



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

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NEWS RELEASE

FOR RELEASE March 27, 2003

Contact: Andy Nielsen
515/281-5515

The Office of Auditor of State today released an audit report on 5B Judicial District Youth Services located in Lamoni, Iowa.

Youth Services' revenues totaled \$774,068 for the year ended June 30, 2002 and \$923,946 for the year ended June 30, 2001. The revenues included \$756,754 and \$840,023 from the State of Iowa and \$2,405 and \$4,214 in interest income for the years ended June 30, 2002 and 2001, respectively.

Operating expenses totaled \$850,910 and \$854,189 for the years ended June 30, 2002 and 2001, respectively. The expenses included salaries and benefits of \$612,816 and \$608,347 for the years ended June 30, 2002 and 2001, respectively.

A copy of the audit report is available for review in the office of Auditor of State and the Youth Services' office.

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5B JUDICIAL DISTRICT YOUTH SERVICES

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

June 30, 2002 and 2001

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5B Judicial District Youth Services

Officials

| <u>Name</u> | <u>Title</u> | <u>Representing</u> |
|-------------|--------------|---------------------|
|-------------|--------------|---------------------|

(Before January 2002)

| | | |
|-----------------|--------------------|-----------------|
| Kevin Wynn | Chairman | Adams County |
| Gary Ballantyne | Vice Chairman | Decatur County |
| Jack Cooley | Member | Clarke County |
| Clarence Gee | Member | Lucas County |
| Ethel Campbell | Member | Ringgold County |
| Lee Little | Member | Taylor County |
| Mike Reasoner | Member | Union County |
| Jerry O'Dell | Member | Wayne County |
| Dave Hook | Board Secretary | |
| Cary Williams | Executive Director | |

(After January 2002)

| | | |
|----------------|--------------------|-----------------|
| Kevin Wynn | Chairman | Adams County |
| Ethel Campbell | Vice Chairman | Ringgold County |
| Jack Cooley | Member | Clarke County |
| JR Cornett | Member | Decatur County |
| Clarence Gee | Member | Lucas County |
| Lee Little | Member | Taylor County |
| Mike Reasoner | Member | Union County |
| Jerry O'Dell | Member | Wayne County |
| Michelle Bowen | Board Secretary | |
| Cary Williams | Executive Director | |

5B Judicial District Youth Services



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Independent Auditor's Report

To the Officials of 5B Judicial District
Youth Services:

We have audited the accompanying general purpose financial statements, listed as exhibits in the table of contents of this report, of 5B Judicial District Youth Services, Lamoni, Iowa, as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of Youth Services' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 5B Judicial District Youth Services at June 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2003 on our consideration of 5B Judicial District Youth Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

February 20, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

Exhibit A

5B Judicial District Youth Services

Balance Sheet

June 30, 2002 and 2001

| | 2002 | 2001 |
|---|-------------------|----------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 75,988 | 135,986 |
| Accounts receivable | 95,638 | 121,848 |
| Prepaid insurance | 10,585 | 9,241 |
| Inventory | 1,722 | 2,451 |
| Total current assets | <u>183,933</u> | <u>269,526</u> |
| Property and equipment (note 5): | | |
| Building and improvements | 1,868 | 1,868 |
| Furniture and equipment | 36,961 | 38,257 |
| Vehicles | 75,621 | 68,763 |
| | <u>114,450</u> | <u>108,888</u> |
| Less accumulated depreciation | (49,583) | (60,668) |
| Net property and equipment | <u>64,867</u> | <u>48,220</u> |
| Total assets | <u>\$ 248,800</u> | <u>317,746</u> |
| Liabilities and Fund Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 16,022 | 10,278 |
| Salaries and benefits payable | 20,402 | 22,524 |
| Capital lease purchase agreement (note 6) | 12,349 | 11,465 |
| Compensated absences | 26,506 | 38,003 |
| Total current liabilities | <u>75,279</u> | <u>82,270</u> |
| Non-current liabilities: | | |
| Capital lease purchase agreement (note 6) | 23,812 | 3,591 |
| Total liabilities | <u>99,091</u> | <u>85,861</u> |
| Fund equity: | | |
| Unreserved retained earnings | <u>149,709</u> | <u>231,885</u> |
| Total liabilities and fund equity | <u>\$ 248,800</u> | <u>317,746</u> |

See notes to financial statements.

5B Judicial District Youth Services

Statement of Revenues, Expenses and Changes in Retained Earnings

Years ended June 30, 2002 and 2001

| | 2002 | 2001 |
|---|------------|---------|
| Operating revenues: | | |
| Government funding sources: | | |
| Iowa Department of Human Services purchase of service | \$ 503,099 | 593,084 |
| National School Lunch program reimbursements | 20,030 | 22,850 |
| Clothing allowances | 1,700 | 561 |
| Juvenile justice reimbursements | 115,188 | 146,931 |
| Charges for service | 10,363 | 51,589 |
| State of Missouri programs | 2,287 | 25,775 |
| Iowa in Home program | 116,737 | 76,597 |
| Miscellaneous | 2,259 | 2,345 |
| Total operating revenues | 771,663 | 919,732 |
| Operating expenses: | | |
| Salaries and benefits | 612,816 | 608,347 |
| Workers' compensation insurance | 4,725 | 4,334 |
| Office supplies | 6,161 | 8,546 |
| Food | 31,088 | 34,628 |
| Other supplies | 5,088 | 5,238 |
| Building, grounds, supplies and maintenance | 8,919 | 11,580 |
| Clothing and personal needs | 6,343 | 4,677 |
| Rent | 42,000 | 42,000 |
| Utilities | 14,109 | 14,638 |
| Telephone | 17,093 | 17,191 |
| Accounting/auditing services | 7,361 | 6,746 |
| Postage and shipping | 1,573 | 1,718 |
| Insurance | 23,421 | 23,790 |
| Vehicle expense | 7,912 | 7,472 |
| Staff development and training | 3,848 | 4,624 |
| Subscriptions and dues | 3,672 | 3,192 |
| Equipment repair | 6,801 | 7,118 |
| Travel | 24,707 | 23,537 |
| Depreciation | 14,938 | 16,279 |
| Miscellaneous | 8,335 | 8,534 |
| Total operating expenses | 850,910 | 854,189 |
| Operating income (loss) | (79,247) | 65,543 |
| Non-operating revenues (expenses): | | |
| Interest income | 2,405 | 4,214 |
| Interest expense | (1,722) | (2,056) |
| Loss on disposal of vehicles | (3,612) | - |
| Total non-operating revenues (expenses) | (2,929) | 2,158 |
| Net income (loss) | (82,176) | 67,701 |
| Retained earnings beginning of year | 231,885 | 164,184 |
| Retained earnings end of year | \$ 149,709 | 231,885 |

See notes to financial statements.

5B Judicial District Youth Services

Statement of Cash Flows

Years ended June 30, 2002 and 2001

| | 2002 | 2001 |
|--|--------------------|-----------------|
| Cash flows from operating activities: | | |
| Cash received from governmental sources | \$ 795,614 | 881,189 |
| Cash payments to suppliers for goods and services | (218,028) | (235,176) |
| Cash payments to employees for services | (626,435) | (598,592) |
| Other operating revenues | 2,259 | 2,345 |
| Net cash provided by (used for) operating activities | <u>(46,590)</u> | <u>49,766</u> |
| Cash flows from capital and related financing activities: | | |
| Purchase of property and equipment | - | (10,429) |
| Principal payments on capital leases | (14,097) | (19,372) |
| Interest paid | (1,716) | (2,056) |
| Net cash used for capital and related financing activities | <u>(15,813)</u> | <u>(31,857)</u> |
| Cash flows from investing activities: | | |
| Interest on investments | 2,405 | 4,214 |
| Net increase (decrease) in cash | (59,998) | 22,123 |
| Cash and cash equivalents at beginning of year | 135,986 | 113,863 |
| Cash and cash equivalents at end of year | <u>\$ 75,988</u> | <u>135,986</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | \$ (79,247) | 65,543 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 14,938 | 16,279 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 26,210 | (36,198) |
| Prepaid insurance | (1,344) | (503) |
| Inventory | 728 | 280 |
| Increase (decrease) in: | | |
| Accounts payable | 5,744 | (5,390) |
| Salaries and benefits payable | (2,122) | 3,456 |
| Compensated absences | (11,497) | 6,299 |
| Total adjustments | <u>32,657</u> | <u>(15,777)</u> |
| Net cash provided by (used for) operating activities | <u>\$ (46,590)</u> | <u>49,766</u> |

Non-cash investing, capital and financing activities:

Three vehicles were acquired through a capital lease agreement of \$35,196.

See notes to financial statements.

5B Judicial District Youth Services

Notes to Financial Statements

June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

The 5B Judicial District Juvenile Group Home and Shelter Care was formed in 1977 by eight Southern Iowa member counties, pursuant to the provisions of Chapter 28E of the Code of Iowa. During 1995, the District discontinued its residential group home program at which time the name of the organization was changed to 5B Judicial District Youth Services. Youth Services provides shelter care to juveniles in Judicial District 5B.

5B Judicial District Youth Services is governed by a Board comprised of one representative from each of the following member counties: Adams, Clarke, Decatur, Lucas, Ringgold, Taylor, Union and Wayne. In the performance of its duties, the Board may cooperate with, contract with, and accept and expend funds from federal, state or local agencies, public or semi-public, private individuals or corporations, and may carry out such cooperative undertakings and contracts as provided by law.

A. Reporting Entity

For financial reporting purposes, 5B Judicial District Youth Services has included all funds, organizations, account groups, agencies, boards, commission, and authorities. Youth Services has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationships with Youth Services are such that exclusion would cause the Youth Services' 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 District 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 District. 5B Judicial District Youth Services has no component units which meet the Governmental Accounting Standards Board criteria.

B. Measurement Focus

The financial activities of Youth Services are accounted for on a cost of services or capital measurement focus. This means that all assets and liabilities, whether current or non-current, are included on its balance sheet.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they are incurred, if measurable.

In reporting the financial activity of its proprietary funds, Youth Services applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Budgets

Youth Services annually adopts a budget on the accrual basis. The annual budget may be amended during the year upon approval of the Board.

E. Assets, Liabilities and Fund Balance

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

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

Inventory - Inventory is valued at cost using the first-in, first-out method. Inventory consists of food commodities held for consumption.

Property and Equipment - Property and equipment is valued at historical cost. Donated assets are valued at their estimated fair value on the date of donation.

Depreciation has been provided using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|----------------------------|-----------|
| Buildings and improvements | 7 years |
| Furniture and equipment | 5-7 years |
| Vehicles | 5 years |

The cost of assets sold, retired, or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and any gain or loss is included in operations.

Expenditures for maintenance, repair and minor replacements are charged to operations, while the cost for major replacements and betterments are capitalized.

Compensated Absences - Full-time employees of Youth Services accumulate a limited amount of earned but unused vacation payable to employees. These accumulations are recorded as liabilities and expenses for the year earned. This liability has been computed based on rates of pay in effect at June 30, 2002.

(2) Cash

Youth Services' deposits in banks at June 30, 2002 and 2001 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 members of the pool to insure there will be no loss of public funds.

Youth Services 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; 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.

Youth Services' cash and deposits at June 30, 2002 and 2001 are as follows:

| | June 30, | |
|-------------------------------|------------------|----------------|
| | 2002 | 2001 |
| Checking and savings accounts | \$ 74,935 | 135,073 |
| Cash on hand | 1,053 | 913 |
| Total | <u>\$ 75,988</u> | <u>135,986</u> |

(3) Pension and Retirement Benefits

Youth Services 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.

Plan members are required to contribute 3.70% of their annual covered salary and Youth Services is required to contribute 5.75% of annual covered. Contribution requirements are established by state statute. Youth Services' contributions to IPERS for the years ended June 30, 2002, 2001, and 2000 were \$39,921, \$38,248, \$34,067, respectively, equal to the required contributions for each year.

(4) Lease Agreement

5B Judicial District Youth Services entered into a lease agreement with JRC, Inc., for the lease of the current facility in Lamoni, Iowa. The lease is for a period of 20 years commencing October 1, 1994. The lease requires monthly rental payments of \$3,500. The rent expense recognized in the financial statements was \$42,000 for each of the years ended June 30, 2002 and 2001.

(5) Property and Equipment

A summary of changes in property and equipment for the year ended June 30, 2002, is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|--------------------------|---------------------------------|-----------|-----------|---------------------------|
| Building and improvement | \$ 1,868 | - | - | 1,868 |
| Furniture and equipment | 38,257 | - | 1,296 | 36,961 |
| Vehicles | 68,763 | 46,596 | 39,738 | 75,621 |
| Totals | \$ 108,888 | 46,596 | 41,034 | 114,450 |

Furniture and equipment includes \$5,760 of assets acquired under a capital lease. Vehicles includes \$46,596 of assets acquired under a capital lease.

(6) Capital Lease Purchase Agreements

Youth Services entered into the following capital lease purchase agreements: in April, 2000 to lease a copier and in March, 2002 to lease three vehicles. The following is a schedule of the future minimum lease payments, including interest at 12.4% per annum and 6.26% per annum, respectively, and the present value of the net minimum lease payments under the agreements in effect at June 30, 2002:

| Year Ending June 30, | Copier | Vehicles | Total |
|---|----------|----------|---------|
| 2003 | \$ 1,548 | 12,901 | 14,449 |
| 2004 | 1,548 | 12,901 | 14,449 |
| 2005 | 1,161 | 9,812 | 10,973 |
| Total minimum lease payments | 4,257 | 35,614 | 39,871 |
| Less amount representing interest | (665) | (3,045) | (3,710) |
| Present value of net minimum lease payments | \$ 3,592 | 32,569 | 36,161 |

Payments under the copier and vehicles capital lease purchase agreements for the year ended June 30, 2002 totaled \$1,548 and \$14,004, respectively.

(7) Risk Management

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

(8) Subsequent Event

On November 12, 2002, Youth Services entered into a lease purchase agreement to replace the leased copier. The total cost was \$7,650, plus interest at 12.4% per annum, to be financed over a five year period.

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**



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Auditor of State

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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Officials of 5B Judicial District
Youth Services:

We have audited the financial statements of 5B Judicial District Youth Services as of and for the year ended June 30, 2002, and have issued our report thereon dated February 20, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 5B Judicial District Youth Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Youth Services' operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of 5B Judicial District Youth Services. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 5B Judicial District Youth Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information of the members and customers of 5B Judicial District Youth Services and other parties to whom Youth Services 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 5B Judicial District Youth Services 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.

February 20, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

5B Judicial District Youth Services

Schedule of Findings

Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were identified.

5B Judicial District Youth Services

Schedule of Findings

Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depository - A resolution naming an official depository has been adopted by the Board. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2002.
- (2) Business Transactions - No business transactions between 5B Judicial District Youth Services and officials or employees were noted.
- (3) Board Minutes - Except as noted, no transactions were found that we believe should have been approved in the Board minutes but were not.

The Board went into closed session on September 19, 2002, December 11, 2002, and January 15, 2003 to discuss matters related to 5B Judicial District Youth Services. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation - The Board should comply with Chapter 21 of the Code of Iowa.

Response - On February 12, 2003, this issue was brought to the Board's attention. After discussion, the Board agreed to follow Chapter 21.5(2) of the Iowa Code and to look up this section of the Code to ensure that they did not miss any other regulations outlined in the Code of Iowa.

Conclusion - Response accepted.

- (4) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and Youth Services' investment policy were noted.

5B Judicial District Youth Services

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Natalie J. Storm, CPA, Staff Auditor
Arlene M. Halfman, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State