

BLACK HAWK COUNTY, IOWA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2006

Prepared by:

James W. Bronner, Finance Director
Board of Supervisors Office

Grant Veeder
Auditor and Staff

Barbara Freet
Treasurer and Staff

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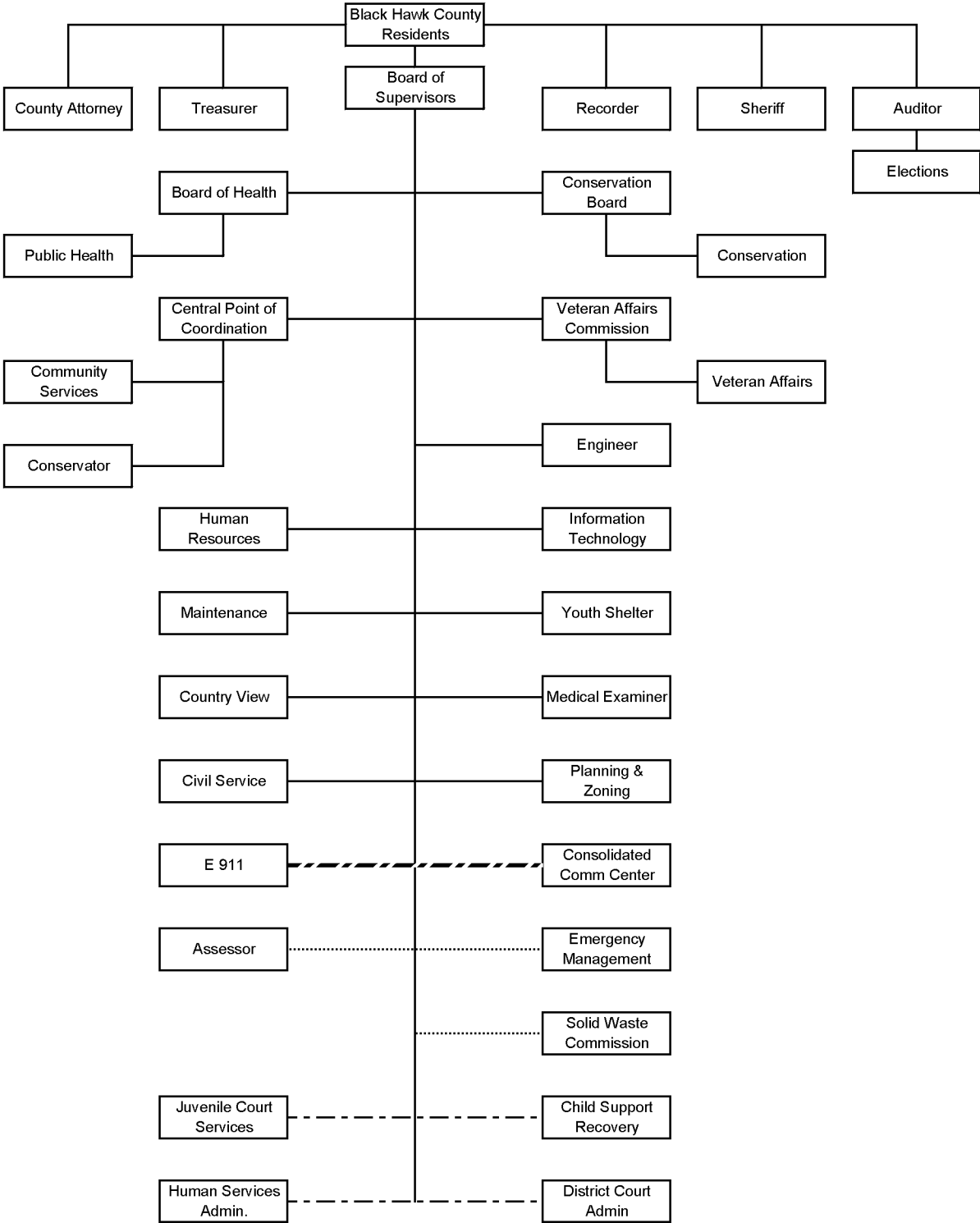
Black Hawk County, Iowa

County Officials

Official Title	Official	Term Expiration Date of Elected Officials
Elected Officials		
Supervisor, Chairperson	Scott Jordan	2009
Supervisor	Tom Little	2009
Supervisor	John Miller	2009
Supervisor	Leon V. Mosley	2007
Supervisor	Robert L. Smith, Jr.	2007
County Attorney	Thomas Ferguson	2007
County Auditor	Grant Veeder	2009
County Recorder	Particia S. Sass	2007
County Sheriff	Michael Kubik	2009
County Treasurer	Barbara A. Freet	2007
Associate Officials		
County Assessor	Vicki S. Atkins	2010
Department Heads and Administration		
Central Point of Coordination Administrator/ Community Services Director	Robert Lincoln	
Conservation Executive Director	Vern Fish	
Country View Administrator*	Sherri Niles	
County Buildings Superintendent	Louis Cutwright	
County Engineer	Richard King	
County Finance Director	James W. Bronner	
Human Resources Director	June Watkins	
Information Technology Interim Director	Kim Veeder	
Public Health Director	Thomas O'Rourke	
Veteran Affairs Director	Bennie Spain	
Youth Shelter Director	Tim Staley	

* The Country View Administrator is not an employee of Black Hawk County, Iowa.

FY2006 Organization Chart - Black Hawk County, IA



Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Black Hawk County
Iowa**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

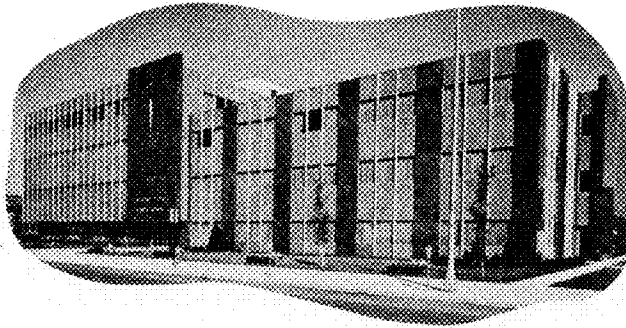


Carla E. Perry

President

Jeffrey R. Emmer

Executive Director



BOARD OF SUPERVISORS

SCOTT JORDAN 833-3076
TOM LITTLE 833-3075
JOHN MILLER 833-3074
LEON V. MOSLEY 833-3077
ROBERT L. SMITH, JR. 833-3078

BLACK HAWK COUNTY
316 EAST FIFTH STREET
WATERLOO, IOWA 50703

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OFFICE SUITES

Courthouse, Room 203
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Administrative Assistant
Monica Smith
Administrative Aide

December 7, 2006

Board of Supervisors and Citizens
Black Hawk County, Iowa

The Comprehensive Annual Financial Report (CAFR) for Black Hawk County, Iowa for the fiscal year ended June 30, 2006 is hereby submitted.

Each year the County publishes a complete set of audited financial statements as part of an annual single audit to conform to the provisions of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. The County assumes full responsibility for the completeness and reliability of the information contained in this report. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

McGladrey & Pullen, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the Black Hawk County financial statements for the year ended June 30, 2006. This independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of Black Hawk County

The first government of Black Hawk County, Iowa was organized August 17, 1853. It is located in the northeast part of the state. The county currently occupies 576 square miles and is the 4th most populous county in the state. The 2000 census population of 128,012 is up 3.4 percent from the 1990 census figure of 123,798. Black Hawk County is empowered to levy a property tax on both real and personal property located within its boundaries.

Black Hawk County currently operates under a five-member Board of Supervisors. Each member is elected at large to a four-year term. The Board of Supervisors is the legislative authority over Black Hawk County. Annually, the Board adopts a budget and establishes tax rates to support County programs. Also elected to four-year terms at large are the following officials: Attorney, Auditor, Recorder, Sheriff and Treasurer. These officials, along with department heads appointed by the Board, are responsible to administer the programs and policies adopted by the Board of Supervisors as well as the budget amount allocated to their department by the Board.

Black Hawk County provides a full range of services. These services include public safety and legal services, physical health and social services, mental health and developmental disabilities services, county environment and education, construction and maintenance of secondary roads, general administrative services and planning and zoning.

Black Hawk County is required by the State of Iowa to adopt an annual budget for the total operating expenditures of the County by function area. This is the foundation of financial planning and control for the County. The budget is prepared by fund (e.g., general, special revenue, debt), function (e.g. public safety), and department (e.g. Sheriff, Conservation). Departments can transfer resources within a department as they see fit. Transfers between departments, however, need special approval for the Board of Supervisors in the form of an amendment to the budget.

Local Economy

Black Hawk County is the fourth largest county in population in the State of Iowa. The cities of Cedar Falls and Waterloo make up just over 80 percent of the population with the remainder living in smaller towns, each are under 2,500 in population, and on farms.

Population since the 2000 Census figure of 128,012 has been declining slightly with the 2005-2006 estimate being closer to 126,000. The unemployment rate had recently climbed from 2.9 percent in 2000 to a rate of 5.0 percent in 2004-2005. That rate has lowered slightly for 2005-2006 to 4.7 percent.

The major industries located within the County's boundaries and the primary employers from each are as follows: Farm tractor and component manufacturing – John Deere, Health care – Covenant Medical Center and Allen Memorial Hospital, Pork processing – Tyson Foods, Bath and kitchen cabinet manufacturing – Omega Cabinets Limited and Bertch Cabinets, and various retail and financial service providers – Hy-Vee, Target distribution, Wal-Mart and GMAC mortgage.

Recently, several businesses have announced plans for expansion, record earnings or the construction of new business in the County. This should help overall employment increase and provide additional capital investment into the County.

LS Power, a New Jersey based company has proposed an estimated \$1.3 billion, 750-megawatt, coal-fired power plant in Black Hawk County. The plant will sell power to municipal and investor-owned electric utilities and cooperatives. Construction is expected to begin in 2007 and continue into 2011. Approximately 1,200 construction workers will be employed by the plant over the four-year construction period. Once completed, the plant will staff approximately 100 permanent professional staff.

The Isle of Capri Casino originally had announced in May of 2005 that it would build a \$135 million casino, hotel and restaurant complex in Black Hawk County. Due to added amenities such as a full-service spa, resort pool, night club, etc..., the estimate recently has grown to an estimated \$175 million. As construction continues, the target date for opening is still the spring of 2007. The complex will employ approximately 800 people when finished.

Allen Hospital announced a plan for a \$47 million expansion to include an emergency room and cardiac care building. In May or June of 2007, construction will begin on the three-story, 70,000 square-foot building. The emergency department is expected to open in late 2008 with the cardiac center opening slated for late 2009.

The supermarket industry continues to expand in Black Hawk County. The Hy-Vee supermarket chain recently completed an \$11 million dollar expansion of their Cedar Falls store, which increased the store size 20,000 square feet to 80,000 square feet in total. This expansion followed the recent relocation and construction of the Logan Avenue store at a cost of \$3.5 million. The Fareway supermarket chain likewise has completed construction of a new 24,000 square-foot store in Evansdale for an estimated cost of \$1.5 million.

The medical supply company, Van G. Miller and Associates continues construction on their 60,000 sq. ft. expansion. The completion date is scheduled for the spring of 2007. The new expansion of their existing facilities will generate approximate 140 new jobs within a year or two of completion with a total estimated cost of \$9 million dollars. The new facility will house the Homelink division of the company.

Deere & Company, the world's premier producer of agricultural equipment, and top employer in Black Hawk County, for the third consecutive year recently posted record earnings. The \$1.694 billion in fiscal year earnings equates to \$7.18 per share up from last years previous record earnings total of \$1.447 billion, or \$5.87 per share. New products such as the 8030 tractor produced in Black Hawk County were key contributors to this year's record earnings. This is the company's best five year span of performance since 1993-1998.

ConAgra Foods, Inc. recently confirmed that they will expand their existing pudding plant an additional \$46 million dollars by adding 200,000 square feet of space. The expansion will add an approximately 50 jobs to the plant as it will double in size. Construction is underway with a production startup date of July 1, 2007 planned.

During the past ten years, the County's expenses including debt and capital projects have increased 23.5 percent overall. The largest percentage increase was in the public safety and legal services area as well as the county environment and education. They increased over the ten year period 47.9 percent and 73.2 percent respectively. The largest dollar increase was in the Mental Health service area. It increased just over \$5.7 million dollars over the ten year period, or 40 percent. The mental health increase is primarily due to the rising costs of providing these services to the public along with an overall increased public demand for the services. The increases for the other areas are primarily driven by wage and insurance increases.

For the same ten year period, the County's total revenue has increased by 20 percent. Some areas have had very significant percentage increases such as the Licenses and Permits and the Interest and Penalty on Property Tax areas at just over 63 percent and 67 percent respectively. While that percentage change is very significant, the dollar totals of those increases were \$139,000 and \$138,000. The majority of the actual dollar increase, which accounts for over 80 percent of the almost \$10.3 million increase, comes from tax increases at \$6.34 million and intergovernmental revenues such as federal and state grants at just under \$2.47 million.

Long-Term Financial Planning

The unreserved, undesignated, general basic fund combined with the general supplemental fund balance for Black Hawk County is at 15.9 percent of total general fund expenditures. This is the highest percentage of fund balance since FY2000. The FY2006 percentage figure is within the range of 15 – 20 percent, which is the preferred range for Black Hawk County. The total combined general fund balance (unreserved, reserved, designated, etc...) is at 18.95 percent of total general fund expenditures. This is very close to the 20-25 percent range, which is the overall goal for the County. Black Hawk County will continue to progress towards the combined general fund balance figure of 20 – 25 percent of expenditures and also work very diligently to keep the current unreserved plus supplemental fund balance within the preferred range of 15-20 percent of expenditures.

Health care costs also continue to rise. The County actively looks at various plans to continue to provide the scope of services that employees have received in the past, but for less of an overall cost. A Request for Proposal (RFP) for the County's health plan consultant was executed in FY2006 with the current consultant being retained for one additional year. Also, as a result of the RFP, a committee was formed to look at the possibility of not continuing to use a consultant past FY2007, and to instead bring the process in house by hiring an individual to assume these duties. That committee's recommendation will be considered by the Board of Supervisors in the coming months.

The County's secondary road system is also being continually reviewed. The County Engineer has identified a downward trend in the overall quality of numerous County roads and bridges. A long range plan considering how much additional funding will be required to reduce the decline and eventually reverse this trend on the aging road system is being developed. The Board will be contemplating this plan and the various funding options in the coming months, as well.

Relevant Financial Policies

Black Hawk County has designated a portion of its fund balance for tax stabilization and to offset termination of benefit payments. The County has chosen to use part of this balance to offset increases in the debt service tax rate if it hits the pre-determined threshold. The balance is also used to offset any unanticipated, unbudgeted retirement payout that occurs throughout the year and can not be offset through the normal budget amendment process.

Major Initiatives

There are four large bridges throughout Black Hawk County. One of these bridges was replaced a few years ago. Another bridge is currently closed and being prepared for replacement starting in the spring of 2007. The cost estimate for that bridge replacement is approximately \$2.6 million, of which the State of Iowa awarded the County \$2 million for the project. The third bridge replacement is scheduled to occur in fiscal year 2010 or 2011 with an estimated price of \$4 – 4.5 million pending available funding. The final of these four bridges will need to be replaced in the next five to ten years. It will also be a multi-million dollar project.

Additionally, there are two bridges that are part of the Cedar Valley Nature Trail within Black Hawk County that are also in need of replacement in the coming years. These two bridges will have estimated project costs similar to the other bridges already listed. One of these two bridges is in need of replacement as soon as funding is available. The other will need similar attention in the next few years. The overall challenge of these projects will be funding them with the least amount of interruption for the surrounding areas.

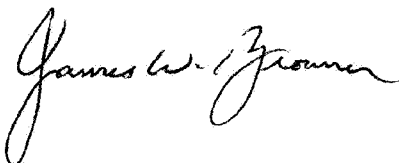
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Black Hawk County, IA for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the first year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

I would like to thank all of the County employees and other individuals that assisted in the preparation of the Comprehensive Annual Financial Report. Most notably, I would like to thank the entire staffs of both the Auditor's Office and Treasurer's Office. The completion of this report could not have been accomplished without their efficient and dedicated service. The excellent service provided by the County's independent auditors, McGladrey & Pullen, LLP is also greatly appreciated. Finally, I would like to thank the Board of Supervisors for their leadership and support without which preparation of this report would not have been possible.

Respectfully submitted,



James W. Bronner
Finance Director

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Supervisors
Black Hawk County, Iowa
Waterloo, Iowa

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

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

As explained in Note 16 to the basic financial statements, the County changed its method of accounting for net assets restricted by enabling legislation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Black Hawk County, Iowa as of June 30, 2006, and the respective changes in financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2006, on our consideration of Black Hawk County, Iowa'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 Audit Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and budgetary comparison information on pages 48 and 49 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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. However, 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 Black Hawk County, Iowa's basic financial statements. The combining and individual nonmajor fund financial statements and other statements listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Davenport, Iowa
November 20, 2006

Black Hawk County, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

As management of Black Hawk County, Iowa, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Black Hawk County, Iowa (the "County") for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which is located in the Introductory Section at the front of this report.

Financial Highlights

- The assets of the County exceeded liabilities at the close of the fiscal year ended June 30, 2006 by \$56,563,137 (net assets). Of this amount, \$4,892,698 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. For the fiscal year ended June 30, 2005, assets exceeded liabilities by \$51,796,466. Of this amount, \$3,563,097 was unrestricted.
- The County's total net assets increased by \$4,766,671 during the fiscal year ended June 30, 2006. Governmental activities increased \$4,832,516 and business-type activities decreased by \$65,845. For fiscal year ended June 30, 2005, total net assets increased \$4,092,477. Governmental activities increased \$4,182,339 and business-type activities decreased \$89,862.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$14,520,293, an increase of \$1,650,177 in comparison with the prior year. Approximately 58 percent of this is unreserved and undesignated fund balance which is available for spending at the County's discretion. As of the close of fiscal year June 30, 2005, governmental funds reported combined ending fund balances of \$12,870,116, of which 72 percent was unreserved and undesignated.
- At the end of the current fiscal year, the County's unreserved, undesignated fund balance for the General Fund was \$2,723,894 or 8.4 percent of the total General Fund expenditures. These funds will be needed to meet expenditures until the next semi-annual property tax revenue is received. The unreserved, undesignated fund balance for the General Fund as of June 30, 2005 was \$2,609,144 or 8.4 percent of total General Fund expenditures.
- The County's total debt increased by \$620,545 (4 percent) during the current fiscal year. Total debt for the fiscal year June 30, 2005, decreased by \$2,098,655 (11.7 percent).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Black Hawk County, Iowa's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to private-sector business.

The *statement of net assets* presents information on all of Black Hawk County, Iowa's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

Black Hawk County, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

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 underlying event giving rise to 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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include public safety and legal services, physical health and social services, mental health, County environment and education, road and transportation, governmental services to residents, administration and interest on long-term debt. The business-type activities of the County include the Washburn rural sewer and Washburn rural water operations.

The government-wide financial statements include Black Hawk County, Iowa (known as the *primary government*) and two blended component units: Drainage Districts and the Friends of Hartman Reserve, Inc.

The government-wide financial statements can be found on pages 13 through 16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Black Hawk County, Iowa, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the County's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements, and is typically the basis used in developing the next annual budget.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

Black Hawk County, Iowa, maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Mental Health Fund, Rural Services Fund, Secondary Roads Fund, Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds. The County has elected to treat the Rural Services Fund, Secondary Roads Fund, Debt Service Fund and Capital Projects Fund as major for public interest purposes. Data from the other eight governmental funds are combined into a single, aggregated presentation under the column heading "Nonmajor Governmental Funds". Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

Black Hawk County, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

The County presents budgetary information as allowed by GASB Statement No. 41. The County adopts an annual appropriated budget for all governmental funds. Formal and legal budgetary control as required by state statute is based upon nine major classes of expenditures known as functions, not by fund or fund type.

The basic governmental fund financial statements can be found on pages 17 through 22 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the Washburn rural sewer system and the Washburn rural water system. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. Black Hawk County, Iowa utilizes three internal service funds to account for its health insurance, self-insurance and office equipment programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the rural sewer major fund and the nonmajor fund – rural water operations. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund's financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund's financial statements can be found on pages 23 through 25 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support Black Hawk County, Iowa's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund's financial statements can be found on page 26 of this report.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 27 through 47 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also provides certain *required supplementary information* concerning Black Hawk County, Iowa's budgeted amounts for fiscal year 2006. Required supplementary information can be found on pages 48 and 49 of this report.

The combining statements referred to earlier in connection with nonmajor special revenue funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 50 through 59 of this report.

Black Hawk County, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Government-Wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of Black Hawk County, Iowa, assets exceeded liabilities by \$56,563,137 at the close of the most recent fiscal year.

By far the largest portion of the County's net assets (78.1 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, improvements other than buildings, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to its citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to cover the liabilities.

	Net Assets of Governmental and Business-Type Activities					
	Governmental Activities		Business-Type Activities		Total County	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 49,259,053	\$ 45,880,758	\$ 435,770	\$ 421,257	\$ 49,694,823	\$ 46,302,015
Capital assets	51,848,292	49,011,275	3,989,044	4,184,512	55,837,336	53,195,787
Total assets	101,107,345	94,892,033	4,424,814	4,605,769	105,532,159	99,497,802
Long-term liabilities	11,449,835	10,687,245	1,395,000	1,527,238	12,844,835	12,214,483
Other liabilities	35,964,296	35,344,090	159,891	142,763	36,124,187	35,486,853
Total liabilities	47,414,131	46,031,335	1,554,891	1,670,001	48,969,022	47,701,336
Net assets:						
Invested in capital assets, net of related debt	41,703,511	37,693,275	2,449,044	2,522,274	44,152,555	40,215,549
Restricted	7,517,884	1,798,441	-	-	7,517,884	1,798,441
Unrestricted	4,471,819	9,368,982	420,879	413,494	4,892,698	9,782,476
Total net assets	\$ 53,693,214	\$ 48,860,698	\$ 2,869,923	\$ 2,935,768	\$ 56,563,137	\$ 51,796,466

An additional portion of the County's net assets (13.3 percent or \$7,517,884) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (8.6 percent or \$4,892,698) may be used to meet the County's ongoing obligations to citizens and creditors.

The County implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, during 2006. The purpose of Statement No. 46 is to help the governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in the financial statements when there are changes in the circumstances surrounding such legislation. Net assets restricted through enabling legislation consists of \$490,758 for debt service, \$1,373,802 for mental health, \$3,274,588 for secondary roads and \$2,378,736 for supplemental levy purposes as of June 30, 2006. The County has also reported restricted net assets for capital projects; these assets are restricted by third parties. The effect of adopting this statement was to reclassify \$6,219,379 of the 2005 ending net assets previously reported as unrestricted to restricted net assets.

At the end of the current fiscal year, Black Hawk County, Iowa is able to report positive balances in all three categories of net assets, both the government as a whole, as well as for its separate governmental and business-type activities.

Black Hawk County, Iowa

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Governmental activities: Governmental activities increased the County's net assets by \$4,832,516 as shown on the chart that follows. The 9.9 percent increase in net assets of governmental activities is primarily a result of a capital contribution of infrastructure of approximately \$3 million.

Changes in Net Assets of Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 6,834,464	\$ 6,233,145	\$ 253,604	\$ 229,898	\$ 7,088,068	\$ 6,463,043
Operating grants, contributions and restricted interest	23,594,453	22,089,424	-	-	23,594,453	22,089,424
Capital grants, contributions and restricted interest	3,213,418	1,914,812	-	-	3,213,418	1,914,812
General revenues:						
Taxes:						
Property	24,984,891	23,836,898	-	-	24,984,891	23,836,898
Penalty and interest	345,844	322,842	-	-	345,844	322,842
State tax credits	1,179,717	1,151,699	-	-	1,179,717	1,151,699
Local option sales	2,605,674	2,411,109	-	-	2,605,674	2,411,109
Other taxes	996,293	1,033,350	-	-	996,293	1,033,350
Investment earnings	1,069,135	681,081	3,369	2,129	1,072,504	683,210
Miscellaneous	1,202,771	1,443,425	-	-	1,202,771	1,443,425
Gain on the sale of capital assets	18,803	-	-	-	18,803	-
Total revenues	66,045,463	61,117,785	256,973	232,027	66,302,436	61,349,812
Expenses:						
Public safety and legal services	15,997,089	14,902,387	-	-	15,997,089	14,902,387
Physical health and social services	10,331,387	9,340,367	-	-	10,331,387	9,340,367
Mental health	20,128,555	19,594,365	-	-	20,128,555	19,594,365
County environment and education	2,315,684	2,253,945	-	-	2,315,684	2,253,945
Roads and transportation	5,731,706	4,172,656	-	-	5,731,706	4,172,656
Government services to residents	1,501,746	1,459,390	-	-	1,501,746	1,459,390
Administration	4,773,716	4,764,053	-	-	4,773,716	4,764,053
Interest on long-term debt	433,064	448,283	-	-	433,064	448,283
Washburn water and sewer	-	-	322,818	321,889	322,818	321,889
Total expenses	61,212,947	56,935,446	322,818	321,889	61,535,765	57,257,335
Increase in net assets	4,832,516	4,182,339	(65,845)	(89,862)	4,766,671	4,092,477
Net assets, beginning	48,860,698	44,678,359	2,935,768	3,025,630	51,796,466	47,703,989
Net assets, ending	\$53,693,214	\$48,860,698	\$ 2,869,923	\$ 2,935,768	\$56,563,137	\$51,796,466

Black Hawk County, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

The County enjoyed increases in various revenue sources: property tax revenue increased approximately \$1,100,000 due the combination of an increase in taxable assessed valuation and an increase in property tax rates; operating grants and supplies increased due to additional funding coupled with the receipt of approximately \$600,000 in donated supplies and materials through a homeland security grant and the County's cash and investment balances increased by approximately \$3,000,000 due to unspent bond proceeds related to debt issues during 2006 and a 1 percent increase in the average rate of return as compared to 2005.

Miscellaneous revenues represent items that are not large enough to have an individual classification such as donations, various property rentals and other miscellaneous revenue items. This amount will fluctuate year to year given the nature of the revenues.

Public safety and legal services increased approximately \$1,000,000. 60 percent of this increase related to recognition of donated supplies and materials which were offset by additional operating grant revenues. The remaining increase related to various capital items and increases in personnel costs.

Physical health and social services increased \$991,020 or 11 percent due to a number of factors. Personnel costs for multiple departments contributed to approximately \$350,000 of the increase, with additional capital projects adding another \$85,000. The remaining balance was a result of an increase of \$175,000 in Community Service dollars primarily for shelter assistance, along with just over \$340,000 of increased costs associated with Juvenile Court Services.

Roads and transportation functional expenses increased by \$1,559,050 or 37 percent; primarily due to an increase in the number of road and bridge projects being completed in fiscal year 2006 compared to fiscal year 2005. As the road and bridge construction season encompasses two fiscal years, the timing of certain projects can result in large variances when compared to prior year figures.

Business-type activities: Business-type activities decreased the County's net assets by \$65,845.

Financial Analysis of the Government's Fund Financial Statements

As noted earlier, Black Hawk County, Iowa uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The financial reporting focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balances* serve as a useful measure of a government's net resources available at the end of the fiscal year.

The County's governmental funds reported combined fund balances of \$14,520,293 as of June 30, 2006. This was an increase of \$1,650,177, or 12.8 percent, over the prior year. \$1,544,366 of this increase relates to the issuance of general obligation bonds and general obligation capital notes during 2006. Approximately half of the proceeds were expended during 2006. Of this total amount, \$8,428,840 constitutes *unreserved and undesignated fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for purposes of the supplemental tax levy, 2) to fund various debt service payments and 3) for assets that will not be liquidated in the near term.

Black Hawk County, Iowa

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,723,894, while total fund balance reached \$6,163,485. As a measure of the General Fund's liquidity, it is generally useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.4 percent of total General Fund expenditures, while total fund balance represents 19 percent of that same amount. These funds will be needed as working capital during the initial months of the new fiscal year as property tax revenue is only collected semi-annually, in September and March.

The fund balance for Black Hawk County, Iowa's General Fund increased by \$815,205 during the current fiscal year. The key factor in this increase in fund balance was an increase in property taxes of just over \$640,000 for the General Fund. The salaries and benefits for multiple departments were also less than originally budgeted, which is attributed to the remaining balance of the overall increase.

The Mental Health Fund had a fund balance of \$1,373,802, all of which is to be used for mental health functional expenditures. The fund balance decreased by \$633,683 as planned in order to allow the County to arrive at a fund balance percentage that would maximize the full potential funding available from the state.

The Rural Services Fund had a fund balance of \$608,883, which increased \$338,312 from the prior year. The majority of the fund increase is due to higher than anticipated Local Option Sales Tax revenue combined with expenditures less than originally budgeted in the Sheriff's salaries and benefits and consultant services being less than anticipated with Planning and Zoning.

The Secondary Roads Fund had a fund balance of \$3,274,588, which decreased \$467,669 from the prior year. The primary reason for the decline in fund balance is directly related to the 37 percent increase in roads and transportation functional expenses. The fund balance will fluctuate in this fund due to timing of planned maintenance and capital projects.

The Debt Service Fund had a fund balance of \$490,758 all of which is reserved for the payment of debt service (i.e. payment of general obligation principal and interest).

The Capital Projects Fund had a total fund balance of \$1,781,111. This fund balance increased \$1,544,366 due to the issuance of general obligation bonds and general obligation capital notes. Approximately one half of the debt proceeds were expended during 2006.

Proprietary Funds. The Black Hawk County, Iowa's proprietary funds provide the same type of information found in the government-wide financial statements, except in more detail.

Total net assets of the Rural Sewer Fund at the end of the year amounted to \$1,892,909. This is comprised of: \$1,827,748 invested in capital assets, net of related debt and \$65,161 in unrestricted net assets.

Budgetary Highlights

The County presents budgetary information as allowed by GASB Statement No. 41. Budgets are based on nine functional areas as required by state statute, not by fund or fund type.

Over the course of the year, Black Hawk County, Iowa amended its budget two times. The budgetary comparison schedules on pages 48 and 49 provide more information.

