



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 24, 2007

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

The County had local tax revenue of \$17,261,626 for the year ended June 30, 2006, which included \$1,168,706 in tax credits from the state. The County forwarded \$13,374,404 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,887,222 of the local tax revenue to finance County operations, a 4% increase over the prior year. Other revenues included charges for service of \$976,349, operating grants, contributions and restricted interest of \$4,626,830, capital grants, contributions and restricted interest of \$1,749,454, local option sales tax of \$361,660, unrestricted investment earnings of \$220,287 and other general revenues of \$424,078.

Expenses for County operations totaled \$10,622,057, a 2% increase over the prior year. Expenses included \$4,257,438 for roads and transportation, \$1,511,521 for public safety and legal services and \$1,385,695 for physical health and social services.

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

JUNE 30, 2006

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Butler County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Oldenburger	Board of Supervisors	Jan 2007
John Zimmerman	Board of Supervisors	Jan 2007
Larry Backer	Board of Supervisors	Jan 2009
Holly A. Fokkena	County Auditor	Jan 2009
Louise Squires	County Treasurer	Jan 2007
Craig J. Franken	County Recorder	Jan 2007
Timothy A. Junker	County Sheriff	Resigned, Effective May 2006
Jason Johnson (Appointed)	County Sheriff	Nov 2006
Gregory M. Lievens	County Attorney	Jan 2007
Deborah McWhirter	County Assessor	Jan 2010

Butler County



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Independent Auditor's Report

To the Officials of Butler County:

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

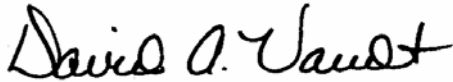
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 Butler 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.

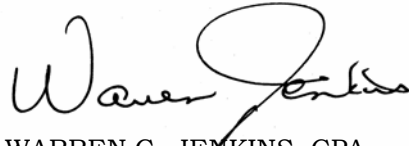
In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2006 on our consideration of Butler County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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 40 through 43 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 Butler 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 five years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As discussed in Note 13 to the financial statements, the County restated the governmental activities beginning net asset balance due to an error in calculating depreciation in the prior year. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2005 amounts have been revised to reflect the changes as if they had been made in the prior year.

2006 FINANCIAL HIGHLIGHTS

- Governmental fund revenues increased approximately \$188,000 from fiscal 2005 to fiscal 2006. Property taxes and other county tax increased approximately \$103,000.
- Governmental fund expenditures were approximately \$1,098,000 more in fiscal 2006 than in fiscal 2005. Roads and transportation expenditures increased approximately \$228,000, capital projects expenditures increased approximately \$424,000 and physical health and social services expenditures increased approximately \$199,000.
- Net assets increased 9.4%, or approximately \$1,624,000, 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 Butler 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 Butler 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 Butler County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911, emergency management services, empowerment 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. Butler County's net assets at June 30, 2006 totaled \$18,895,132. This compares to fiscal 2005 at \$17,271,309, as restated. The analysis that follows focuses on the net assets of governmental activities.

Net Assets of Governmental Activities		
	June 30,	
	2006	2005
Current and other assets	\$ 11,392,771	11,439,410
Capital assets	12,603,946	10,301,988
Total assets	<u>23,996,717</u>	<u>21,741,398</u>
Long-term liabilities	580,845	675,093
Other liabilities	4,520,740	3,794,996
Total liabilities	<u>5,101,585</u>	<u>4,470,089</u>
Net assets:		
Invested in capital assets	12,603,946	10,301,988
Restricted	4,203,464	4,495,446
Unrestricted	<u>2,087,722</u>	<u>2,473,875</u>
Total net assets	<u>\$ 18,895,132</u>	<u>17,271,309</u>

Net assets of Butler County's governmental activities increased by approximately \$1.6 million. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment). Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—are approximately \$2,088,000 at June 30, 2006.

Changes in Net Assets of Governmental Activities		
	Year ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 976,349	845,406
Operating grants, contributions and restricted interest	4,626,830	4,552,678
Capital grants, contributions and restricted interest	1,749,454	2,108,696
General revenues:		
Property tax	3,616,973	3,478,045
Penalty and interest on property tax	31,023	34,668
State tax credits	270,249	272,073
Local option sales tax	361,660	355,695
Grants and contributions not restricted to specific purposes	143,879	168,032
Unrestricted investment earnings	220,287	141,039
Gain on sale of capital assets	86,460	149,666
Other general revenues	162,716	131,728
Total revenues	<u>12,245,880</u>	<u>12,237,726</u>
Program expenses:		
Public safety and legal services	1,511,521	1,477,570
Physical health and social services	1,385,695	1,209,978
Mental health	1,285,834	1,165,030
County environment and education	654,312	592,790
Roads and transportation	4,257,438	4,233,334
Governmental services to residents	386,832	386,485
Administration	1,131,950	1,123,331
Non-program	-	60
Interest on long-term debt	8,475	27,714
Total expenses	<u>10,622,057</u>	<u>10,216,292</u>
Increase in net assets	1,623,823	2,021,434
Net assets beginning of year, as restated	<u>17,271,309</u>	<u>15,249,875</u>
Net assets end of year	<u>\$ 18,895,132</u>	<u>17,271,309</u>

Butler County increased property tax rates for 2006 by an average of 3.05 percent. The County increased the General Fund property tax levy rate by \$.15008 per \$1,000 of property valuation. The Mental Health Fund property tax levy rate decreased by \$.00064 per \$1,000 of property valuation. The Rural Services Fund property tax levy rate increased by \$.00005 per \$1,000 of property valuation. Property tax revenues for fiscal year 2007 are budgeted to increase approximately \$206,000 due, in part, to an increase in property valuation of approximately \$20,369,000.

INDIVIDUAL MAJOR FUND ANALYSIS

The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund, the operating fund for Butler County, ended fiscal 2006 with a fund balance totaling \$2,114,419. This was only a slight decrease from fiscal 2005, which ended at \$2,245,618. There were no significant changes in revenue or expenditures.
- The Special Revenue, Mental Health Fund balance at year end decreased by \$128,423 from the prior year. There were no significant changes in revenues or expenditures.

- The Special Revenue, Rural Services Fund ended fiscal 2006 with a fund balance of \$810,505, a decrease of \$180,916 from the ending balance for fiscal 2005. This decrease is the result of a continuing effort to reduce the ending fund balance to a more acceptable level. There were no significant changes in revenue or expenditures.
- The Special Revenue, Secondary Roads Fund ended fiscal year 2006 with a fund balance of \$3,241,410. This is a decrease of \$426,789. Expenditures increased due to road projects. There was no significant changes in revenue.

BUDGETARY HIGHLIGHTS

Over the course of the year, Butler County amended its budget two times. The first amendment was made in September 2005 and resulted in a net increase in budgeted disbursements of \$34,086 to allow for the disbursement of approximately \$180,000 to pave the bike trail. A REAP grant of \$173,000 was received to offset a major part of the disbursement. The amendment included other smaller items, including an increase in budgeted disbursement of \$20,000 to allow the County to retire indebtedness early.

The second amendment occurred in March 2006. The County agreed to act as Fiscal Agent for the Parents as Teachers program, necessitating an increase in receipts and disbursements of \$130,000 to run the program. Further increases in budgeted disbursements were made to cover shortfalls in youth shelter costs, equipment and increased fuel costs in the Secondary Roads Department, miscellaneous repairs and part-time staffing for the Information Technology Department.

The County's receipts were \$41,369 more than budgeted, a variance of .4%.

Total disbursements were \$616,659 less than the amended budget. Capital projects disbursements were \$342,661 less due to a delay in paving the bike trail and reduced roadway spending. The remaining decrease of \$273,998 was accomplished by reduced spending in all areas.

The County did not exceed the budgeted amounts in any of the function areas for the year ended June 30, 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, Butler County had approximately \$12.6 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$2.3 million over last year.

Capital Assets of Governmental Activities at Year End		
	June 30,	
	2006	2005
Land	\$ 374,570	374,570
Construction in progress	206,859	-
Buildings	111,356	118,247
Improvements other than buildings	162,404	-
Equipment and vehicles	3,836,585	3,698,825
Infrastructure	7,912,172	6,110,346
Total	<u>\$ 12,603,946</u>	<u>10,301,988</u>
This year's major additions included:		
Capital assets contributed by the Iowa Department of Transportation	\$ 1,684,972	
Replacement of one motorgrader and other Secondary Roads equipment	765,080	
Bike trail paving project at Heery Woods and Wilder Park	165,157	
Election equipment	75,100	
Total	<u>\$ 2,690,309</u>	

The County had total accumulated depreciation of approximately \$6.8 million at June 30, 2006. The County's fiscal year 2006 capital projects budget included \$1,279,000 for capital projects, principally for completion of a county conservation bike trail and several bridge projects. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2006, Butler County had approximately \$308,000 in outstanding debt, compared to approximately \$364,000 at June 30, 2005.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Butler County's outstanding general obligation debt is significantly below its constitutional debt limit of \$26.8 million. Additional information about the County's long-term debt is presented in Notes 6 and 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Butler County's officials considered many factors when setting the fiscal year 2007 budget, tax rates and the fees charged for various County activities. One of those factors is the economy. Unemployment in the County for the period from June 2005 to June 2006 dropped to 3.7%. This compares with the State's unemployment rate of 4.2% and the national rate of 4.9% for the same period.

For this budget year, the item of most concern is health insurance costs for employees.

Cash amounts available for appropriation in the General Fund budget are \$1.6 million. Budgeted receipts in all funds remained basically unchanged from the prior year. Budgeted disbursements and other financial uses in all funds increased by \$614,720. Existing fund balances may be used to cover increases in health insurance costs for employees if they are higher than anticipated.

The County has added no major new programs or initiatives to the 2007 budget. However, increased disbursements are anticipated to complete the bike trail project, a number of bridge projects and a storage facility to be constructed on courthouse square.

If these estimates are realized, the County's budgetary operating balance is expected to decrease by approximately \$2.2 million at the close of 2007.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Butler County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Butler County Auditor's Office, 428 6th Street, City of Allison, Iowa, 50602.

Butler County

Basic Financial Statements

Exhibit A

Butler County
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 5,725,606
Receivables:	
Property tax:	
Delinquent	21,261
Succeeding year	4,017,000
Interest and penalty on property tax	47,739
Accounts	43,932
Economic development loans	105,950
E911 lease	307,906
Accrued interest	18,073
Due from other governments	568,967
Inventories	363,971
Prepaid insurance	172,366
Capital assets (net of accumulated depreciation)	12,603,946
	<u>23,996,717</u>
Total assets	
Liabilities	
Accounts payable	123,388
Salaries and benefits payable	93,863
Accrued interest payable	3,838
Due to other governments	282,651
Deferred revenue:	
Succeeding year property tax	4,017,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	23,989
Compensated absences	220,942
Portion due or payable after one year:	
Capital loan notes	283,917
Compensated absences	51,997
	<u>5,101,585</u>
Total liabilities	
Net Assets	
Invested in capital assets	12,603,946
Restricted for:	
Supplemental levy purposes	162,455
Mental health purposes	74,321
Secondary roads purposes	3,241,410
Other purposes	725,278
Unrestricted	2,087,722
	<u>\$ 18,895,132</u>
Total net assets	

See notes to financial statements.

Butler County
Statement of Activities
Year ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,511,521	208,234	61,129	-	(1,242,158)
Physical health and social services	1,385,695	345,720	768,992	-	(270,983)
Mental health	1,285,834	11,724	755,170	-	(518,940)
County environment and education	654,312	40,968	215,657	-	(397,687)
Roads and transportation	4,257,438	117,752	2,803,424	1,746,424	410,162
Governmental services to residents	386,832	238,107	22,458	3,030	(123,237)
Administration	1,131,950	13,844	-	-	(1,118,106)
Interest on long-term debt	8,475	-	-	-	(8,475)
Total	\$10,622,057	976,349	4,626,830	1,749,454	(3,269,424)
General Revenues:					
Property and other county tax levied for general purposes					3,616,973
Penalty and interest on property tax					31,023
State tax credits					270,249
Local option sales tax					361,660
Grants and contributions not restricted to specific purpose					143,879
Unrestricted investment earnings					220,287
Gain on disposition of capital assets					86,460
Miscellaneous					162,716
Total general revenues					4,893,247
Change in net assets					1,623,823
Net assets beginning of year, as restated					17,271,309
Net assets end of year					\$ 18,895,132

See notes to financial statements.

Butler County
Balance Sheet
Governmental Funds

June 30, 2006

	Special Revenue		
	General	Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 1,649,824	357,885	741,324
Receivables:			
Property tax:			
Delinquent	11,985	2,111	7,165
Succeeding year	2,404,000	389,000	1,224,000
Interest and penalty on property tax	47,739	-	-
Accounts	17,359	-	-
Economic development loans	-	-	-
E911 lease	307,906	-	-
Accrued interest	18,073	-	-
Due from other governments	150,904	1,039	78,660
Inventories	-	-	-
Prepaid insurance	91,512	-	-
Total assets	\$ 4,699,302	750,035	2,051,149
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 30,444	44,398	2,814
Salaries and benefits payable	56,775	108	5,140
Due to other governments	33,940	240,097	1,525
Deferred revenue:			
Succeeding year property tax	2,404,000	389,000	1,224,000
Other	59,724	2,111	7,165
Total liabilities	2,584,883	675,714	1,240,644
Fund balances:			
Reserved for:			
Supplemental levy purposes	162,455	-	-
E911 lease receivable	307,906	-	-
Unreserved:			
Undesignated, reported in:			
General fund	1,644,058	-	-
Special revenue funds	-	74,321	810,505
Total fund balances	2,114,419	74,321	810,505
Total liabilities and fund balances	\$ 4,699,302	750,035	2,051,149

See notes to financial statements.

Secondary Roads	Nonmajor	Total
2,564,811	411,762	5,725,606
-	-	21,261
-	-	4,017,000
-	-	47,739
26,525	48	43,932
-	105,950	105,950
-	-	307,906
-	-	18,073
332,789	5,575	568,967
363,971	-	363,971
80,854	-	172,366
<u>3,368,950</u>	<u>523,335</u>	<u>11,392,771</u>
45,719	13	123,388
31,840	-	93,863
7,089	-	282,651
-	-	4,017,000
42,892	105,950	217,842
<u>127,540</u>	<u>105,963</u>	<u>4,734,744</u>
-	-	162,455
-	-	307,906
-	-	1,644,058
3,241,410	417,372	4,543,608
<u>3,241,410</u>	<u>417,372</u>	<u>6,658,027</u>
<u>3,368,950</u>	<u>523,335</u>	<u>11,392,771</u>

Butler County

Butler County

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

June 30, 2006

Total governmental fund balances (page 19) \$ 6,658,027

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 \$19,435,798 and the accumulated depreciation is \$6,831,852. 12,603,946

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 217,842

Long-term liabilities, including notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (584,683)

Net assets of governmental activities (page 16) \$ 18,895,132

See notes to financial statements.

Butler County

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

Year ended June 30, 2006

	Special Revenue		
	General	Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 2,056,244	362,091	1,308,504
Interest and penalty on property tax	31,023	-	-
Intergovernmental	1,259,075	783,480	232,565
Licenses and permits	-	-	10,245
Charges for service	447,426	11,725	1,828
Use of money and property	292,693	-	-
Miscellaneous	105,910	115	96
Total revenues	4,192,371	1,157,411	1,553,238
Expenditures:			
Operating:			
Public safety and legal services	1,028,785	-	393,464
Physical health and social services	1,383,611	-	-
Mental health	-	1,285,834	-
County environment and education	296,863	-	271,839
Roads and transportation	-	-	52,535
Governmental services to residents	429,190	-	6,482
Administration	1,103,411	-	-
Debt service	38,941	-	-
Capital projects	-	-	-
Total expenditures	4,280,801	1,285,834	724,320
Excess (deficiency) of revenues over (under) expenditures	(88,430)	(128,423)	828,918
Other financing sources (uses):			
Sale of capital assets	-	-	-
Operating transfers in	11,873	-	-
Operating transfers out	(54,642)	-	(1,009,834)
Total other financing sources (uses)	(42,769)	-	(1,009,834)
Net change in fund balances	(131,199)	(128,423)	(180,916)
Fund balances beginning of year	2,245,618	202,744	991,421
Fund balances end of year	\$ 2,114,419	74,321	810,505

See notes to financial statements.

Secondary Roads	Nonmajor	Total
180,830	15,574	3,923,243
-	-	31,023
2,923,089	175,911	5,374,120
1,900	-	12,145
7,277	3,824	472,080
1,147	26,258	320,098
89,598	28,611	224,330
<u>3,203,841</u>	<u>250,178</u>	<u>10,357,039</u>
-	3,463	1,425,712
-	-	1,383,611
-	-	1,285,834
-	55,453	624,155
3,923,019	-	3,975,554
-	11,531	447,203
-	-	1,103,411
-	30,717	69,658
748,215	188,124	936,339
<u>4,671,234</u>	<u>289,288</u>	<u>11,251,477</u>
(1,467,393)	(39,110)	(894,438)
7,570	-	7,570
1,033,034	62,159	1,107,066
-	(42,590)	(1,107,066)
<u>1,040,604</u>	<u>19,569</u>	<u>7,570</u>
(426,789)	(19,541)	(886,868)
3,668,199	436,913	7,544,895
<u>3,241,410</u>	<u>417,372</u>	<u>6,658,027</u>

Butler 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) \$ (886,868)

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

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

Expenditures for capital assets	\$ 1,406,281	
Capital assets contributed by the Iowa Department of Transportation	1,684,972	
Depreciation expense	<u>(875,755)</u>	2,215,498

In the Statement of Activities, the gain on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. 86,460

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	12,480	
Other	<u>97,358</u>	109,838

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment decreases long-term liabilities in the Statement of Net Assets. 56,537

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	37,711	
Interest on long-term debt	<u>4,647</u>	<u>42,358</u>

Change in net assets of governmental activities (page 17) \$ 1,623,823

See notes to financial statements.

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

Assets	
Cash and pooled investments:	
County Treasurer	\$ 1,006,106
Other county officials	95,786
Receivables:	
Property tax:	
Delinquent	56,332
Succeeding year	12,868,000
Accounts	25,466
Special assessments	221,541
Due from other governments	5,158
Total assets	14,278,389
 Liabilities	
Accounts payable	23,171
Salaries and benefits payable	4,970
Due to other governments	14,157,689
Trusts payable	87,111
Compensated absences	5,448
Total liabilities	14,278,389
Net assets	\$ -

See notes to financial statements.

Butler County

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

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

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

Blended Component Unit – The following component unit is an entity which is legally separate from the County, but is so intertwined with the County that it is, in substance, the same as the County. It is reported as part of the County and blended into the appropriate fund.

A drainage district has been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although this district is legally separate from the County, it is controlled, managed and supervised by the Butler County Board of Supervisors. The drainage district is reported as a Special Revenue Fund. Financial information of the individual drainage district can be obtained from the Butler County Auditor's Office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Butler County Assessor’s Conference Board, Butler County Emergency Management Commission and Butler 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.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Iowa Northland Regional Council of Governments, Job Training Partnership Act, Butler County Solid Waste Commission, North Iowa Juvenile Detention Services Commission, Multi-County Child Support Enforcement Office, Northeast Iowa Response Group, Allison Area Department of Human Services Cluster and North Central Iowa Network Sharing Agreement.

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 are stated at fair value.

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.

Special Assessments Receivable – Special assessments receivable represent the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Special assessments receivable represent assessments which are due and payable but have 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 (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	\$ 50,000
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	25-50
Building improvements	25-50
Infrastructure	10-75
Equipment	3-20
Vehicles	5-15

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and comp 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 Statement of Net Assets.

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

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

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

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

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

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

(3) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Sinclair Elevator Project - TIF	\$ 11,873
Special Revenue: Secondary Roads	General	23,200
	Special Revenue: Rural Services	1,009,834
Conservation Land Acquisition Trust	General	31,442
Debt Service	Special Revenue: Sinclair Elevator Project - TIF	30,717
Total		<u>\$ 1,095,193</u>

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

(4) Capital Assets

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

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>		<u>End</u>	
	<u>of Year,</u>		<u>of Year</u>	
	<u>as restated</u>	<u>Increases</u>	<u>Decreases</u>	
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 374,570	-	-	374,570
Construction in progress	-	2,273,012	(2,066,153)	206,859
Total capital assets not being depreciated	<u>374,570</u>	<u>2,273,012</u>	<u>(2,066,153)</u>	<u>581,429</u>
Capital assets being depreciated:				
Buildings	1,868,199	-	-	1,868,199
Improvements other than buildings	-	165,157	-	165,157
Equipment and vehicles	8,152,734	896,163	(616,492)	8,432,405
Infrastructure, other	414,234	-	-	414,234
Infrastructure, road network	5,908,221	2,066,153	-	7,974,374
Total capital assets being depreciated	<u>16,343,388</u>	<u>3,127,473</u>	<u>(616,492)</u>	<u>18,854,369</u>
Less accumulated depreciation for:				
Buildings	1,749,952	6,891	-	1,756,843
Improvements other than buildings	-	2,753	-	2,753
Equipment and vehicles	4,453,909	601,784	(459,873)	4,595,820
Infrastructure, other	20,712	6,904	-	27,616
Infrastructure, road network	191,397	257,423	-	448,820
Total accumulated depreciation	<u>6,415,970</u>	<u>875,755</u>	<u>(459,873)</u>	<u>6,831,852</u>
Total capital assets being depreciated, net	<u>9,927,418</u>	<u>2,251,718</u>	<u>(156,619)</u>	<u>12,022,517</u>
Governmental activities capital assets, net	<u>\$ 10,301,988</u>	<u>4,524,730</u>	<u>(2,222,772)</u>	<u>12,603,946</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 129,336
Physical health and social services	3,540
County environment and education	24,065
Roads and transportation	671,399
Governmental services to residents	14,810
Administration	32,605
Total depreciation expense - governmental activities	<u>\$ 875,755</u>

(5) Due to Other Governments

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

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ 33,940
Special Revenue:		
Mental Health	Services	240,097
Rural Services	Services	1,525
Secondary Roads	Services	7,089
		<u>248,711</u>
Total for governmental funds		<u>\$ 282,651</u>
Agency:		
Agricultural Extension Education	Collections	\$ 127,400
County Assessor		402,881
Schools		8,613,121
Community Colleges		513,335
Corporations		3,329,041
Townships		200,013
City Special Assessments		240,977
Auto License and Use Tax		282,203
Empowerment Board		347,970
All other		100,748
Total for agency funds		<u>\$ 14,157,689</u>

(6) Changes in Long-Term Liabilities

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

	<u>General</u>	<u>Compen-</u>	
	<u>Obligation</u>	<u>sated</u>	
	<u>Capital</u>	<u>Absences</u>	<u>Total</u>
	<u>Loan Notes</u>		
Balance beginning of year	\$ 364,443	310,650	675,093
Increases	-	289,494	289,494
Decreases	56,537	327,205	383,742
Balance end of year	<u>\$ 307,906</u>	<u>272,939</u>	<u>580,845</u>
Due within one year	<u>\$ 23,989</u>	<u>220,942</u>	<u>244,931</u>

(7) General Obligation Capital Loan Notes

Capital Loan Notes for Urban Renewal Project – General obligation capital loan notes were issued on October 1, 1998, totaling \$60,000, for the purpose of paying costs of an urban renewal project, including a grant to Sinclair Elevator. A Special Revenue, Sinclair Elevator Project - TIF Fund was established for the collection of tax increment financing to be used to pay off the capital loan notes.

During the year ended June 30, 2006, the County paid off the remainder of the general obligation capital loan notes, totaling \$30,000.

Capital Loan Note for E911 Service Board Equipment – A general obligation capital loan note was issued on December 3, 2001, totaling \$390,000, for the purpose of paying the costs of acquiring replacement equipment for use by the Butler County E911 Service Board. The note is to be paid from the General Fund in 30 equal semi-annual payments of \$18,707, including interest of 5% per annum. The final payment is payable on May 1, 2016. The balance of the note at June 30, 2006 totaled \$307,906.

(8) E911 Lease Receivable

The County entered into a lease agreement with the E911 Service Board. Under the agreement, the E911 Service Board is to make semi-annual payments of \$18,707 to the County, an amount equal to the semi-annual payment required by the capital loan note, as detailed in Note 7 of the notes to financial statements. The payments from the E911 Service Board of the semi-annual payments of principal and interest are credited to the General Fund. The following is a schedule of the future minimum lease payments to be received by the County, including interest of 5% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2006.

Year ending June 30,	Total
2007	\$ 38,941
2008	38,941
2009	38,941
2010	38,941
2011	38,941
2012-2016	199,569
Total minimum lease payments	394,274
Less amount representing interest	(86,368)
Present value of net minimum lease payments	<u>\$ 307,906</u>

(9) Butler County Economic Development Revolving Loan Fund

Butler County has nineteen economic development loans receivable totaling \$105,950 as of June 30, 2006 due from businesses located in Butler County. The loans were made to the businesses to promote economic development.

The loans are to be repaid to Butler County in monthly and quarterly installments over five years, with interest at rates ranging from 5.00% to 7.00% per annum. The loan repayments from the businesses remain in the Butler County Economic Development Revolving Loan Fund for future loans to other businesses.

(10) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$217,803, \$226,197 and \$216,275, respectively, equal to the required contributions for each year.

(11) Risk Management

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

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2006 were \$152,396.

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

\$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Self-Funded Insurance Plan

A Self Insurance account within the General Fund has been established by the County to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by County contributions and is administered by R.D. Drenkow & Co., Inc. The County assumes liability for claims between \$250 and \$750 for single coverage and \$500 and \$1,500 for family coverage.

Payments to the Self Insurance account were recorded as expenditures by the operating funds. Payments to R.D. Drenkow & Co., Inc. for service fees and medical claims for the year ended June 30, 2006 were \$14,916.

(13) Restatement

Governmental activities net assets have been restated by \$201,144 to correct an error. Governmental activities net assets increased from \$17,070,165 to \$17,271,309 to correct an error in calculating depreciation for fiscal year 2005 for certain infrastructure assets.

Butler County

Required Supplementary Information

Butler County

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

Required Supplementary Information

Year ended June 30, 2006

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 3,922,871	-	3,922,871
Interest and penalty on property tax	31,023	-	31,023
Intergovernmental	5,422,622	-	5,422,622
Licenses and permits	12,215	-	12,215
Charges for service	456,838	-	456,838
Use of money and property	328,690	-	328,690
Miscellaneous	200,994	-	200,994
Total receipts	10,375,253	-	10,375,253
Disbursements:			
Public safety and legal services	1,437,696	-	1,437,696
Physical health and social services	1,365,030	-	1,365,030
Mental health	1,178,463	-	1,178,463
County environment and education	631,542	-	631,542
Roads and transportation	3,999,882	-	3,999,882
Governmental services to residents	437,840	-	437,840
Administration	1,110,527	-	1,110,527
Non-program	-	-	-
Debt service	69,658	-	69,658
Capital projects	936,339	-	936,339
Total disbursements	11,166,977	-	11,166,977
Excess (deficiency) of receipts over (under) disbursements	(791,724)	-	(791,724)
Other financing sources, net	7,570	-	7,570
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(784,154)	-	(784,154)
Balance beginning of year	6,509,760	1,003	6,508,757
Balance end of year	\$ 5,725,606	1,003	5,724,603

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
3,934,960	3,934,960	(12,089)
7,250	7,250	23,773
5,246,469	5,555,594	(132,972)
9,800	9,800	2,415
488,340	488,340	(31,502)
231,108	232,637	96,053
101,503	105,303	95,691
<u>10,019,430</u>	<u>10,333,884</u>	<u>41,369</u>
1,446,305	1,459,921	22,225
1,252,140	1,394,265	29,235
1,191,850	1,191,850	13,387
667,811	676,811	45,269
3,870,100	4,024,100	24,218
482,946	491,746	53,906
1,183,561	1,193,561	83,034
2,000	2,000	2,000
48,883	70,382	724
1,099,000	1,279,000	342,661
<u>11,244,596</u>	<u>11,783,636</u>	<u>616,659</u>
(1,225,166)	(1,449,752)	658,028
-	-	7,570
(1,225,166)	(1,449,752)	665,598
5,823,075	5,823,075	685,682
<u>4,597,909</u>	<u>4,373,323</u>	<u>1,351,280</u>

Butler 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	\$ 10,375,253	(18,214)	10,357,039
Expenditures	11,166,977	84,500	11,251,477
Net	(791,724)	(102,714)	(894,438)
Other financing sources, net	7,570	-	7,570
Beginning fund balances	6,509,760	1,035,135	7,544,895
Ending fund balances	\$ 5,725,606	932,421	6,658,027

See accompanying independent auditor's report.

Butler County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds 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, two budget amendments increased budgeted disbursements by \$539,040. 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.

Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

Butler County

Other Supplementary Information

Butler County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Economic Development Revolving Loan	Sheriff's Commisary and Telephone	Seized and Forfeited Property	Sesquennial Memorial
Assets				
Cash and pooled investments	\$ 97,722	6,067	2,981	860
Receivables:				
Succeeding year property tax Accounts	-	48	-	-
Economic development loans	105,950	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 203,672	6,115	2,981	860
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 13	-	-	-
Deferred revenue	105,950	-	-	-
Total liabilities	105,963	-	-	-
Fund equity:				
Fund balances:				
Unrestricted	97,709	6,115	2,981	860
Total liabilities and fund equity	\$ 203,672	6,115	2,981	860

See accompanying independent auditor's report.

Special Revenue							
County Recorder's Records Management	County Recorder's Electronic Transfer Fee	Drainage Districts	Conservation Land Acquisition Trust	Conservation Trust	Resource Enhancement and Protection		Total
16,061	261	1,003	129,272	84,546	72,989		411,762
-	-	-	-	-	-	-	48
-	-	-	-	-	-	-	105,950
-	-	-	-	-	5,575	-	5,575
16,061	261	1,003	129,272	84,546	78,564		523,335
-	-	-	-	-	-	-	13
-	-	-	-	-	-	-	105,950
-	-	-	-	-	-	-	105,963
16,061	261	1,003	129,272	84,546	78,564		417,372
16,061	261	1,003	129,272	84,546	78,564		523,335

Butler County

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

Year ended June 30, 2006

	Special Revenue				
	Economic Development Revolving Loan	Sinclair Elevator Project - TIF	Sheriff's Commisary and Telephone	Seized and Forfeited Property	Sesquennial Memorial
Revenues:					
Property and other county tax	\$ -	15,574	-	-	-
Intergovernmental	-	41	-	-	-
Charges for service	-	-	-	-	-
Use of money and property	21,836	-	402	-	19
Miscellaneous	-	-	-	-	-
Total revenues	21,836	15,615	402	-	19
Expenditures:					
Operating:					
Public safety and legal services	-	-	326	3,137	-
County environment and education	55,453	-	-	-	-
Governmental services to residents	-	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total expenditures	55,453	-	326	3,137	-
Excess (deficiency) of revenues over (under) expenditures	(33,617)	15,615	76	(3,137)	19
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(42,590)	-	-	-
Total other financing sources (uses)	-	(42,590)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(33,617)	(26,975)	76	(3,137)	19
Fund balances beginning of year	131,326	26,975	6,039	6,118	841
Fund balances end of year	\$ 97,709	-	6,115	2,981	860

See accompanying independent auditor's report.

County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Drainage Districts	Conservation Land Acquisition	Conservation Trust	Resource Enhancement and Protection	Debt Service	Total
-	-	-	-	-	-	-	15,574
-	-	-	-	-	175,870	-	175,911
3,824	-	-	-	-	-	-	3,824
369	62	-	-	1,786	1,784	-	26,258
-	-	-	-	28,611	-	-	28,611
4,193	62	-	-	30,397	177,654	-	250,178
-	-	-	-	-	-	-	3,463
-	-	-	-	-	-	-	55,453
3,580	7,951	-	-	-	-	-	11,531
-	-	-	-	-	-	30,717	30,717
-	-	-	22,967	-	165,157	-	188,124
3,580	7,951	-	22,967	-	165,157	30,717	289,288
613	(7,889)	-	(22,967)	30,397	12,497	(30,717)	(39,110)
-	-	-	31,442	-	-	30,717	62,159
-	-	-	-	-	-	-	(42,590)
-	-	-	31,442	-	-	30,717	19,569
613	(7,889)	-	8,475	30,397	12,497	-	(19,541)
15,448	8,150	1,003	120,797	54,149	66,067	-	436,913
16,061	261	1,003	129,272	84,546	78,564	-	417,372

Butler County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,778	93,327	127,603
Other county officials	95,786	-	-	-
Receivables:				
Property tax:				
Delinquent	-	622	1,903	42,518
Succeeding year	-	125,000	318,000	8,443,000
Accounts	-	-	622	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 95,786	127,400	413,852	8,613,121
Liabilities				
Accounts payable	\$ -	-	1,120	-
Salaries and benefits payable	-	-	4,403	-
Due to other governments	8,675	127,400	402,881	8,613,121
Trusts payable	87,111	-	-	-
Compensated absences	-	-	5,448	-
Total liabilities	\$ 95,786	127,400	413,852	8,613,121

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Empowerment Board	Other	Total
7,587	40,652	2,892	19,436	282,203	368,758	61,870	1,006,106
-	-	-	-	-	-	-	95,786
2,748	7,389	1,121	-	-	-	31	56,332
503,000	3,281,000	196,000	-	-	-	2,000	12,868,000
-	-	-	-	-	-	24,844	25,466
-	-	-	221,541	-	-	-	221,541
-	-	-	-	-	-	5,158	5,158
513,335	3,329,041	200,013	240,977	282,203	368,758	93,903	14,278,389
-	-	-	-	-	20,788	1,263	23,171
-	-	-	-	-	-	567	4,970
513,335	3,329,041	200,013	240,977	282,203	347,970	92,073	14,157,689
-	-	-	-	-	-	-	87,111
-	-	-	-	-	-	-	5,448
513,335	3,329,041	200,013	240,977	282,203	368,758	93,903	14,278,389

Butler 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
Assets and Liabilities				
Balances beginning of year	\$ 90,998	103,215	401,461	8,270,757
Additions:				
Property and other county tax	-	130,852	335,756	7,867,403
E911 surcharge	-	-	-	-
State tax credits	-	8,349	25,529	594,465
Office fees and collections	247,662	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	142,061	-	-	-
Miscellaneous	-	-	7,882	-
Total additions	389,723	139,201	369,167	8,461,868
Deductions:				
Agency remittances:				
To other funds	140,863	-	-	-
To other governments	107,738	115,016	356,776	8,119,504
Trusts paid out	136,334	-	-	-
Total deductions	384,935	115,016	356,776	8,119,504
Balances end of year	\$ 95,786	127,400	413,852	8,613,121

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Empowerment Board	Other	Total
445,536	2,546,169	166,045	281,378	279,703	156,521	80,492	12,822,275
528,843	3,405,223	205,953	-	-	-	1,917	12,475,947
-	-	-	-	-	-	121,889	121,889
35,920	220,764	12,287	993	-	-	150	898,457
-	-	-	-	-	-	-	247,662
-	-	-	-	3,413,807	-	-	3,413,807
-	-	-	39,782	-	-	-	39,782
-	-	-	-	-	-	-	142,061
-	-	-	-	-	629,393	63,061	700,336
564,763	3,625,987	218,240	40,775	3,413,807	629,393	187,017	18,039,941
-	-	-	-	112,772	-	-	253,635
496,964	2,843,115	184,272	81,176	3,298,535	417,156	173,606	16,193,858
-	-	-	-	-	-	-	136,334
496,964	2,843,115	184,272	81,176	3,411,307	417,156	173,606	16,583,827
513,335	3,329,041	200,013	240,977	282,203	368,758	93,903	14,278,389

Schedule 5

Butler 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	\$ 3,923,243	3,820,208	4,223,382	3,961,242	4,102,879	3,974,387
Interest and penalty on property tax	31,023	34,668	41,696	35,204	39,466	40,118
Intergovernmental	5,374,120	5,316,619	5,088,430	5,847,451	5,469,286	5,360,586
Licenses and permits	12,145	11,565	15,943	6,510	6,230	5,140
Charges for service	472,080	435,257	498,244	452,385	410,082	352,713
Use of money and property	320,098	257,798	265,270	304,188	345,162	480,185
Miscellaneous	224,330	293,094	189,405	261,049	126,284	108,295
Total	\$ 10,357,039	10,169,209	10,322,370	10,868,029	10,499,389	10,321,424
Expenditures:						
Operating:						
Public safety and legal services	\$ 1,425,712	1,382,591	1,268,846	1,263,978	1,112,635	1,046,865
Physical health and social services	1,383,611	1,184,164	1,153,795	1,236,351	1,174,052	1,096,568
Mental health	1,285,834	1,165,030	1,114,860	1,114,443	1,093,461	1,082,024
County environment and education	624,155	561,758	588,832	1,306,388	746,221	505,722
Roads and transportation	3,975,554	3,747,559	3,559,552	3,636,570	3,437,410	3,757,953
Governmental services to residents	447,203	450,844	269,112	245,312	237,434	195,727
Administration	1,103,411	1,099,842	1,287,024	1,241,945	1,174,029	1,064,626
Non-program	-	60	-	832	-	342
Debt service	69,658	49,334	37,413	45,052	7,880	2,880
Capital projects	936,339	512,391	1,440,397	754,202	1,041,571	639,672
Total	\$ 11,251,477	10,153,573	10,719,831	10,845,073	10,024,693	9,392,379

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Butler County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Butler County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated October 17, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler 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 Butler County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

Compliance and Other Matters

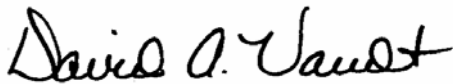
As part of obtaining reasonable assurance about whether Butler County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of

non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

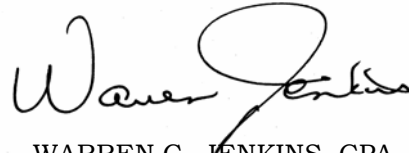
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Butler County and other parties to whom Butler County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

October 17, 2006

Butler County

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

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

	Applicable Offices
(1) Incoming mail is not opened by an employee who is not authorized to make entries to the accounting records.	Treasurer
(2) Responsibilities for collection, deposit preparation and reconciliation functions are not segregated from those for recording and accounting for cash.	Recorder, Treasurer
(3) Bank accounts are not reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.	Recorder, Treasurer
(4) The person who signs checks is not independent of the person preparing the checks, approving disbursements, recording cash disbursements and handling cash.	Recorder
(5) Certain disbursement and payroll claims information is not reviewed by an individual independent of claims posting. Personnel within the Department are not adequately cross-trained on all duties of the Department.	Engineer

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Officials should ensure personnel are cross-trained on duties of the Department to ensure adequate coverage of all Department responsibilities when necessary.

Response –

County Treasurer – We have several control procedures in place. Employees rotate duties and incoming cash is recorded immediately. Bank accounts are reconciled and checked by two people.

County Recorder – We will do the best we can.

Butler County
Schedule of Findings
Year ended June 30, 2006

County Engineer – Procedures will be discussed and implemented to have disbursement and payroll claims information reviewed by an individual independent of claims posting. Office personnel will be cross-trained and familiar with duties and responsibilities of co-workers.

Conclusion –

County Treasurer – Response acknowledged. However, rotated duties should be segregated to obtain the maximum internal control possible under the circumstance. Also, the independent review of bank reconciliations should be documented.

County Recorder – Response accepted.

County Engineer – Response accepted.

- (B) County Auditor – One County employee had a negative vacation balance as of June 30, 2006.

Recommendation – Employees should not be paid for vacation in excess of their vacation balance in accordance with the Butler County Employee Handbook.

Response – The County Auditor, along with the Butler County Board of Supervisors, will remind all Department heads they must comply with all policies as outlined in the Butler County Employee Handbook or develop an addendum outlining any departmental policies in conflict with said Handbook. Said addendum is to be filed with the Butler County Auditor.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Butler County

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – No business transactions between the County and County officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) Nepotism – The children of two County employees were hired as interns in the Secondary Roads Department without documentation of the Board's consideration of nepotism as required by Chapter 71 of the Code of Iowa.

Recommendation – As required by Chapter 71 of the Code of Iowa, the Board of Supervisors should document consideration of nepotism when considering employment of an individual related to any current County employee.

Response – The Butler County Board of Supervisors will review nepotism issues at upcoming Department head meetings. In the future, all positions will be advertised in some manner (i.e. newspaper, radio, communications with schools) before hiring. Proof of said advertising shall be provided to the Butler County Board of Supervisors.

Conclusion – Response accepted.

- (10) 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.

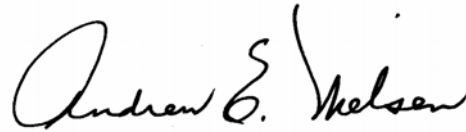
Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.

Butler County

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Jennifer R. Edgar, CPA, Senior Auditor
Billie Jo Heth, Senior Auditor
Shawn R. Elsbury, Staff Auditor
Nickolas J. Schaul, CPA, Staff 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 "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State