	<u>3,185</u>	<u>(55,347)</u>

Change in net assets of governmental activities (page 17)\$ 4,029,749

See notes to financial statements.

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

Assets

Cash and pooled investments:

County Treasurer	\$ 3,544,449
Other County officials	209,286
Employee health insurance plan	22,976

Receivables:

Property tax:

Delinquent	136,600
Succeeding year	74,517,000

Accounts	87,991
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Assessments	754,859
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Due from other governments	54,523
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Total assets	<u>79,327,684</u>
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Liabilities

Accounts payable	149,630
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Salaries and benefits payable	19,608
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Due to other governments	78,780,463
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Trusts payable	331,055
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Compensated absences	46,928
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Total liabilities	<u>79,327,684</u>
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Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

Story County
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

Story 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, Story 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 Story 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.

Certain drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agriculture 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 Story County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. The County has other drainage districts that are managed and supervised by elected trustees. The financial transactions of these districts are reported as an Agency Fund. Financial information of the individual drainage districts can be obtained from the Story County Auditor's office.

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

The County also participates in the Central Iowa Juvenile Detention Center, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

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 three categories.

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and 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 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 special revenue 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 not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation and developmental disabilities services.

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

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

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

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

Additionally, the County reports the following funds:

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 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 and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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 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.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

Assessments Receivable – Assessments receivable represent the amounts due from individuals for work done which benefits 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. Assessments receivable represent assessments which have been made but have not been collected.

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

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

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

Asset Class	Amount
Infrastructure	\$ 50,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	25-50
Land improvements	10-50
Infrastructure	10-65
Equipment	3-20
Vehicles	5-15

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

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

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

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

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

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Assets.

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

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

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

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects	General	\$ 600,000
Special Revenue: Secondary Roads	General Special Revenue: Rural Services	350,000 1,038,426
Total		<u>\$ 1,988,426</u>

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,731,626	-	-	3,731,626
Land, road network	117,327	-	-	117,327
Construction in progress, road network	-	3,201,922	(3,201,922)	-
Construction in progress	2,661,644	1,135,491	(133,250)	3,663,885
Total capital assets not being depreciated	<u>6,510,597</u>	<u>4,337,413</u>	<u>(3,335,172)</u>	<u>7,512,838</u>
Capital assets being depreciated:				
Buildings	21,732,048	32,274	-	21,764,322
Improvements other than buildings	36,954	133,250	-	170,204
Equipment and vehicles	8,682,250	824,046	(665,947)	8,840,349
Infrastructure, road network	26,262,970	3,201,922	-	29,464,892
Infrastructure, other	1,398,917	-	-	1,398,917
Total capital assets being depreciated	<u>58,113,139</u>	<u>4,191,492</u>	<u>(665,947)</u>	<u>61,638,684</u>
Less accumulated depreciation for:				
Buildings	4,024,327	434,529	-	4,458,856
Improvements other than buildings	3,696	8,510	-	12,206
Equipment and vehicles	5,394,617	709,963	(601,314)	5,503,266
Infrastructure, road network	8,794,426	995,884	-	9,790,310
Infrastructure, other	199,007	49,501	-	248,508
Total accumulated depreciation	<u>18,416,073</u>	<u>2,198,387</u>	<u>(601,314)</u>	<u>20,013,146</u>
Total capital assets being depreciated, net	<u>39,697,066</u>	<u>1,993,105</u>	<u>(64,633)</u>	<u>41,625,538</u>
Governmental activities capital assets, net	<u>\$ 46,207,663</u>	<u>6,330,518</u>	<u>(3,399,805)</u>	<u>49,138,376</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 392,621
Physical health and social services	3,624
Mental health	61,751
County environment and education	94,562
Roads and transportation	1,398,483
Governmental services to residents	15,949
Administration	231,397
Total depreciation expense - governmental activities	<u>\$ 2,198,387</u>

(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	\$ 16,674
Special Revenue:		
Mental Health	Services	670,801
Other	Services	1,843
		<u>672,644</u>
Total for governmental funds		<u>\$ 689,318</u>
Agency:		
County Assessor	Collections	\$ 704,160
City Assessor		740,620
Schools		42,264,130
Community Colleges		1,926,924
Corporations		28,256,740
City Special Assessments		769,853
Auto License and Use Tax		1,261,273
All other		2,856,763
Total for agency funds		<u>\$ 78,780,463</u>

(6) Long-Term Liabilities

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

	General Obligation Bonds	Compen- sated Absences	Total
Balances beginning of year	\$ 8,485,000	597,963	9,082,963
Increases	-	429,855	429,855
Decreases	(780,000)	(371,323)	(1,151,323)
Balances end of year	<u>\$ 7,705,000</u>	<u>656,495</u>	<u>8,361,495</u>
Due within one year	<u>\$ 815,000</u>	<u>656,495</u>	<u>1,471,495</u>

Bonds Payable

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

Year Ending June 30,	Series 1999 Issued Sep 1, 1999			Series 2000 Issued Aug 1, 2000			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2007		\$ -	250,332	4.90%	\$ 815,000	133,490	\$ 815,000	383,822	1,198,822
2008		-	250,332	4.95	860,000	93,555	860,000	343,887	1,203,887
2009		-	250,332	4.95	905,000	50,985	905,000	301,317	1,206,317
2010	4.90%	825,000	250,332	4.95	125,000	6,188	950,000	256,520	1,206,520
2011	4.95	975,000	209,908		-	-	975,000	209,908	1,184,908
2012-2014	4.95-5.10	3,200,000	328,902		-	-	3,200,000	328,902	3,528,902
Total		\$5,000,000	1,540,138		\$2,705,000	284,218	\$7,705,000	1,824,356	9,529,356

During the year ended June 30, 2006, the County retired \$780,000 of general obligation bonds.

(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 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$948,306, \$909,883 and \$885,930, respectively, equal to the required contributions for each year.

(8) Risk Management

Story 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 with over 531 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2006 were \$277,387.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event 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 such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with crime, bond and fidelity supplement in the amount of \$100,000, \$50,000 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.

(9) Justice Center Agreements

In January 2000, the County entered into a contract with Alliant Energy for geothermal supply services for heating and cooling the Justice Center. The agreement calls for the County to pay a fixed charge of \$5,350 per month for 20 years. Alliant Energy retains ownership of the equipment.

In January 2000, the County entered into a contract with Alliant Energy for stand-by generation services for the Justice Center. The agreement calls for the County to pay a fixed charge of \$6,500 per month for 20 years. Alliant Energy retains ownership of the equipment.

(10) Deficit Fund Balance

The Capital Projects Fund had a deficit fund balance of \$100,798 at June 30, 2006. The deficit will be eliminated through transfers from the General Fund.

(11) Construction Commitments

The County has entered into various contracts totaling \$2,667,133 for remodeling the Administration Building. As of June 30, 2006, costs of \$2,636,509 had been incurred on the contracts. The balance of \$30,624 remaining at June 30, 2006 will be paid as work on the project progresses.

Required Supplementary Information

Story County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2006

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 18,280,315	-	18,280,315
Interest and penalty on property tax	167,022	-	167,022
Intergovernmental	10,606,580	-	10,606,580
Licenses and permits	35,511	-	35,511
Charges for service	1,755,774	-	1,755,774
Use of money and property	754,273	-	754,273
Miscellaneous	616,815	30,864	585,951
Total receipts	32,216,290	30,864	32,185,426
Disbursements:			
Public safety and legal services	7,809,417	-	7,809,417
Physical health and social services	1,860,652	-	1,860,652
Mental health	7,972,454	-	7,972,454
County environment and education	2,439,981	17,962	2,422,019
Roads and transportation	4,152,490	-	4,152,490
Governmental services to residents	1,231,483	-	1,231,483
Administration	4,182,848	-	4,182,848
Debt service	1,203,343	-	1,203,343
Capital projects	1,556,741	-	1,556,741
Total disbursements	32,409,409	17,962	32,391,447
Excess (deficiency) of receipts over (under) disbursements	(193,119)	12,902	(206,021)
Other financing sources, net	21,220	-	21,220
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(171,899)	12,902	(184,801)
Balance beginning of year	10,291,814	149,043	10,142,771
Balance end of year	\$ 10,119,915	161,945	9,957,970

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
18,308,508	18,345,424	(65,109)
62,164	62,164	104,858
10,161,190	10,489,428	117,152
36,925	33,925	1,586
1,542,650	1,555,815	199,959
525,915	626,915	127,358
210,450	310,720	275,231
30,847,802	31,424,391	761,035
7,948,283	8,020,725	211,308
1,966,319	1,929,699	69,047
8,617,885	8,617,885	645,431
2,498,973	2,551,984	129,965
4,405,025	4,405,025	252,535
1,798,757	1,329,640	98,157
4,527,691	4,461,911	279,063
1,203,043	1,204,043	700
2,192,000	2,014,500	457,759
35,157,976	34,535,412	2,143,965
(4,310,174)	(3,111,021)	2,905,000
-	2,900	18,320
(4,310,174)	(3,108,121)	2,923,320
10,418,640	9,956,351	186,420
6,108,466	6,848,230	3,109,740

Story County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 32,216,290	(91,391)	32,124,899
Expenditures	32,409,409	(527,976)	31,881,433
Net	(193,119)	436,585	243,466
Other financing sources, net	21,220	(1,000)	20,220
Beginning fund balances	10,291,814	(776,831)	9,514,983
Ending fund balances	\$ 10,119,915	(341,246)	9,778,669

See accompanying independent auditor's report.

Story County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon 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, the Special Revenue Funds, the 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, one budget amendment decreased budgeted disbursements by \$622,564. The budget amendment is reflected in the final budgeted amounts.

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

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

Story County

Other Supplementary Information

Story County
Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	County Recorder's Records Management	Drainage Districts	Employee Wellness	Resource Enhancement and Protection
Assets				
Cash and pooled investments	\$ 133,236	161,945	221	61,928
Receivables:				
Accounts	445	-	-	213
Assessments	-	701	-	-
Due from other governments	-	-	-	13,691
Total assets	\$ 133,681	162,646	221	75,832
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	-	-	-
Due to other governments	-	-	-	-
Total liabilities	-	-	-	-
Fund balance:				
Unreserved	133,681	162,646	221	75,832
Total liabilities and fund equity	\$ 133,681	162,646	221	75,832

See accompanying independent auditor's report.

Special Law Enforcement	Jail Commissary	Friends of Animals	Friends of Conservation	Sheriff Reserve Officers	Total
21,189	49,153	51,031	237,157	12,774	728,634
3,108	5,308	896	803	-	10,773
-	-	-	-	-	701
-	-	-	-	-	13,691
24,297	54,461	51,927	237,960	12,774	753,799
-	609	310	1,261	40	2,220
838	-	-	-	-	838
838	609	310	1,261	40	3,058
23,459	53,852	51,617	236,699	12,734	750,741
24,297	54,461	51,927	237,960	12,774	753,799

Story County
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Drainage Districts	Employee Wellness
Revenues:				
Intergovernmental	\$ -	-	-	-
Charges for service	17,683	13	-	-
Use of money and property	3,479	-	-	-
Miscellaneous	-	-	30,699	320
Total revenues	21,162	13	30,699	320
Expenditures:				
Operating:				
Public safety and legal services	-	-	-	-
County environment and education	-	-	17,962	-
Governmental services to residents	-	2,083	-	-
Administration	-	-	-	320
Capital projects	-	-	-	-
Total expenditures	-	2,083	17,962	320
Excess (deficiency) of revenues over (under) expenditures	21,162	(2,070)	12,737	-
Fund balances beginning of year	112,519	2,070	149,909	221
Fund balances end of year	\$ 133,681	-	162,646	221

See accompanying independent auditor's report.

Resource Enhancement and Protection	Special Law Enforcement	Jail Commissary	Friends of Animals	Friends of Conservation	Sheriff Reserve Officers	Total
30,369	-	-	-	123,424	-	153,793
-	-	-	-	-	7,337	25,033
1,386	-	106,985	1,129	4,547	-	117,526
-	6,080	463	8,484	96,427	-	142,473
31,755	6,080	107,448	9,613	224,398	7,337	438,825
-	16,282	98,213	-	-	8,651	123,146
9,871	-	-	4,411	105,345	-	137,589
-	-	-	-	-	-	2,083
-	-	-	-	-	-	320
2,500	-	-	-	-	-	2,500
12,371	16,282	98,213	4,411	105,345	8,651	265,638
19,384	(10,202)	9,235	5,202	119,053	(1,314) 	173,187
56,448	33,661	44,617	46,415	117,646	14,048	577,554
75,832	23,459	53,852	51,617	236,699	12,734	750,741

Story County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	City Assessor	Schools
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	2,428	189,925	167,981	435,477
Other County officials	209,286	-	-	-	-
Employee health insurance plan	-	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	524	2,920	336	96,653
Succeeding year	-	247,000	544,000	602,000	41,732,000
Accounts	268	-	-	-	-
Assessments	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ 209,554	249,952	736,845	770,317	42,264,130
Liabilities					
Accounts payable	\$ -	-	751	5,510	-
Salaries and benefits payable	-	-	7,840	8,495	-
Due to other governments	96,957	249,952	704,160	740,620	42,264,130
Trusts payable	112,597	-	-	-	-
Compensated absences	-	-	24,094	15,692	-
Total liabilities	\$ 209,554	249,952	736,845	770,317	42,264,130

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
19,881	272,378	4,584	14,994	1,261,273	1,175,528	3,544,449
-	-	-	-	-	-	209,286
-	-	-	-	-	22,976	22,976
4,043	27,362	2,264	-	-	2,498	136,600
1,903,000	27,957,000	356,000	-	-	1,176,000	74,517,000
-	-	-	-	-	87,723	87,991
-	-	-	754,859	-	-	754,859
-	-	-	-	-	54,523	54,523
1,926,924	28,256,740	362,848	769,853	1,261,273	2,519,248	79,327,684
-	-	-	-	-	143,369	149,630
-	-	-	-	-	3,273	19,608
1,926,924	28,256,740	362,848	769,853	1,261,273	2,147,006	78,780,463
-	-	-	-	-	218,458	331,055
-	-	-	-	-	7,142	46,928
1,926,924	28,256,740	362,848	769,853	1,261,273	2,519,248	79,327,684

Story County
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	City Assessor	Schools
Assets and Liabilities					
Balances beginning of year	\$ 158,708	225,817	652,149	697,879	40,540,649
Additions:					
Property and other county tax	-	248,106	543,531	604,328	41,968,129
E911 surcharge	-	-	-	-	-
State tax credits	-	6,054	26,373	9,375	1,125,935
Office fees and collections	1,524,014	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	1,199,019	-	-	-	-
Miscellaneous	-	-	1,366	2,581	3,395
Total additions	2,723,033	254,160	571,270	616,284	43,097,459
Deductions:					
Agency remittances:					
To other funds	799,814	-	-	-	-
To other governments	689,247	230,025	486,574	543,846	41,373,978
Trusts paid out	1,183,126	-	-	-	-
Total deductions	2,672,187	230,025	486,574	543,846	41,373,978
Balances end of year	\$ 209,554	249,952	736,845	770,317	42,264,130

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
1,850,101	26,436,480	361,108	1,113,550	1,378,956	2,009,155	75,424,552
1,908,426	27,803,903	353,846	-	-	1,178,734	74,609,003
-	-	-	-	-	354,076	354,076
49,599	610,647	17,642	-	-	26,380	1,872,005
-	-	-	-	-	-	1,524,014
-	-	-	-	14,549,083	-	14,549,083
-	-	-	94,855	-	14,008	108,863
-	-	-	-	-	1,636,583	2,835,602
-	-	522	-	-	1,402,760	1,410,624
1,958,025	28,414,550	372,010	94,855	14,549,083	4,612,541	97,263,270
-	-	-	-	464,868	-	1,264,682
1,881,202	26,594,290	370,270	438,552	14,201,898	2,509,532	89,319,414
-	-	-	-	-	1,592,916	2,776,042
1,881,202	26,594,290	370,270	438,552	14,666,766	4,102,448	93,360,138
1,926,924	28,256,740	362,848	769,853	1,261,273	2,519,248	79,327,684

Story County
Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds
For the Last Eight Years

		Modified Accrual			
		2006	2005	2004	2003
Revenues:					
Property and other county tax	\$ 18,297,769	17,565,411	18,110,937	18,001,572	
Interest and penalty on property tax	165,595	174,780	216,990	133,779	
Intergovernmental	10,627,342	10,479,462	9,911,479	10,188,527	
Licenses and permits	35,570	34,244	30,820	28,348	
Charges for service	1,740,150	1,678,633	1,714,981	1,814,530	
Use of money and property	643,740	573,746	417,697	511,801	
Miscellaneous	614,733	322,436	358,339	679,989	
Total	\$ 32,124,899	30,828,712	30,761,243	31,358,546	
Expenditures:					
Operating:					
Public safety and legal services	\$ 7,619,168	7,251,375	7,194,684	6,818,644	
Physical health and social services	1,831,092	1,732,944	1,702,512	1,621,737	
Mental health	7,899,548	7,716,964	7,881,446	7,472,053	
County environment and education	2,393,141	2,976,832	2,441,499	2,221,716	
Roads and transportation	4,145,529	4,498,123	4,350,040	4,243,882	
Governmental services to residents	1,223,635	1,106,653	1,067,021	976,721	
Administration	4,043,982	3,880,953	3,848,303	3,500,402	
Non-program	-	-	-	-	
Debt service	1,203,342	1,193,858	1,191,462	1,200,417	
Capital projects	1,521,996	3,489,827	713,520	460,893	
Total	\$ 31,881,433	33,847,529	30,390,487	28,516,465	

See accompanying independent auditor's report.

Basis			
2002	2001	2000	1999
16,972,505	13,846,337	13,563,444	13,021,534
125,734	126,747	107,656	119,777
9,494,103	9,773,173	9,798,029	9,967,987
21,672	20,988	17,920	20,803
1,628,718	1,374,758	1,299,309	1,240,904
927,047	1,228,089	1,310,350	1,105,044
278,059	271,509	327,174	239,652
29,447,838	26,641,601	26,423,882	25,715,701
6,476,253	6,163,325	5,415,096	4,989,557
1,619,212	1,588,620	1,739,900	1,611,290
7,482,172	7,433,953	7,508,212	7,020,429
2,247,054	2,215,685	2,277,025	2,124,480
4,011,388	4,448,193	4,032,288	3,702,346
908,022	930,415	863,226	870,446
3,655,489	3,226,911	3,250,340	2,663,601
37,877	18,591	19,539	44,525
1,204,684	1,786,970	1,122,816	289,092
3,765,993	8,683,012	4,220,498	4,104,179
31,408,144	36,495,675	30,448,940	27,419,945

Schedule 6

Story County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bullet Proof Vest Partnership Program:	16.607		\$ 3,394
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for Food Stamp Program	10.561		39,551
U.S. Department of Justice:			
Iowa Department of Public Health:			
Tobacco Surveillance Grant	16.000		1,650
Governor's Office of Drug Control Policy:			
Edward Byrne Memorial Formula Grants Program	16.579	05JAG-E31	30,862
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	04A-0220	28,857
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	04-HOTSPOTS-18	73,367
			102,224
Iowa Department of Justice:			
Violence Against Women Formula Grants	16.588	VW-06-63	20,800
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP-06-04 Task 27	6,815
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	PAP 05-410 Task 33	2,335
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	PAP 05-163 Task 62	5,125
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	PAP 06-163 Task 62	389
			7,849
Iowa Department of Public Defense:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEP	4,000
U.S. General Services Administration:			
Office of Iowa Secretary of State:			
Helping America Vote Act Requirements Payments	90.401		95,000

Story County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		47,756
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		11,345
Foster Care - Title IV-E	93.658		24,611
Adoption Assistance	93.659		6,021
Medical Assistance Program	93.778		63,641
Social Services Block Grant	93.667		31,765
Social Services Block Grant	93.667		468,228
			499,993
Office of Iowa Secretary of State:			
Voting Access for Individuals with Disabilities Grants to States	93.617		26,615
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Pre-Disaster Mitigation (PDM) Competitive Grant	97.017	PDMC-PL-07-IA-2005-074	2,000
Emergency Management Performance Grants	97.042		19,051
Homeland Security Grant Program	97.067	2003 SHSGP	1,712
Homeland Security Grant Program	97.067	2003 SHSGP II	66,170
Homeland Security Grant Program	97.067	2004 HSGP	252,589
Homeland Security Grant Program	97.067	2004 HSGP (Citizens Corp)	11,544
Homeland Security Grant Program	97.067	2005 HSGP	27,798
			359,813 *
Total indirect			1,369,597
Total			\$ 1,372,991

* Includes \$285,355 of non-cash awards

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Story 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.

Story County



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Auditor of State

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

To the Officials of Story County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Story County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated December 1, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Story County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Story County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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

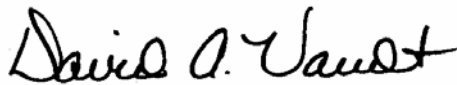
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Story 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

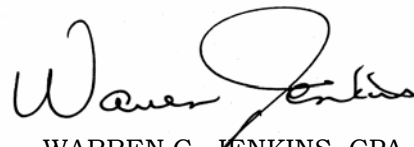
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 1, 2006

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance in
Accordance with OMB Circular A-133**

Story County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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

To the Officials of Story County:

Compliance

We have audited the compliance of Story County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. Story 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 grants applicable to its major federal program is the responsibility of Story County's management. Our responsibility is to express an opinion on Story County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions 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 Story 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 Story County's compliance with those requirements.

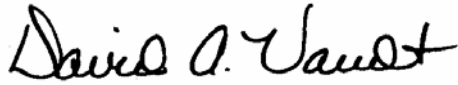
In our opinion, Story County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Story County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Story County's internal control over compliance with requirements that could have a direct and material effect on its 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 1, 2006

Story County
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which were considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) 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).
- (g) The major program was CFDA Number 93.667 – Social Services Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Story County qualified as a low-risk auditee.

Story County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	Applicable Offices
All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.	Treasurer and Agriculture Extension

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

Responses -

County Treasurer - The Story County Treasurer's Office will review operating procedures to obtain the maximum internal control possible under the circumstances. I requested funding for additional staff to help facilitate better internal controls and segregation of duties. Unfortunately that request was denied though other departments were granted staff increases. We will do the best we can to utilize current personnel to implement recommendations outlined above.

Agriculture Extension - As of November 27, 2006, the office manager gets the mail, lists any checks received and forwards the checks to the bookkeeper. Following deposits at the bank by the bookkeeper, the office manager then reviews those deposits.

Conclusion - County Treasurer's response acknowledged. The Treasurer should utilize current personnel to provide additional control.

Agriculture Extension response accepted.

Story County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- II-B-06 County Sheriff – A listing of cash and checks received in the mail is prepared by an employee who is not authorized to make entries to the accounting records. Although the listing is compared to the cash receipt records by an independent person, the comparison was not performed in a timely manner.

Recommendation – An independent person should compare the list of cash and checks received in the mail to the cash receipt records in a timely manner.

Response – This was a matter of time management and priority. We will reprioritize and it will be done in a timely manner to ensure control.

Conclusion – Response accepted.

- II-C-06 Flexible Spending Benefit Account – The County contracts with an outside plan administrator to administer its flexible spending benefit plan for employees and maintains a separate bank account for activity related to the flexible benefit plan. This bank account is administered by the plan administrator. Although the County maintains a ledger documenting the book balance for the account, the ledger balance is not reconciled to the bank account. The County does not obtain account reconciliations from the plan administrator monthly and does not reconcile the County's ledger balance with the plan administrator's balance.

Recommendation – The County should reconcile the flexible benefit ledger balance to the bank balance on a monthly basis. The County should obtain account reconciliations from the plan administrator monthly and reconcile the balances.

Response – Our current flexible benefit plan administrator has partnered with a company that will provide us with online account information on a daily basis. This will allow us to complete account reconciliations on a monthly basis and should replace the account reconciliation provided by the plan administrator in the past.

Conclusion – Response accepted.

- II-D-06 Community Life Program – State warrants received were not always remitted to the County Treasurer in a timely manner.

Recommendation – Receipts should be deposited in a timely manner.

Response – We have been making timely deposits since it was brought to our attention.

Conclusion – Response accepted.

Story County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- II-E-06 Community Life Program Gift Cards – In June 2006, the County purchased \$3,450 of Wal-Mart gift cards in varying denominations. The gift cards were to be used by staff to assist clients in making purchases for client expenses. Prior to the gift card purchase, these types of expenditures were made using a Wal-Mart charge account. Since June 2006, the Department has continued to make client purchases using the charge account and none of the gift cards have been used.

Recommendation – Because inherent internal control problems exist over controlling the custody, distribution and subsequent use of gift cards, the County should discontinue the practice of purchasing gift cards for client purchases. The existing gift cards should be used in a timely manner and adequate documentation should be maintained for all disbursements. The Department should remit all supporting documentation related to the use of the cards to the County Auditor's Office to support the original \$3,450 gift card disbursement made in June 2006.

Response – We agree to use them and will submit all supporting documentation to the Story County Auditor for review and signature. The supporting documentation will be returned to the Story County Community Life Program and retained for the audit.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Story County
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program were noted.

Story County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

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

Paid to	Purpose	Amount
Hickory Park Restaurant	Food for Empowerment Board meeting	\$ 81
Hickory Park Restaurant	Food for Conservation Board volunteer recognition dinner	506

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

Recommendation – The Empowerment Board and Conservation Board should determine and document the public purpose served by these expenditures prior to authorizing any further payments. If this practice is continued, the Boards should establish written policies and procedures, including the requirement for proper documentation.

Empowerment Board Response – The Story County Empowerment Board has addressed the issue of providing food for board meetings during a public meeting forum. The Empowerment Board feels providing food during the board meetings does meet the test of public purpose as the Empowerment Board consists of volunteer citizens who meet over the dinner hour to conduct business related to the oversight of the Empowerment funding allocated to the Story County Empowerment Area. Based upon the recommendation of the County Attorney, the Board does not plan to take further action at this time.

Conservation Board Response – The Conservation Board benefits from approximately 4000 volunteer hours each year. We are in the process of revising our Board's bylaws to authorize this type of expenditure.

Conclusion – Responses accepted.

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

Story County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

Name, Title and Business Connection	Description	Amount
Jan Sayer, employee of the Human Resources department	Cleaning County vehicles	\$ 510
Michelle Good, Sheriff's Office, Husband owns Good and Quick	Auto repair and maintenance	5,601

In accordance with Chapter 331.342(10) of the Code of Iowa, the vehicle cleaning transactions do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

In accordance with Chapter 331.342(4) of the Code of Iowa, the transactions with Good and Quick do not appear to represent conflicts of interest since the Sheriff's office employee's remuneration is not directly affected as a result of the contract and the employee's duties do not directly involve procurement or preparation of any part of the contract.

- IV-E-06 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- IV-H-06 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

Story County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- IV-I-06 County Ordinances – The County Board of Supervisors last completed a compilation of County ordinances in April 2000. Chapter 331.302(9) of the Code of Iowa requires the Board to compile a code of ordinances containing all ordinances in effect at least once every five years.

Recommendation – The compilation of County ordinances should be prepared as required.

Response – We are in the process of moving forward with your recommendation.

Conclusion – Response accepted.

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

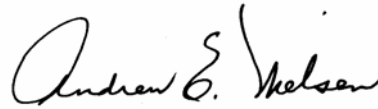
Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.

Story County

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
Jeffrey L. Lenhart, Staff Auditor
Donna R. Neubauer, Staff Auditor
Shawn R. Elsbury, Staff Auditor
Jenny R. Schneider, Assistant Auditor
Janet K. Mortvedt, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State