



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____

June 4, 2007 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on Montgomery County, Iowa.

The County had local tax revenue of \$14,045,471 for the year ended June 30, 2006, which included \$789,196 in tax credits from the state. The County forwarded \$10,366,862 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,678,609 of the local tax revenue to finance County operations, a 1.5% decrease from the prior year. Other revenues included charges for service of \$739,023, operating grants, contributions and restricted interest of \$2,809,950, capital grants, contributions and restricted interest of \$566,322, local option sales and services tax of \$253,099, unrestricted investment earnings of \$123,925 and other general revenues of \$88,837.

Expenses for County operations totaled \$7,563,588 an 8.8% increase over the prior year. Expenses included \$2,651,546 for roads and transportation, \$1,568,277 for public safety and legal services and \$899,688 for mental health.

A copy of the audit 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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MONTGOMERY COUNTY

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

JUNE 30, 2006

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Montgomery County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Glen Benskin	Board of Supervisors	Jan 2007
Karen Blue	Board of Supervisors	Jan 2007
Dale Carlson	Board of Supervisors	Jan 2007
Bryant Amos	Board of Supervisors	Jan 2009
James Parker	Board of Supervisors	Jan 2009
Joni Ernst	County Auditor	Jan 2009
Anita Walker	County Treasurer	Jan 2007
JoAnn Butler	County Recorder	Jan 2007
Anthony Updegrave	County Sheriff	Jan 2009
Bruce Swanson	County Attorney	Jan 2007
Stacey Vondielingen	County Assessor	Jan 2010

Montgomery County



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Independent Auditor's Report

To the Officials of Montgomery County:

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

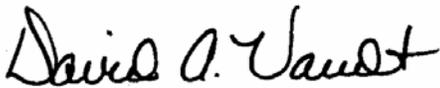
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 Montgomery 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 February 22, 2007 on our consideration of Montgomery 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise Montgomery 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 two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the three years ended June 30, 2003 (which are not presented herein) were audited by other auditors who 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



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 22, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 2%, or approximately \$161,000, from fiscal 2005 to fiscal 2006. Property tax decreased approximately \$59,000 from fiscal 2005 to fiscal 2006. Charges for service increased approximately \$98,000, operating grants, contributions and restricted interest increased approximately \$9,000, capital grants, contributions, and restricted interest increased approximately \$54,000, unrestricted investment earnings increased approximately \$69,000 and local option sales tax decreased approximately \$22,000 from the prior fiscal year to the current fiscal year.
- The County's current fiscal year program expenses increased 8.8%, or approximately \$612,000, over the prior fiscal year. County environment and education expenses increased approximately \$213,000, roads and transportation expenses increased approximately \$172,000, governmental services to residents expenses increased approximately \$119,000 and mental health expenses increased approximately \$79,000.
- The County's net assets increased 12%, or approximately \$696,000, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- The *Government-wide Financial Statements* consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Montgomery 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 Montgomery 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 Montgomery County acts solely as an agent or custodian for the benefit of those outside of county government (Agency Funds).
- Notes to Financial Statements provide additional information that is 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 governmental funds 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'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information 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 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. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

Fund Financial Statements

The County has two kinds of funds:

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

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

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for 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. The analysis below shows the changes in the net assets of governmental activities from a year ago.

Net Assets of Governmental Activities		
(Expressed in Thousands)		
	June 30,	
	2006	2005
Current and other assets	\$ 7,097	6,796
Capital assets	3,632	3,057
Total assets	<u>10,729</u>	<u>9,853</u>
Long-term liabilities	292	358
Other liabilities	4,001	3,755
Total liabilities	<u>4,293</u>	<u>4,113</u>
Net assets:		
Invested in capital assets	3,632	3,045
Restricted	2,180	2,320
Unrestricted	<u>624</u>	<u>375</u>
Total net assets	<u>\$ 6,436</u>	<u>5,740</u>

The largest portion of the County's net assets is invested in capital assets (i.e. land, buildings, infrastructure, equipment and construction in progress). Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The significant increase in net assets invested in capital assets is the result of the purchase of two motorgraders and various road projects.

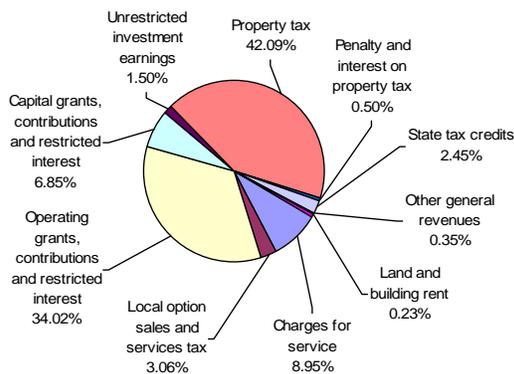
Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased from approximately \$375,000 at June 30, 2005 to approximately \$624,000 at the end of this year, an increase of 66%.

Changes in Net Assets of Governmental Activities

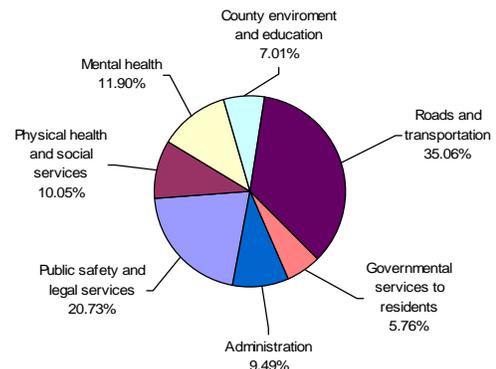
(Expressed in Thousands)

	Year ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 739	641
Operating grants, contributions and restricted interest	2,810	2,801
Capital grants, contributions and restricted interest	566	512
General revenues:		
Property tax	3,477	3,536
Penalty and interest on property tax	41	36
State tax credits	202	200
Local option sales and services tax	253	275
Grants and contributions not restricted to specific purpose	-	4
Unrestricted investment earnings	124	55
Land and building rent	19	21
Other general revenues	29	18
Total revenues	<u>8,260</u>	<u>8,099</u>
Program expenses:		
Public safety and legal services	1,568	1,561
Physical health and social services	760	779
Mental health	900	821
County environment and education	530	317
Roads and transportation	2,652	2,480
Governmental services to residents	436	317
Administration	718	675
Non-program	-	1
Interest on long-term debt	-	1
Total expenses	<u>7,564</u>	<u>6,952</u>
Increase in net assets	696	1,147
Net assets beginning of year	5,740	4,593
Net assets end of year	<u>\$ 6,436</u>	<u>5,740</u>

Revenue by Source



Expenses by Program



The County decreased property tax rates by \$.25 per \$1,000 of taxable valuation for the urban levy and \$.11 per \$1,000 of taxable valuation for the countywide levy. The general basic levy decreased \$.38 per \$1,000 of taxable valuation, the general supplemental levy increased approximately \$.13 per \$1,000 of taxable valuation and the mental health levy remained the same at \$.75 per \$1,000 of taxable valuation. The rural assessed property taxable valuation decreased approximately \$391,000. The countywide assessed property taxable valuation decreased approximately \$2.1 million. Based on the property tax rate decreases, property tax decreased approximately \$59,000.

The cost of all governmental activities this year was \$7.6 million compared to \$6.9 million last year. Overall, the County's governmental activities revenues, including intergovernmental aid and fees for services, increased in 2006 from approximately \$3,954,000 to \$4,115,000, principally due to receiving capital contributions of approximately \$468,000 from federal and state sources for road projects and \$98,000 from a federal grant through the Help America Vote Act to purchase mandated voting equipment. The County paid for the remaining "public benefit" portion of government activities with approximately \$4,144,000 in taxes and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Montgomery County completed the year, its governmental funds reported a combined fund balance of \$2.8 million, a decrease of approximately \$220,000 under last year's total of \$3 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The primary reasons for the decrease in property tax revenue is due to the decrease in the general basic and rural services basic levies. The taxable property valuation decreased from \$374,464,258 in fiscal 2005 to \$372,327,696 in fiscal 2006. The general basic levy rate decreased from \$4.48 per \$1,000 of taxable valuation in fiscal 2005 to \$4.10 per \$1,000 of taxable valuation in fiscal 2006.

The County has continued to look for ways to effectively manage the cost of mental health services. The Mental Health Fund balance at year end decreased approximately \$43,000 from the prior year to approximately \$206,000. For the year, expenditures totaled approximately \$900,000, an increase of approximately \$54,000, or 6.4%, over the prior year. A decrease in the intergovernmental revenues (state funding) also caused the fund balance to decline.

The Rural Services Fund ending fund balance increased approximately \$35,000 over the prior year to approximately \$147,000. Property tax revenue for the Rural Services Fund increased approximately \$34,000 in fiscal 2006 due to an increase in the rural services supplemental levy of \$.14439 per \$1,000 of taxable valuation and intergovernmental revenues increased by approximately \$5,000 in fiscal 2006 over fiscal 2005.

The Secondary Roads Fund expenditures increased approximately \$791,000 over the prior year, principally due to the significant road projects during fiscal 2006. This increase in expenditures resulted in a decrease in the Secondary Roads Fund ending balance of approximately \$299,000, or 17%. Montgomery County maintained approximately 727 miles of gravel, dirt and paved roads with the resources of this fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, Montgomery County amended its budget three times. The first amendment was made in September 2005 and resulted in an increase in budgeted receipts and disbursements related to grant funds received from the State of Iowa for voting equipment and grant moneys related to secondary roads projects, along with the other smaller amounts of unexpected costs. The second amendment was made in April 2006 to provide for additional receipts and disbursements for a Community Development Block Grant passed through the County, along with additional costs in certain County departments for things such as increased health insurance costs, wages, equipment, regional jail expenses and for the movement of the secondary roads project expenses from the roads and transportation function to the capital projects function. The third amendment was due to various increased costs associated with the public safety and legal services function over what had been anticipated.

The County's receipts were approximately \$1,388,000 less than budgeted, a variance of 18%. The most significant variance resulted from the County receiving less intergovernmental receipts than anticipated due to slower progress than planned on secondary roads projects.

Total disbursements were approximately \$2,384,000 less than the amended budget. Actual disbursements for the capital projects, roads and transportation and governmental services to residents functions were approximately \$1,428,000, \$573,000 and \$127,000, respectively, less than budgeted. This was primarily due to slower progress than anticipated on secondary roads projects, lower operating and maintenance costs and voting equipment costing less than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, Montgomery County had approximately \$3.6 million invested in a broad range of capital assets, including public safety equipment, buildings, roads and bridges. This is a net increase (including additions and deletions) of approximately \$574,000, or 19%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2006	2005
Land	\$ 372	372
Construction in progress	165	-
Buildings and improvements	199	185
Equipment and vehicles	2,058	1,936
Infrastructure	838	565
Total	\$ 3,632	3,058

Montgomery County had depreciation expense of \$306,648 in fiscal 2006 and total accumulated depreciation of \$2,214,951 at June 30, 2006. Additional information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2006, Montgomery County had disaster aid loans payable in the amount of \$109,030 compared to \$163,545 at June 30, 2005.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2006	2005
Disaster aid loan	\$ 109	164
Capital lease purchase agreement	-	12
Total	\$ 109	176

For additional information about the County's long-term debt, see Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Montgomery County's elected and appointed officials and citizens considered many factors when setting the county budget, tax rates and fees for the various County services. One of the factors considered was the County's valuations, which increased \$19 million over the previous year due to the state's equalization order increasing agricultural land nearly 8.5%. Faced with exceeding the general basic levy cap for the third year in a row, the decision was made to decrease departmental expenditures and drop the general basic levy from \$4.10 per \$1,000 of taxable valuation to the maximum cap of \$3.50 per \$1,000 of taxable valuation for fiscal year 2007.

The Montgomery County Board of Supervisors dedicates 80% of the local option sales tax received for property tax relief to the Secondary Roads Fund, 10% for public safety, 5% for County Courthouse repairs and 5% for the County Fair.

Budgeted disbursements are expected to decrease approximately \$435,000. The largest decreases noted are in the county environment and education, roads and transportation, and governmental services to residents functions. The County has added no major new programs or initiatives to the 2007 budget.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Montgomery 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 Joni Ernst at the Montgomery County Auditor's Office, by mail at 105 E. Coolbaugh Street, PO Box 469, Red Oak, Iowa 51566, or by telephone at (712) 623-5127.

Montgomery County

Basic Financial Statements

Exhibit A

Montgomery County
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 2,364,873
Receivables:	
Property tax:	
Delinquent	4,086
Succeeding year	3,592,000
Interest and penalty on property tax	5,572
Accounts	11,650
Accrued interest	12,792
Due from other governments	731,404
Inventories	354,459
Prepaid items	20,447
Capital assets (net of accumulated depreciation)	3,631,993
Total assets	<u>10,729,276</u>
Liabilities	
Accounts payable	199,132
Salaries and benefits payable	96,693
Due to other governments	113,364
Deferred revenue:	
Succeeding year property tax	3,592,000
Long-term liabilities:	
Portion due or payable within one year:	
Disaster aid loan	54,515
Compensated absences	126,428
Portion due or payable after one year:	
Disaster aid loan	54,515
Compensated absences	56,740
Total liabilities	<u>4,293,387</u>
Net Assets	
Invested in capital assets	3,631,993
Restricted for:	
Supplemental levy purposes	331,336
Mental health purposes	206,377
Secondary roads purposes	1,536,593
Debt service	152
Other purposes	105,437
Unrestricted	624,001
Unreserved	
Total net assets	<u>\$ 6,435,889</u>

See notes to financial statements.

Montgomery County
Statement of Activities
Year ended June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,568,227	162,407	50,833	-	(1,354,987)
Physical health and social services	760,113	169,515	295,246	-	(295,352)
Mental health	899,688	166,096	410,978	-	(322,614)
County environment and education	529,925	11,867	271,011	-	(247,047)
Roads and transportation	2,651,546	12,657	1,780,923	468,452	(389,514)
Governmental services to residents	436,094	191,364	569	97,870	(146,291)
Administration	717,815	25,117	390	-	(692,308)
Non-program	180	-	-	-	(180)
Total	\$ 7,563,588	739,023	2,809,950	566,322	(3,448,293)
General Revenues:					
Property and other county tax levied for:					
General purposes					3,476,565
Debt service					2
Penalty and interest on property tax					40,776
State tax credits					202,042
Local option sales and services tax					253,099
Unrestricted investment earnings					123,925
Land and building rent					18,897
Miscellaneous					29,164
Total general revenues					4,144,470
Change in net assets					696,177
Net assets beginning of year					5,739,712
Net assets end of year					\$ 6,435,889

See notes to financial statements.

Montgomery County

Balance Sheet
Governmental Funds

June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash and pooled investments	\$ 911,516	311,071	164,870	887,017
Receivables:				
Property tax:				
Delinquent	3,565	404	98	-
Succeeding year	2,208,000	250,000	1,123,000	-
Interest and penalty on property tax	5,572	-	-	-
Accounts	10,530	148	70	902
Accrued interest	12,792	-	-	-
Due from other funds	4,943	-	-	29,217
Due from other governments	55,757	27,087	-	608,731
Inventories	-	-	-	354,459
Prepaid items	18,091	-	-	2,300
Total assets	\$ 3,230,766	588,710	1,288,038	1,882,626
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 31,343	26,293	1,871	139,625
Salaries and benefits payable	61,362	-	6,467	28,864
Due to other funds	-	-	9,446	-
Due to other governments	7,215	106,040	-	109
Deferred revenue:				
Succeeding year property tax	2,208,000	250,000	1,123,000	-
Other	8,475	359	97	295,440
Total liabilities	2,316,395	382,692	1,140,881	464,038
Fund balances:				
Reserved for:				
Supplemental levy purposes	263,495	-	80,299	-
Debt service	-	-	-	-
Resource enhancement and protection	57,736	-	-	-
Unreserved:				
Designated	71,790	-	-	50,000
Undesignated, reported in:				
General fund	521,350	-	-	-
Special revenue funds	-	206,018	66,858	1,368,588
Total fund balances	914,371	206,018	147,157	1,418,588
Total liabilities and fund balances	\$ 3,230,766	588,710	1,288,038	1,882,626

See notes to financial statements.

Nonmajor	Total
90,399	2,364,873
19	4,086
11,000	3,592,000
-	5,572
-	11,650
-	12,792
-	34,160
39,829	731,404
-	354,459
56	20,447
<u>141,303</u>	<u>7,131,443</u>
-	199,132
-	96,693
24,714	34,160
-	113,364
11,000	3,592,000
309	304,680
<u>36,023</u>	<u>4,340,029</u>
-	343,794
135	135
-	57,736
-	121,790
-	521,350
105,145	1,746,609
<u>105,280</u>	<u>2,791,414</u>
<u>141,303</u>	<u>7,131,443</u>

Montgomery County

Montgomery County

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

June 30, 2006

Total governmental fund balances (page 19) \$ 2,791,414

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 \$5,846,944 and the accumulated depreciation is \$2,214,951. 3,631,993

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 304,680

Long-term liabilities, including a disaster aid loan payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (292,198)

Net assets of governmental activities (page 16) \$ 6,435,889

See notes to financial statements.

Montgomery County

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

Year ended June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,176,917	263,475	1,042,854	-
Interest and penalty on property tax	40,657	-	-	-
Intergovernmental	830,001	591,432	64,158	1,946,299
Licenses and permits	5,300	-	-	1,095
Charges for service	271,812	-	1,816	-
Use of money and property	143,142	-	-	-
Miscellaneous	39,718	1,474	-	20,689
Total revenues	3,507,547	856,381	1,108,828	1,968,083
Expenditures:				
Operating:				
Public safety and legal services	1,302,966	-	213,642	-
Physical health and social services	767,606	-	-	-
Mental health	-	899,688	-	-
County environment and education	255,251	-	41,186	-
Roads and transportation	-	-	187,701	2,423,651
Governmental services to residents	414,427	-	1,479	-
Administration	683,123	-	-	-
Non-program	180	-	-	-
Debt service	-	-	-	54,515
Capital projects	246	-	6,398	646,253
Total expenditures	3,423,799	899,688	450,406	3,124,419
Excess (deficiency) of revenues over (under) expenditures	83,748	(43,307)	658,422	(1,156,336)
Other financing sources (uses):				
Operating transfers in	58,371	-	-	856,880
Operating transfers out	(9,060)	-	(623,401)	-
Total other financing sources (uses)	49,311	-	(623,401)	856,880
Net change in fund balances	133,059	(43,307)	35,021	(299,456)
Fund balances beginning of year	781,312	249,325	112,136	1,718,044
Fund balances end of year	\$ 914,371	206,018	147,157	1,418,588

See notes to financial statements.

Nonmajor	Total
253,101	3,736,347
-	40,657
285,832	3,717,722
-	6,395
3,041	276,669
569	143,711
1,926	63,807
544,469	7,985,308
45,596	1,562,204
-	767,606
-	899,688
240,185	536,622
-	2,611,352
10,830	426,736
-	683,123
-	180
8,988	63,503
-	652,897
305,599	8,203,911
238,870	(218,603)
9,060	924,311
(291,850)	(924,311)
(282,790)	-
(43,920)	(218,603)
149,200	3,010,017
105,280	2,791,414

Montgomery 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) \$ (218,603)

***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 exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 898,855	
Depreciation expense	(306,648)	592,207

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (17,680)

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	(6,681)	
Other	281,138	274,457

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. 66,490

Compensated absences 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. (694)

Change in net assets of governmental activities (page 17) \$ 696,177

See notes to financial statements.

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

Assets

Cash and pooled investments:

County Treasurer	\$ 684,214
Other County officials	16,937

Receivables:

Property tax:	
Delinquent	22,586
Succeeding year	9,800,000
Accounts	17,634
Special assessments	17,458

Prepaid items	3,100
---------------	-------

Total assets	10,561,929
---------------------	------------

Liabilities

Accounts payable	4,891
------------------	-------

Salaries and benefits payable	3,504
-------------------------------	-------

Due to other governments	10,538,788
--------------------------	------------

Trusts payable	10,439
----------------	--------

Compensated absences	4,307
----------------------	-------

Total liabilities	10,561,929
--------------------------	------------

Net assets	\$ -
-------------------	------

See notes to financial statements.

Montgomery County

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

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

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: Montgomery County Assessor's Conference Board, Montgomery County Emergency Management Agency and County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

In addition, the County is involved in the following jointly governed organizations: Alcohol and Drug Assistance Agency, Fourth Judicial District, Southwest Iowa Planning Council, Red Oak Industrial Foundation, West Central Development Corporation, Sanitary Landfill, Waubonsie Mental Health Center, Nishna Productions, Golden Hills – Resource Conservation and Development, Southwest Iowa Juvenile Detention Center. Financial transactions of these organizations are not included in the County's financial statements.

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 consists of capital assets, net of accumulated depreciation.

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, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The County reports the following major governmental funds:

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

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 financial statements:

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 in non-negotiable certificates of deposit 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.

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

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

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets acquired after July 1, 2003 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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	\$ 65,000
Land, buildings and improvements	25,000
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	40 - 50
Building improvements	20 - 50
Infrastructure	30 - 50
Equipment	2 - 20
Vehicles	3 - 10

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of 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, sick leave and compensatory time 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 applicable governmental activities column of the Statement of Net Assets.

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) Due From and Due To Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Local Option Sales and Services Tax	\$ 4,943
Special Revenue: Secondary Roads	Special Revenue: Rural Services Local Option Sales and Services Tax	9,446 19,771 <u>29,217</u>
Total		<u>\$ 34,160</u>

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

(4) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales and Services Tax	\$ 58,371
Special Revenue: Secondary Roads	Special Revenue: Rural Services Local Option Sales and Services Tax	623,401 233,479 <u>856,880</u>
Debt Service	General	<u>9,060</u>
Total		<u>\$ 924,311</u>

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

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 371,673	-	-	371,673
Construction in progress	-	447,697	(282,979)	164,718
Total capital assets not being depreciated	371,673	447,697	(282,979)	536,391
Capital assets being depreciated:				
Buildings	491,525	25,944	-	517,469
Equipment and vehicles	3,721,118	635,214	(415,891)	3,940,441
Infrastructure, road network	569,664	282,979	-	852,643
Total capital assets being depreciated	4,782,307	944,137	(415,891)	5,310,553
Less accumulated depreciation for:				
Buildings	306,126	12,330	-	318,456
Equipment and vehicles	1,785,429	284,616	(188,211)	1,881,834
Infrastructure, road network	4,959	9,702	-	14,661
Total accumulated depreciation	2,096,514	306,648	(188,211)	2,214,951
Total capital assets being depreciated, net	2,685,793	637,489	(227,680)	3,095,602
Governmental activities capital assets, net	\$ 3,057,466	1,085,186	(510,659)	3,631,993

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 33,695
Physical health and social services	2,734
County environment and education	12,172
Roads and transportation	238,763
Administration	19,284
Total depreciation expense - governmental activities	<u>\$ 306,648</u>

(6) Due to Other Governments

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

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ 7,215
Special Revenue:		
Mental Health	Services	106,040
Secondary Roads	Services	109
		<u>106,149</u>
Total for governmental funds		<u>\$ 113,364</u>
Agency:		
County Assessor	Collections	\$ 316,825
Schools		5,533,466
Community Colleges		242,765
Corporations		2,669,691
Auto License and Use Tax		203,506
County Hospital		1,176,782
All other		<u>395,753</u>
Total for agency funds		<u>\$ 10,538,788</u>

(7) Changes in Long-Term Liabilities

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

	<u>Capital</u>			
	<u>Lease</u>	<u>Disaster</u>	<u>Compen-</u>	
	<u>Purchase</u>	<u>Aid</u>	<u>sated</u>	
	<u>Agreement</u>	<u>Loan</u>	<u>Absences</u>	<u>Total</u>
Balance beginning of year	\$ 11,975	163,545	182,474	357,994
Increases	-	-	164,564	164,564
Decreases	11,975	54,515	163,870	230,360
Balance end of year	<u>\$ -</u>	<u>109,030</u>	<u>183,168</u>	<u>292,198</u>
Due within one year	<u>\$ -</u>	<u>54,515</u>	<u>126,428</u>	<u>180,943</u>

Disaster Aid Loan

The County has entered into a loan for disaster aid. The loan is interest free and will mature in July 2008.

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

Year ending June 30,	Amount
2007	\$ 54,515
2008	54,515
Total	\$ 109,030

During the year ended June 30, 2006, \$54,515 was retired.

(8) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$167,239, \$159,019 and \$154,565, respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) Designated Fund Balance

The County has designated \$32,980 and \$38,810 of local option sales and services tax in the General Fund for Courthouse repairs and public safety, respectively. The County has also designated \$50,000 from the Secondary Roads Fund for a new building.

Montgomery County

Required Supplementary Information

Montgomery County

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

Required Supplementary Information

Year ended June 30, 2006

	Actual	Budgeted Amounts	
		Original	Final
Receipts:			
Property and other county tax	\$ 3,754,210	3,781,455	3,781,455
Interest and penalty on property tax	40,521	37,480	37,480
Intergovernmental	3,499,545	3,639,862	4,940,321
Licenses and permits	6,715	4,750	4,750
Charges for service	275,318	275,150	272,050
Use of money and property	133,823	100,220	100,220
Miscellaneous	60,750	22,670	22,670
Total receipts	7,770,882	7,861,587	9,158,946
Disbursements:			
Public safety and legal services	1,571,263	1,494,605	1,619,362
Physical health and social services	766,538	780,456	829,585
Mental health	881,966	926,627	926,627
County environment and education	508,579	484,646	531,428
Roads and transportation	2,605,606	3,178,940	3,178,940
Governmental services to residents	411,450	521,223	538,723
Administration	703,046	728,017	746,017
Non-program	180	180	180
Debt service	63,503	97,525	97,525
Capital projects	635,858	507,540	2,063,550
Total disbursements	8,147,989	8,719,759	10,531,937
Excess (deficiency) of receipts over (under) disbursements	(377,107)	(858,172)	(1,372,991)
Other financing sources, net	-	36,630	36,630
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(377,107)	(821,542)	(1,336,361)
Balance beginning of year	2,741,980	2,282,379	2,282,379
Balance end of year	\$ 2,364,873	1,460,837	946,018

See accompanying independent auditor's report.

Final to Actual Variance
(27,245)
3,041
(1,440,776)
1,965
3,268
33,603
38,080
(1,388,064)
48,099
63,047
44,661
22,849
573,334
127,273
42,971
-
34,022
1,427,692
2,383,948
995,884
(36,630)
959,254
459,601
1,418,855

Montgomery 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	\$ 7,770,882	214,426	7,985,308
Expenditures	8,147,989	55,922	8,203,911
Net	(377,107)	158,504	(218,603)
Beginning fund balances	2,741,980	268,037	3,010,017
Ending fund balances	\$ 2,364,873	426,541	2,791,414

See accompanying independent auditor's report.

Montgomery 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 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 and the Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$1,812,178. The budget amendments are reflected in the final budgeted amounts.

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

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

Montgomery County

Other Supplementary Information

Montgomery County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2006

	Special Revenue			
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Flood and Erosion	Local Option Sales and Services Tax
Assets				
Cash and pooled investments	\$ 34,193	1	811	24,714
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Due from other governments	-	-	-	24,714
Prepaid items	-	56	-	-
Total assets	\$ 34,193	57	811	49,428
Liabilities and Fund Equity				
Liabilities:				
Due to other funds	\$ -	-	-	24,714
Deferred revenue:				
Succeeding year property tax	-	-	-	-
Other	-	-	-	-
	-	-	-	24,714
Fund equity:				
Fund balances:				
Reserved for debt service	-	-	-	-
Unreserved	34,193	57	811	24,714
Total fund equity	34,193	57	811	24,714
Total liabilities and fund equity	\$ 34,193	57	811	49,428

See accompanying independent auditor's report.

Seized and Forfeited Property - County Attorney	Seized and Forfeited Property - County Sheriff	Regional Jail	Conservation Land Acquisition	Debt Service	Total
2,076	7,937	-	20,534	133	90,399
-	-	-	-	19	19
-	-	-	-	11,000	11,000
-	-	1,656	13,459	-	39,829
-	-	-	-	-	56
2,076	7,937	1,656	33,993	11,152	141,303
-	-	-	-	-	24,714
-	-	-	-	11,000	11,000
-	-	292	-	17	309
-	-	292	-	11,017	36,023
-	-	-	-	135	135
2,076	7,937	1,364	33,993	-	105,145
2,076	7,937	1,364	33,993	135	105,280
2,076	7,937	1,656	33,993	11,152	141,303

Montgomery County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Community Development Block Grant	Special Flood and Erosion
Revenues:				
Property and other county tax	\$ -	-	-	-
Intergovernmental	-	-	240,185	-
Charges for service	3,041	-	-	-
Use of money and property	535	34	-	-
Miscellaneous	-	-	-	-
Total revenues	3,576	34	240,185	-
Expenditures:				
Operating:				
Public safety and legal services	-	-	-	-
County environment and education	-	-	240,185	-
Governmental services to residents	2,545	8,285	-	-
Debt service	-	-	-	-
Total expenditures	2,545	8,285	240,185	-
Excess (deficiency) of revenues over (under) expenditures	1,031	(8,251)	-	-
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,031	(8,251)	-	-
Fund balances beginning of year	33,162	8,308	-	811
Fund balances end of year	\$ 34,193	57	-	811

See accompanying independent auditor's report.

Revenue							
Local Option Sales and Services Tax	Seized and Forfeited Property - County Attorney	Seized and Forfeited Property - County Sheriff	Regional Jail	Conservation Land Acquisition	Debt Service	Total	
253,099	-	-	-	-	2	253,101	
-	-	-	32,188	13,459	-	285,832	
-	-	-	-	-	-	3,041	
-	-	-	-	-	-	569	
-	6	1,920	-	-	-	1,926	
253,099	6	1,920	32,188	13,459	2	544,469	
-	-	14,772	30,824	-	-	45,596	
-	-	-	-	-	-	240,185	
-	-	-	-	-	-	10,830	
-	-	-	-	-	8,988	8,988	
-	-	14,772	30,824	-	8,988	305,599	
253,099	6	(12,852)	1,364	13,459	(8,986)	238,870	
-	-	-	-	-	9,060	9,060	
(291,850)	-	-	-	-	-	(291,850)	
(291,850)	-	-	-	-	9,060	(282,790)	
(38,751)	6	(12,852)	1,364	13,459	74	(43,920)	
63,465	2,070	20,789	-	20,534	61	149,200	
24,714	2,076	7,937	1,364	33,993	135	105,280	

Montgomery County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	1,998	155,771	98,509	4,380
Other County officials	16,937	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	178	264	8,957	385
Succeeding year	-	110,000	163,000	5,426,000	238,000
Accounts	-	-	2,262	-	-
Special assessments	-	-	-	-	-
Prepaid items	-	-	3,100	-	-
Total assets	\$ 16,937	112,176	324,397	5,533,466	242,765
Liabilities					
Accounts payable	\$ -	-	228	-	-
Salaries and benefits payable	-	-	3,037	-	-
Due to other governments	6,500	112,176	316,825	5,533,466	242,765
Trusts payable	10,437	-	-	-	-
Compensated absences	-	-	4,307	-	-
Total liabilities	\$ 16,937	112,176	324,397	5,533,466	242,765

See accompanying independent auditor's report.

Corporations	Townships	Auto License and Use Tax	County Hospital	E911 Service	Other	Total
63,763	1,651	203,506	21,920	110,634	22,082	684,214
-	-	-	-	-	-	16,937
10,928	10	-	1,862	-	2	22,586
2,595,000	114,000	-	1,153,000	-	1,000	9,800,000
-	-	-	-	15,372	-	17,634
-	-	-	-	-	17,458	17,458
-	-	-	-	-	-	3,100
2,669,691	115,661	203,506	1,176,782	126,006	40,542	10,561,929
-	-	-	-	397	4,266	4,891
-	-	-	-	-	467	3,504
2,669,691	115,661	203,506	1,176,782	125,609	35,807	10,538,788
-	-	-	-	-	2	10,439
-	-	-	-	-	-	4,307
2,669,691	115,661	203,506	1,176,782	126,006	40,542	10,561,929

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

Year ended June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets and Liabilities					
Balances beginning of year	\$ 27,319	106,898	306,706	5,260,513	234,124
Additions:					
Property and other county tax	-	110,208	163,592	5,431,346	238,436
E911 surcharges	-	-	-	-	-
Intergovernmental	-	-	-	-	-
State tax credits	-	6,338	9,011	312,792	13,924
Drivers license fees	-	-	-	-	-
Office fees and collections	244,563	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	197,273	-	-	-	-
Miscellaneous	1,162	-	1,623	-	-
Total additions	442,998	116,546	174,226	5,744,138	252,360
Deductions:					
Agency remittances:					
To other funds	133,628	-	-	-	-
To other governments	109,648	111,268	156,535	5,471,185	243,719
Trusts paid out	210,104	-	-	-	-
Total deductions	453,380	111,268	156,535	5,471,185	243,719
Balances end of year	\$ 16,937	112,176	324,397	5,533,466	242,765

See accompanying independent auditor's report.

Corpora- tions	Townships	Auto License and Use Tax	County Hospital	E911 Service	Other	Total
2,560,842	103,431	212,753	1,172,729	78,186	65,815	10,129,316
2,564,114	115,710	-	1,154,905	-	1,397	9,779,708
-	-	-	-	76,583	-	76,583
-	-	-	-	10,743	24,599	35,342
169,851	5,636	-	69,518	-	84	587,154
-	-	84,595	-	-	-	84,595
-	-	-	-	49	-	244,612
-	-	-	-	-	2,684	2,684
-	-	2,372,916	-	-	-	2,372,916
-	-	-	-	-	1,115	1,115
-	-	-	-	-	21,572	218,845
-	-	-	-	2,237	300	5,322
2,733,965	121,346	2,457,511	1,224,423	89,612	51,751	13,408,876
-	-	122,476	-	-	-	256,104
2,625,116	109,116	2,344,282	1,220,370	41,792	77,024	12,510,055
-	-	-	-	-	-	210,104
2,625,116	109,116	2,466,758	1,220,370	41,792	77,024	12,976,263
2,669,691	115,661	203,506	1,176,782	126,006	40,542	10,561,929

Schedule 5

Montgomery County

Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

For the Last Six Years

	Modified Accrual Basis					
	2006	2005	2004	2003	2002	2001
Revenues:						
Property and other county tax	\$ 3,736,347	3,833,332	3,585,446	3,574,165	3,111,868	2,846,791
Interest and penalty on property tax	40,657	36,153	36,484	53,932	37,515	41,017
Intergovernmental	3,717,722	3,254,490	3,370,910	3,963,034	3,334,778	3,669,037
Licenses and permits	6,395	3,802	5,051	5,165	4,580	3,657
Charges for service	276,669	274,344	324,964	230,626	211,918	196,648
Use of money and property	143,711	76,530	53,678	75,892	103,130	152,649
Miscellaneous	63,807	154,139	70,709	20,213	73,536	18,966
Total	\$ 7,985,308	7,632,790	7,447,242	7,923,027	6,877,325	6,928,765
Expenditures:						
Operating:						
Public safety and legal services	\$ 1,562,204	1,561,279	1,538,008	1,612,309	1,541,681	1,520,583
Physical health and social services	767,606	748,024	754,554	705,939	615,063	532,914
Mental health	899,688	845,478	821,818	922,694	918,130	547,500
County environment and education	536,622	352,028	412,139	550,533	386,154	265,338
Roads and transportation	2,611,352	2,435,439	2,559,409	2,440,342	2,437,700	2,269,604
Governmental services to residents	426,736	330,171	383,206	396,655	390,575	331,021
Administration	683,123	648,543	615,399	617,103	543,013	579,917
Non-program	180	815	172	92	4,345	2,587
Debt service	63,503	114,041	118,481	190,681	191,447	177,163
Capital projects	652,897	1,528	2,393	366,708	75,500	415,876
Total	\$ 8,203,911	7,037,346	7,205,579	7,803,056	7,103,608	6,642,503

See accompanying independent auditor's report.

Montgomery County
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for Food Stamp Program	10.561		\$ 7,311
Hungry Canyons Alliance:			
Soil and Water Conservation	10.902	HC 05-9F	166,692
Soil and Water Conservation	10.902	HC 03-2F	78,748
			<u>245,440</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	01-WS-081-00	240,185
Elections Assistance Commission:			
Office of Secretary of State:			
Help America Vote Act Requirements Payment	90.401	06-HAVA-69-SA1	499
Help America Vote Act Requirements Payment	90.401	06-HAVA-69-100	95,465
			<u>95,964</u>
U.S. Department of Health and Human Services:			
Ringgold County Public Health:			
Immunization Grants	93.268	5885I419	2,944
Immunization Grants	93.268	5886I419	1,378
			<u>4,322</u>
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		9,645
Refugee and Entrant Assistance - State Administered Programs	93.566		12
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		1,884
Foster Care - Title IV-E	93.658		5,112
Adoption Assistance	93.659		1,189
Medical Assistance Program	93.778		10,471
Social Services Block Grant	93.667		6,420
Social Services Block Grant	93.667		50,001
			<u>56,421</u>

Schedule 6

Montgomery 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:			
Office of Secretary of State:			
Voting Access for Individuals with Disabilities - Grants to States	93.617	06-HAVA-69-001	1,906
Iowa Department of Public Health:			
National Bioterrorism Hospital Preparedness Program	93.889	5886BT04-12	22,134
Taylor County Public Health Agency:			
Maternal and Child Health Services Block Grant to the States	93.994	5885MC07	2,778
Maternal and Child Health Services Block Grant to the States	93.994	5886MH25	3,767
			6,545
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Emergency Management Performance Grants	97.042		7,856
Homeland Security Grant Program	97.067	2004-GE-T4-0046 (HSGP Equip)	46,599 *
State Homeland Security Program (SHSP)	97.073	2005-GE-TS-0056	1,416
Total			\$ 764,412

* - Non-cash award

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



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Montgomery County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montgomery 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 February 22, 2007. 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 Montgomery 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 Montgomery 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, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

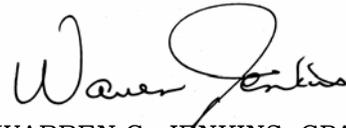
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all 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 Montgomery County and other parties to whom Montgomery 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 Montgomery 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

February 22, 2007



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Officials of Montgomery County:

Compliance

We have audited the compliance of Montgomery 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 each of its major federal programs for the year ended June 30, 2006. Montgomery County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Montgomery County's management. Our responsibility is to express an opinion on Montgomery 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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montgomery 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 Montgomery County's compliance with those requirements.

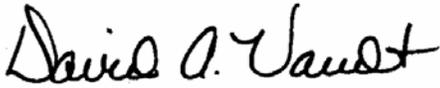
In our opinion, Montgomery County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

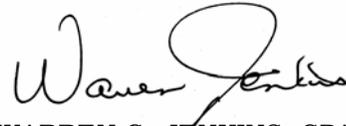
The management of Montgomery County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Montgomery County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud 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 internal control over compliance and its operations 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 Montgomery County and other parties to whom Montgomery 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

February 22, 2007

Montgomery County

Schedule of Findings

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, including a material weakness.
- (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 programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 10.902 – Soil and Water Conservation
 - CFDA Number 14.228 – Community Development Block Grants/State's Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Montgomery County did not qualify as a low-risk auditee.

Montgomery 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 control activities were evaluated in order to determine incompatible duties, from a control standpoint, were 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:

	<u>Applicable Offices</u>
(1) Receipts – opening and listing mail receipts, collecting, depositing, posting and daily reconciling.	Treasurer, Recorder and Sheriff
(2) Disbursements – check or warrant writing, signing, posting, reconciling and final approval.	Treasurer and Recorder
(3) Bank reconciliations are not reviewed periodically for propriety by an independent person who does not sign checks, handle or record cash. Also, evidence of the review was not documented if an independent review was performed.	Treasurer and Auditor
(4) Investments – investing, custody and accounting.	Treasurer

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 or other County employees to provide additional control through review of financial transactions, reconciliations and reports.

Responses:

County Auditor – We have corrected this issue by having the deputy auditor receive the unopened bank statements, then review and sign the reconciliation. We will ensure that this procedure continues to be used within the office.

County Treasurer – The Treasurer's office will try to implement the suggestions made by the Auditor of State.

Montgomery County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

County Recorder –

- (1) Our office opens mail at the counter with both employees present. We review the documents, verify fees due and then one employee deposits the check while the other employee enters the information into the time stamp program. We believe this check and balance is the best solution in our two person office.
- (2) The Recorder is responsible for writing checks and warrants. All warrants are presented to the Auditor's office with documentation attached. Checks are written and mailed with the end of the month reports.

County Sheriff – We understand the State's recommendations. However, due to labor constraints, it is not possible to follow this procedure on a consistent basis. We do know the procedure and when possible we use this procedure. The Sheriff does review daily reconciliations. Also, other administration personnel make deposits upon review of same. (Same procedure for receipting.)

Conclusion – Responses accepted.

II-B-06 Communication Center Payroll – Communication Center employees record their hours worked on time sheets. Summary sheets are then prepared and sent to the payroll department. The summary sheets generally reflected regular time for full time employees, which was different than the actual hours recorded. Therefore, the amounts paid did not always agree with the actual hours worked. The County asserted all employees are required to be present 15 minutes before and after their shift, and this time had not been recorded on their time sheets as time worked. In addition, the time sheets did not always contain an actual department head signature. Also, policies and procedures currently followed are not included or conflict with the written operations policy.

Recommendation – All time sheets should reflect actual hours considered to be work time and should be reviewed and approved by the department head or County Sheriff. These time sheets should be forwarded to the payroll department for payment. The Communications Director should ensure an up-to-date operations policy manual exists and includes all necessary policies and does not conflict with the County personnel policy. The operations manual should be provided to the Board of Supervisors for its review and approval.

Response – The County Sheriff will forward these recommendations to the Director of Communications and work with her to update standard operating guidelines and present them to the Board of Supervisors for approval.

Conclusion – Response accepted.

Montgomery County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

II-C-06 Local Board of Health – Collections were not always remitted to the County Treasurer timely.

Recommendation – All collections should be remitted to the County Treasurer timely.

Response – Starting at the beginning of fiscal year ending June 30, 2007, collections will be remitted to the County Treasurer on a weekly basis.

Conclusion – Response accepted.

II-D-06 Jail Commissary – A reconciliation of cash on hand with the ledger book and independent review of the reconciliation was not documented. Also, purchases were made with cash.

Recommendation – To improve financial accountability and control, a bank account should be established and all purchases should be made by check. A monthly reconciliation should be prepared to reconcile cash on hand to sales and purchases activity and an independent review of the reconciliation should be documented. Any profits from the commissary should be remitted to the County Treasurer.

Response – We will discontinue the commissary due to lack of profitability and the amount of labor required.

Conclusion – Response accepted.

II-E-06 Compensated Absences – The County is not following the provisions of the County's personnel policy regarding the maximum allowable carryover of sick leave and compensatory time hours. Department heads are allowing accumulated hours in excess of the maximum carryover at year end.

Recommendation – The County should limit carryover of employee's sick leave and compensatory time hours as prescribed by County policy.

Response – We will follow the guidance of the employee handbook.

Conclusion – Response accepted.

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

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

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over major programs were noted.

Montgomery 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 – During the year ended June 30, 2006, the County Engineer's office removed trees from private property. This was subsequently discussed at a Board of Supervisors meeting, with the public purpose provided as an issue of public safety. Public purpose is defined in an Attorney General's opinion dated April 25, 1979. The cost to remove the trees was approximately \$3,100. In the future, the public purpose should be documented in the minutes prior to the removal of trees from private property.

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

IV-D-06 Business Transactions – No business transactions between the County and County officials or employees were noted.

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 insure 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, except as follows:

- Board of Supervisors meeting minutes for the meeting held on June 13, 2006 were not included in the official minutes book.
- The minutes did not include identification of the amounts for the first department appropriation amendment resolution.

Recommendation – The County should ensure all minutes are included in the official minute book. Also, department appropriation amendment resolutions should be detailed and listed in the minutes documenting the Board action.

Response – The June 13, 2006 minutes will be signed and included in the minute book. The County Auditor has included amounts for each succeeding appropriation amendments and will ensure they are included in the minutes for future amendments.

Conclusion – Response accepted.

IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County's investment policy were noted.

Montgomery County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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).

IV-I-06 County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

Recommendation – A compilation of County ordinances should be prepared and published as required by Section 331.302(9) of the Code of Iowa.

Response – The compilation of County ordinances will be completed and published as required by Section 331.302(9) of the Code of Iowa.

Conclusion – Response accepted.

IV-J-06 Board of Health Minutes – Minutes of the meetings of the County Board of Health were not signed and did not properly document the vote of each member on official actions. Also, one closed session was held, but the minutes did not include the vote of each member on the question of holding the closed session and did not reference a specific code exemption as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The Board of Health should ensure minutes are signed as required and properly document the votes of all members on official actions. The minutes should also document the vote of each member regarding closed sessions and include the reference for the specific code exemption for the closed session as required by the Code of Iowa.

Response – The Board of Health Chairman (or if not available/another member of the Board) will sign the Board of Health minutes after the meetings. All documentation regarding voting on official actions will be properly charted on how each member voted and action taken.

Regarding the closed meeting Code of Iowa, the Board of Health will review the closed meeting code at the next Board of Health meeting in June, 2007. Then in doing so, the minutes will reflect the votes of each member when in closed session, and include the reference for the specific code exemptions for the closed session as required by the Code of Iowa.

Conclusion – Response accepted.

IV-K-06 Veterans Affairs Commission – County Veterans Affairs Commission meeting minutes, prior to March 16, 2006, were not signed and closed sessions held did not include the vote of each member on the question of holding the closed session as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The Veterans Affairs Commission should ensure minutes are signed as required and document the vote of each member when a closed session is held as required by the Code of Iowa.

Montgomery County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – All minutes since July 2006 have signatures of both the Chairman and Secretary. The current Secretary has ensured all votes are recorded by name and will contain a reason for all closed sessions held. Most of the errors were associated with an inexperienced Commission. We feel these types of errors will not be a problem in the future.

Conclusion – Response accepted.

IV-L-06 Exempt and Non-exempt Employees – The Board of Supervisors and the County Sheriff did not identify the Sheriff's office employee status (exempt vs. non-exempt) in accordance with Chapter 331.904(2) and the Fair Labor Standards Act of 1938, as amended.

Recommendation – The County should approve and properly document all Sheriff's department salaries after evaluation of the exempt and non-exempt status of each deputy/employee based on the Code of Iowa, Chapter 331.904(2) and the Fair Labor Standards Act of 1938, as amended.

Response – The Sheriff's Office will document exempt and non-exempt status of employees pursuant to Chapter 331.904 and the Fair Labor Standards Act.

Conclusion – Response accepted.

IV-M-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.

Montgomery County

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Chad D. Lehman, Staff Auditor
Melissa M. Wellhausen, CPA, Staff Auditor
Janet M. Tiefenthaler, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and a distinct "E".

Andrew E. Nielsen, CPA
Deputy Auditor of State