



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE April 4, 2005

Contact: Andy Nielsen
515/281-5834

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

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$13,962,996 for the year ended June 30, 2004, which included \$845,374 in tax credits from the state. The County forwarded \$9,366,632 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,596,364 of the local tax revenue to finance County operations. Other revenues included charges for service of \$743,136, operating grants, contributions and restricted interest of \$2,559,190, capital grants, contributions and restricted interest of \$301,634, unrestricted investment earnings of \$69,646 and other general revenues of \$182,859.

Expenses for County operations totaled \$7,236,915. Expenses included \$2,340,757 for roads and transportation, \$1,362,450 for mental health and \$1,121,437 for public safety and legal services.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

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UNION COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2004

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Union County

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------------|---------------------|
| Robert G. Brown | Board of Supervisors | Jan 2005 |
| Donald W. Ireland | Board of Supervisors | Jan 2005 |
| Tom McCann | Board of Supervisors | Jan 2007 |
| Michael J. King | Board of Supervisors | Jan 2007 |
| Curt Turner | Board of Supervisors | Jan 2007 |
| Sandy Hysell | County Auditor | Jan 2005 |
| Linda Marley | County Treasurer | Jan 2007 |
| Paula White | County Recorder | Jan 2007 |
| Rick L. Piel | County Sheriff | Jan 2005 |
| Timothy R. Kenyon | County Attorney | Jan 2007 |
| Steven Gene Haner | County Assessor | Jan 2010 |

Union County



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Independent Auditor's Report

To the Officials of Union County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Union County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Union 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, 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 our audit provides a reasonable basis for our opinions.

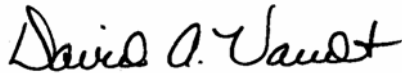
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Union County at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 14 to the financial statements, during the year ended June 30, 2004, Union County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

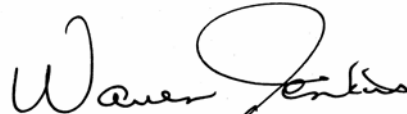
In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2005 on our consideration of Union County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 46 through 48 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Union 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 three years ended June 30, 2003 (which are not presented herein) and expressed qualified opinions on those financial statements for the effects of the omission of the general fixed assets account group. 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

January 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Union 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, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Union County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- The County's governmental fund revenues increased approximately \$1,120,000, or 16%, from fiscal 2003 to fiscal 2004. Property and other county tax increased approximately \$1,083,000.
- The County's governmental fund expenditures increased approximately \$253,000, or 3%, from fiscal 2003 to 2004. Roads and transportation expenditures decreased by approximately \$79,000 and capital projects expenditures decreased approximately \$57,000.
- The County's net assets increased approximately \$1,216,000 from June 30, 2003 to June 30, 2004.

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 Union 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 Union 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 Union 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 three 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, 3) the Debt Service Fund and 4) the Capital Projects 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) Proprietary funds account for the County's Internal Service, Employee Group Health Insurance Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) 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 drainage districts, emergency management services and the County Assessor, to name a few.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

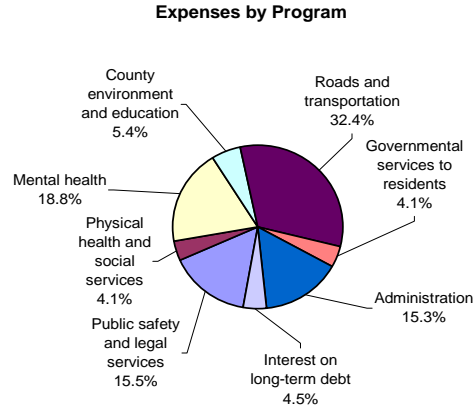
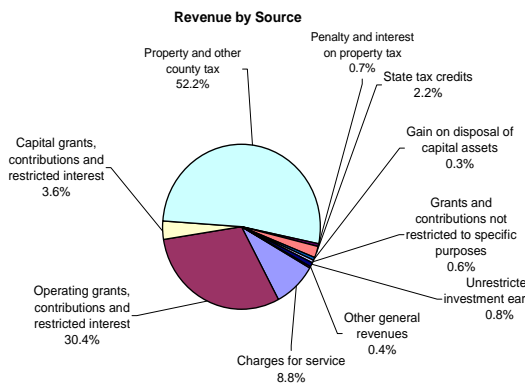
As noted earlier, net assets may serve over time as a useful indicator of financial position. Union County's combined net assets at June 30, 2004 totaled \$365,057. This compares to \$(850,857) at June 30, 2003, as restated. The analysis that follows focuses on the changes in the net assets for governmental activities.

| Net Assets of Governmental Activities (Expressed in Thousands) | |
|---|----------------|
| | June 30, 2004 |
| Current and other assets | \$ 6,292 |
| Capital assets | 2,179 |
| Total assets | <u>8,471</u> |
| Long-term liabilities | 4,971 |
| Other liabilities | 3,135 |
| Total liabilities | <u>8,106</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 716 |
| Restricted | 2,207 |
| Unrestricted | <u>(2,558)</u> |
| Total net assets | <u>\$ 365</u> |

Net assets of Union County's governmental activities increased by \$1,215,914 (\$850,857) compared to \$365,057). A large portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. 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 reported at approximately \$(2,558,000) at June 30, 2004. The negative unrestricted net asset balance is primarily attributed to the County's issuance of debt for which the related offsetting assets are not the County's.

Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

| | Year ended June 30, 2004 |
|---|-----------------------------|
| Revenues: | |
| Program revenues: | |
| Charges for service | \$ 743 |
| Operating grants, contributions and restricted interest | 2,559 |
| Capital grants, contributions and restricted interest | 302 |
| General revenues: | |
| Property and other county tax | 4,407 |
| Penalty and interest on property tax | 62 |
| State tax credits | 189 |
| Gain on disposal of capital assets | 29 |
| Grants and contributions not restricted to specific purposes | 53 |
| Unrestricted investment earnings | 70 |
| Other general revenues | 38 |
| Total revenues | 8,452 |
| Program expenses: | |
| Public safety and legal services | 1,121 |
| Physical health and social services | 294 |
| Mental health | 1,362 |
| County environment and education | 392 |
| Roads and transportation | 2,341 |
| Governmental services to residents | 294 |
| Administration | 1,104 |
| Interest on long-term debt | 328 |
| Total expenses | 7,236 |
| Increase in net assets | 1,216 |
| Net assets beginning of year, as restated | (851) |
| Net assets end of year | \$ 365 |



The County increased property tax rates for 2004 by an average of 9 percent. The increase is due to the debt service levy, the first for the County. The debt service levy will be used to pay the general obligation notes, the proceeds of which were used to defease the capital loan notes for the TIF project. The soybean processing plant in the TIF project previously owned by CF Processing has been sold to another company. This levy raised the County's property tax revenue by approximately \$1,120,000 in 2004. Based on decreases in the debt service levy, property tax revenue is budgeted to decrease by \$134,086 the next year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Union County completed the year, its governmental funds reported a combined fund balance of \$2.7 million, an increase of approximately \$243,000 above last year's total of \$2.5 million. The increase in fund balance is primarily attributable to cut backs in spending by the departments. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures decreased approximately \$79,000 and \$36,000, respectively. The ending fund balance showed a modest decline of \$50,802 from the prior year to approximately \$440,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,362,000, an increase of 7% from the prior year. The Mental Health Fund balance at year end increased by approximately \$67,000 over the prior year.
- There were no significant changes in revenues of the Rural Services Fund. For the year, expenditures decreased approximately \$217,000 due to the debt payments being made out of the Debt Service Fund. The Rural Services Fund ending balance increased approximately \$50,000 over the prior year.
- Revenue for the Secondary Roads Fund increased approximately \$124,000 in fiscal year 2004. Secondary Roads Fund expenditures decreased by approximately \$19,000 over the prior year. The Secondary Roads Fund ending balance of \$1,033,058 was approximately \$415,000 lower than the prior year.
- During the year ended June 30, 2004, the County refinanced the general obligation bonds for a better interest rate. This will help the County in paying off the debt sooner. Debt Service Fund revenues increased approximately \$1,097,000 due to an increase in tax increment financing revenues. Expenditures also increased significantly, approximately \$544,000. The Debt Service Fund balance at year end increased by approximately \$561,000 over the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Union County amended its budget two times. The first amendment was made in December 2003 and resulted in an increase in budgeted disbursements related to the purchase of a sheriff's vehicle, increase in medical examiner expenditures, replacement of sidewalk and windows in the courthouse, increase in county insurance/unemployment and de-appropriated from the departments to put into the Employee Group Health Fund. The second amendment was made in May 2004. This amendment was made due to the increase in pass-through grants and increases in labor consultant fees, audit expense, juvenile treatment and plowing/blading.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Union County had approximately \$2,179,000 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges.

| Capital Assets of Governmental Activities at Year End (Expressed in Thousands) | |
|---|-----------------|
| | June 30, 2004 |
| Land | \$ 254 |
| Buildings and improvements | 450 |
| Equipment and vehicles | 839 |
| Infrastructure | 243 |
| Construction in progress | 393 |
| Total | <u>\$ 2,179</u> |
| This year's major additions included (in thousands): | |
| Right-of-way | \$ 225 |
| Bridge project | 243 |
| Courthouse improvement project | 33 |
| Secondary roads equipment | 193 |
| Playground equipment and improvements at Three Mile Lake | 48 |
| Total | <u>\$ 742</u> |

The County had depreciation expense of \$227,292 in FY04 and total accumulated depreciation of \$3,260,396 at June 30, 2004. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2004, Union County had approximately \$4,852,000 in general obligation bonds and other debt outstanding compared to approximately \$4,989,000 at June 30, 2003, as shown below.

| Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands) | |
|---|---------------|
| | June 30, 2004 |
| General obligation bonds | \$ 4,828 |
| Rural development loan | 24 |
| Total | \$ 4,852 |

Debt decreased as a result of refinancing the general obligation bonds for a lower interest rate.

The County continues to carry a general obligation bond rating of Aaa assigned by national rating agencies to the County's debt since 1995. 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. Union County's outstanding general obligation debt is significantly below its constitutional debt limit of \$16 million. Additional information about the County's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Union County's elected and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various County activities. One of those factors is the economy. Unemployment in the County now stands at 5.1 percent (no change from a year ago). This compares with the State's unemployment rate of 4.7 percent and the national rate of 5.4 percent.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$7.6 million, a decrease of 10 percent from the final 2004 budget. Property tax (benefiting from the 2004 rate increase and increases in assessed valuations) and State funding in several of our current programs are expected to lead this decrease. Union County will continue to finance programs we currently offer and offset the effect we expect inflation to have on program costs. Budgeted disbursements are expected to rise a little due to increase in wages and contract agreements, but departments are keeping other expenses the same as 2004. The County has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the County's budgetary balance is expected to modestly decrease by the close of 2005.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Union 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 Union County Auditor's Office, 300 N. Pine Street, Suite #2, Creston, Iowa 50801.

Union County

Basic Financial Statements

Exhibit A

Union County
Statement of Net Assets
June 30, 2004

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and pooled investments | \$ 3,097,909 |
| Receivables: | |
| Property tax: | |
| Delinquent | 27,251 |
| Succeeding year | 2,808,000 |
| Interest and penalty on property tax | 34,641 |
| Accounts | 3,761 |
| Accrued interest | 794 |
| Due from other governments | 222,289 |
| Inventories | 97,242 |
| Capital assets (net of accumulated depreciation) | <u>2,178,722</u> |
| Total assets | <u>8,470,609</u> |
| Liabilities | |
| Accounts payable | 179,733 |
| Accrued interest payable | 15,108 |
| Salaries and benefits payable | 45,856 |
| Due to other governments | 86,154 |
| Deferred revenue: | |
| Succeeding year property tax | 2,808,000 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| General obligation bonds | 335,000 |
| Compensated absences | 65,589 |
| Portion due or payable after one year: | |
| General obligation bonds | 4,492,609 |
| Rural development loan | 24,000 |
| Compensated absences | <u>53,503</u> |
| Total liabilities | <u>8,105,552</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 715,975 |
| Restricted for: | |
| Supplemental levy purposes | 245,253 |
| Mental health purposes | 304,160 |
| Secondary roads purposes | 968,194 |
| Debt service | 605,715 |
| Other purposes | 83,570 |
| Unrestricted | <u>(2,557,810)</u> |
| Total net assets | <u>\$ 365,057</u> |

See notes to financial statements.

Union County
Statement of Activities
Year ended June 30, 2004

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | |
|---|---------------------|------------------------|--|---|--|
| | Expenses | Charges for Service | Operating Grants, Contributions and Restricted Interest | | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | | |
| Governmental activities: | | | | | |
| Public safety and legal services | \$ 1,121,437 | 15,353 | 38,237 | - | (1,067,847) |
| Physical health and social services | 294,099 | 48,730 | 127,546 | - | (117,823) |
| Mental health | 1,362,450 | 95 | 671,698 | - | (690,657) |
| County environment and education | 391,549 | 132,557 | - | 114,719 | (144,273) |
| Roads and transportation | 2,340,757 | 40,448 | 1,721,709 | 186,915 | (391,685) |
| Governmental services to residents | 294,081 | 271,562 | - | - | (22,519) |
| Administration | 1,104,454 | 234,391 | - | - | (870,063) |
| Interest on long-term debt | 328,088 | - | - | - | (328,088) |
| Total | \$ 7,236,915 | 743,136 | 2,559,190 | 301,634 | (3,632,955) |
| General Revenues: | | | | | |
| Property and other county tax levied for: | | | | | |
| General purposes | | | | | 3,223,571 |
| Debt service | | | | | 1,183,538 |
| Penalty and interest on property tax | | | | | 61,803 |
| State tax credits | | | | | 189,255 |
| Gain on disposal of capital assets | | | | | 29,500 |
| Grants and contributions not restricted to specific purpose | | | | | 53,652 |
| Unrestricted investment earnings | | | | | 69,646 |
| Miscellaneous | | | | | 37,904 |
| Total general revenues | | | | | 4,848,869 |
| Change in net assets | | | | | 1,215,914 |
| Net assets (deficit) beginning of year, as restated | | | | | (850,857) |
| Net assets end of year | | | | | \$ 365,057 |

See notes to financial statements.

Union County
Balance Sheet
Governmental Funds

June 30, 2004

| Assets | Special Revenue | | | |
|--|---------------------|------------------|-------------------|--------------------|
| | General | Mental Health | Rural Services | Secondary Roads |
| Cash and pooled investments | \$ 482,274 | 364,037 | 156,364 | 832,368 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 14,837 | 5,607 | 4,017 | - |
| Succeeding year | 1,647,000 | 614,000 | 486,000 | - |
| Interest and penalty on property tax | 34,641 | - | - | - |
| Accounts | 291 | - | 2,214 | 331 |
| Accrued interest | 10 | - | - | - |
| Due from other governments | 48,135 | 4,784 | 205 | 168,990 |
| Inventories | - | - | - | 97,242 |
| Total assets | \$ 2,227,188 | 988,428 | 648,800 | 1,098,931 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 29,297 | 20,264 | 5,426 | 27,240 |
| Salaries and benefits payable | 13,692 | 1,092 | 5,812 | 25,260 |
| Due to other governments | 37,242 | 48,912 | - | - |
| Deferred revenue: | | | | |
| Succeeding year property tax | 1,647,000 | 614,000 | 486,000 | - |
| Other | 60,302 | 5,569 | 6,231 | 12,473 |
| Total liabilities | 1,787,533 | 689,837 | 503,469 | 64,973 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Supplemental levy purposes | 246,892 | - | - | - |
| Debt service | - | - | - | - |
| Resource enhancement and protection | - | - | - | - |
| Unreserved, reported in: | | | | |
| General fund | 192,763 | - | - | - |
| Special revenue funds | - | 298,591 | 145,331 | 1,033,958 |
| Total fund balances | 439,655 | 298,591 | 145,331 | 1,033,958 |
| Total liabilities and fund balances | \$ 2,227,188 | 988,428 | 648,800 | 1,098,931 |

See notes to financial statements.

| Debt Service | Nonmajor | Total |
|----------------|----------------|------------------|
| 630,364 | 199,599 | 2,665,006 |
| 2,790 | - | 27,251 |
| 61,000 | - | 2,808,000 |
| - | - | 34,641 |
| - | - | 2,836 |
| - | 562 | 572 |
| 175 | - | 222,289 |
| - | - | 97,242 |
| <u>694,329</u> | <u>200,161</u> | <u>5,857,837</u> |
| 12,506 | - | 94,733 |
| - | - | 45,856 |
| - | - | 86,154 |
| 61,000 | - | 2,808,000 |
| 2,777 | - | 87,352 |
| <u>76,283</u> | <u>-</u> | <u>3,122,095</u> |
| - | - | 246,892 |
| 618,046 | - | 618,046 |
| - | 7,000 | 7,000 |
| - | - | 192,763 |
| - | 193,161 | 1,671,041 |
| <u>618,046</u> | <u>200,161</u> | <u>2,735,742</u> |
| <u>694,329</u> | <u>200,161</u> | <u>5,857,837</u> |

Union County

Union County

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

June 30, 2004

Total governmental fund balances (page 19) \$ 2,735,742

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$5,439,118 and the accumulated depreciation is \$3,260,396. 2,178,722

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 87,352

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 349,050

Long-term liabilities, including general obligation bonds payable, rural development loan 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. (4,985,809)

Net assets of governmental activities (page 16) \$ 365,057

See notes to financial statements.

Union County

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

Year ended June 30, 2004

| | Special Revenue | | | |
|---|-------------------|------------------|-------------------|--------------------|
| | General | Mental Health | Rural Services | Secondary Roads |
| Revenues: | | | | |
| Property and other county tax | \$ 1,861,167 | 703,306 | 628,149 | - |
| Interest and penalty on property tax | 48,989 | - | - | - |
| Intergovernmental | 333,016 | 725,282 | 39,200 | 1,896,151 |
| Licenses and permits | 2,589 | - | 11,195 | 865 |
| Charges for service | 351,745 | - | 540 | 1,205 |
| Use of money and property | 79,204 | - | - | - |
| Miscellaneous | 21,120 | 562 | - | 54,466 |
| Total revenues | <u>2,697,830</u> | <u>1,429,150</u> | <u>679,084</u> | <u>1,952,687</u> |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | 1,100,051 | - | 57,138 | - |
| Physical health and social services | 234,938 | - | 35,396 | - |
| Mental health | - | 1,362,450 | - | - |
| County environment and education | 256,704 | - | 54,687 | - |
| Roads and transportation | - | - | 68,543 | 2,287,735 |
| Governmental services to residents | 302,691 | - | - | - |
| Administration | 927,050 | - | - | - |
| Debt service | - | - | - | - |
| Capital projects | - | - | - | 535,452 |
| Total expenditures | <u>2,821,434</u> | <u>1,362,450</u> | <u>215,764</u> | <u>2,823,187</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(123,604)</u> | <u>66,700</u> | <u>463,320</u> | <u>(870,500)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | 114,760 | - | - | 455,060 |
| Operating transfers out | (41,958) | - | (413,102) | - |
| General obligation bonds issued | - | - | - | - |
| Payment to escrow agent | - | - | - | - |
| Discount on general obligation bonds issued | - | - | - | - |
| Total other financing sources (uses) | <u>72,802</u> | <u>-</u> | <u>(413,102)</u> | <u>455,060</u> |
| Net change in fund balances | (50,802) | 66,700 | 50,218 | (415,440) |
| Fund balances beginning of year, as restated | 490,457 | 231,891 | 95,113 | 1,449,398 |
| Fund balances end of year | <u>\$ 439,655</u> | <u>298,591</u> | <u>145,331</u> | <u>1,033,958</u> |

See notes to financial statements.

| Debt Service | Nonmajor | Total |
|-----------------|-----------|-------------|
| 1,180,761 | - | 4,373,383 |
| - | - | 48,989 |
| 24,669 | 139,608 | 3,157,926 |
| - | - | 14,649 |
| - | 27,899 | 381,389 |
| 5,190 | 13,152 | 97,546 |
| - | - | 76,148 |
| 1,210,620 | 180,659 | 8,150,030 |
| - | 9,500 | 1,166,689 |
| - | - | 270,334 |
| - | - | 1,362,450 |
| - | 8,473 | 319,864 |
| - | - | 2,356,278 |
| - | 2,235 | 304,926 |
| 57,581 | - | 984,631 |
| 543,435 | - | 543,435 |
| - | 129,133 | 664,585 |
| 601,016 | 149,341 | 7,973,192 |
| 609,604 | 31,318 | 176,838 |
| - | 129,133 | 698,953 |
| (114,760) | (129,133) | (698,953) |
| 5,285,000 | - | 5,285,000 |
| (5,201,234) | - | (5,201,234) |
| (17,213) | - | (17,213) |
| (48,207) | - | 66,553 |
| 561,397 | 31,318 | 243,391 |
| 56,649 | 168,843 | 2,492,351 |
| 618,046 | 200,161 | 2,735,742 |

Union County

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

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 23) \$ 243,391

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

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

| | | |
|---------------------------------|------------|---------|
| Expenditures for capital assets | \$ 755,954 | |
| Depreciation expense | (227,292) | 528,662 |
| | | |

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. 29,500

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 | 12,011 | |
| Other | 36,184 | 48,195 |
| | | |

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issuances, as follows:

| | | |
|--------|-------------|---------|
| Issued | (5,285,000) | |
| Repaid | 5,422,391 | 137,391 |
| | | |

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 governmental funds, as follows:

| | | |
|----------------------------|----------|-----|
| Compensated absences | (10,888) | |
| Interest on long-term debt | 11,403 | 515 |
| | | |

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 228,260

Change in net assets of governmental activities (page 17) \$ 1,215,914

See notes to financial statements.

Union County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2004

| | Internal Service - Employee Group Health |
|---------------------------|--|
| Assets | |
| Cash and cash equivalents | \$ 432,903 |
| Receivables: | |
| Accounts | 925 |
| Accrued interest | 222 |
| Total assets | 434,050 |
| Liabilities | |
| Accounts payable | 85,000 |
| Net Assets | |
| Unrestricted | \$ 349,050 |

See notes to financial statements.

Exhibit H

Union County
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

| | | <u>Internal Service - Employee Group Health</u> |
|-------------------------------------|--------------|---|
| Operating revenues: | | |
| Reimbursements from operating funds | | \$ 871,932 |
| Reimbursements from employees | | 88,044 |
| Insurance reimbursements | | <u>71,771</u> |
| Total operating revenues | | <u>1,031,747</u> |
| Operating expenses: | | |
| Medical claims | \$ 574,606 | |
| Insurance premiums | 167,851 | |
| Administrative fees | 61,908 | |
| Miscellaneous | <u>3,283</u> | <u>807,648</u> |
| Operating income | | 224,099 |
| Non-operating revenues: | | |
| Interest income | | <u>4,161</u> |
| Net income | | <u>228,260</u> |
| Net assets beginning of year | | <u>120,790</u> |
| Net assets end of year | | <u><u>\$ 349,050</u></u> |

See notes to financial statements.

Union County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2004

| | Internal Service - Employee Group Health |
|---|--|
| Cash flows from operating activities: | |
| Cash received from operating fund reimbursements | \$ 876,751 |
| Cash received from employees and others | 159,815 |
| Cash paid to suppliers for services | (827,648) |
| Net cash provided by operating activities | 208,918 |
| Cash flows from investing activities: | |
| Interest on investments | 3,939 |
| Net increase in cash and cash equivalents | 212,857 |
| Cash and cash equivalents beginning of year | 220,046 |
| Cash and cash equivalents end of year | \$ 432,903 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 224,099 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Decrease in accounts receivable | 4,819 |
| (Decrease) in accounts payable | (20,000) |
| Net cash provided by operating activities | \$ 208,918 |

See notes to financial statements.

Union County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

| | |
|------------------------------|------------------|
| Cash and pooled investments: | |
| County Treasurer | \$ 1,329,838 |
| Other County officials | 22,159 |
| Receivables: | |
| Property tax: | |
| Delinquent | 70,075 |
| Succeeding year | 7,843,000 |
| Accounts | 61,142 |
| Special assessments | 204 |
| Due from other funds | 1,830 |
| Due from other governments | 15,872 |
| Prepaid insurance | 8,337 |
| Total assets | <u>9,352,457</u> |

Liabilities

| | |
|-------------------------------|------------------|
| Accounts payable | 23,787 |
| Salaries and benefits payable | 286 |
| Due to other funds | 1,830 |
| Due to other governments | 9,269,791 |
| Trusts payable | 47,820 |
| Compensated absences | 8,943 |
| Total liabilities | <u>9,352,457</u> |

Net assets \$ -

See notes to financial statements.

Union County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Union 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, Union County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Union County Assessor's Conference Board and Union County Emergency Management Commission. 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: Prairie Solid Waste Agency, South Iowa Area Detention Service Agency, Creston-Union Law Enforcement Commission, South Central Iowa Regional E911 Service Board and Union County Development Association.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County’s nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions 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, proprietary 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.

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

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

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, proprietary fund 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-reimbursements grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary fund of the County 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for Internal Service Funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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, have a maturity date no longer than three months.

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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2003.

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, 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 government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|----------------------------------|-----------|
| Infrastructure | \$ 65,000 |
| Land, buildings and improvements | 25,000 |
| Equipment and vehicles | 5,000 |

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

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

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of 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 compensatory time and vacation 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 that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Unrestricted Net Assets – The unrestricted net assets of the Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service and capital projects functions and disbursements in certain departments exceeded the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 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.

In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$18,553 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| Transfer to | Transfer from | Amount |
|------------------|----------------------|------------|
| Special Revenue: | | |
| Secondary Roads | General | \$ 41,958 |
| | Special Revenue: | |
| | Rural Services | 413,102 |
| General | Debt Service | 114,760 |
| Capital Projects | Special Revenue: | |
| | Resource Enhancement | |
| | and Protection | 30,918 |
| | Conservation Land | |
| | Acquisition | 98,215 |
| Total | | \$ 698,953 |

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, 2004 was as follows:

| | Balance Beginning of Year, as restated | Increases | Decreases | Balance End of Year |
|---|---|----------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 28,800 | 224,819 | - | 253,619 |
| Construction in progress, road network | - | 243,439 | (243,439) | - |
| Construction in progress | 379,163 | 13,721 | - | 392,884 |
| Total capital assets not being depreciated | <u>407,963</u> | <u>481,979</u> | <u>(243,439)</u> | <u>646,503</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 1,428,002 | 33,298 | - | 1,461,300 |
| Improvements other than buildings | - | 27,710 | - | 27,710 |
| Equipment and vehicles | 2,873,509 | 242,467 | (55,810) | 3,060,166 |
| Infrastructure, road network | - | 243,439 | - | 243,439 |
| Total capital assets being depreciated | <u>4,301,511</u> | <u>546,914</u> | <u>(55,810)</u> | <u>4,792,615</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,001,867 | 35,065 | - | 1,036,932 |
| Improvements other than buildings | - | 1,847 | - | 1,847 |
| Equipment and vehicles | 2,087,047 | 190,226 | (55,810) | 2,221,463 |
| Infrastructure, road network | - | 154 | - | 154 |
| Total accumulated depreciation | <u>3,088,914</u> | <u>227,292</u> | <u>(55,810)</u> | <u>3,260,396</u> |
| Total capital assets being depreciated, net | <u>1,212,597</u> | <u>319,622</u> | <u>-</u> | <u>1,532,219</u> |
| Governmental activities capital assets, net | <u>\$ 1,620,560</u> | <u>801,601</u> | <u>(243,439)</u> | <u>2,178,722</u> |

Depreciation expense was charged to the following functions:

| | |
|--|-------------------|
| Governmental activities: | |
| Public safety and legal services | \$ 16,787 |
| Physical health and social services | 29,287 |
| County environment and education | 13,536 |
| Roads and transportation | 152,505 |
| Administration | <u>15,177</u> |
| Total depreciation expense - governmental activities | <u>\$ 227,292</u> |

(5) Due to Other Governments

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

| Fund | Description | Amount |
|----------------------------------|-------------|---------------------|
| General | Services | \$ 37,242 |
| Special Revenue: | | |
| Mental Health | Services | 48,912 |
| Total for governmental funds | | <u>\$ 86,154</u> |
| Agency: | | |
| County Recorder | Collections | \$ 8,183 |
| Agricultural Extension Education | | 78,391 |
| County Assessor | | 243,229 |
| County Hospital | | 963,655 |
| Schools | | 4,244,292 |
| Community Colleges | | 181,711 |
| Corporations | | 2,351,080 |
| Auto License and Use Tax | | 201,204 |
| Prairie Solid Waste Agency | | 801,044 |
| All other | | 197,002 |
| Total for agency funds | | <u>\$ 9,269,791</u> |

(6) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

| | Capital Loan Notes | General Obligation Bonds | Rural Development Loan | Compen- sated Absences | Total |
|---|--------------------------|--------------------------------|------------------------------|------------------------------|------------------|
| Balance beginning of year, as restated | \$ 4,965,000 | - | 24,000 | 108,204 | 5,097,204 |
| Increases | - | 5,285,000 | - | 96,667 | 5,381,667 |
| Decreases | 4,965,000 | 457,391 | - | 85,779 | 5,508,170 |
| Balance end of year | <u>\$ -</u> | <u>4,827,609</u> | <u>24,000</u> | <u>119,092</u> | <u>4,970,701</u> |
| Due within one year | <u>\$ -</u> | <u>335,000</u> | <u>-</u> | <u>65,589</u> | <u>400,589</u> |

The July 1, 2003 long-term liabilities balance has been restated, as follows:

| | |
|--|---------------------|
| Balance June 30, 2003, as previously reported | \$ 5,145,959 |
| South Iowa Area Detention Service Agency (SIADSA) capital loan notes were removed from long-term debt and reclassified as a contingent liability since the note principal and interest are paid by the SIADSA (see note 13) | (68,000) |
| Compensated absences were increased due to implementation of Governmental Accounting Standards Board Interpretation No. 6, <u>Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.</u> | <u>19,245</u> |
| Balance July 1, 2003, as restated | <u>\$ 5,097,204</u> |

General Obligation Bonds Payable

A summary of the County's June 30, 2004 general obligation bonded indebtedness is as follows:

| Year Ending June 30, | Series 2004 | | | |
|----------------------------|-------------|--------------|-----------|------------------|
| | Interest | | Principal | |
| | Rates | Amount | Interest | Total |
| 2005 | 2.50% | \$ 335,000 | 181,299 | 516,299 |
| 2006 | 2.50 | 345,000 | 172,924 | 517,924 |
| 2007 | 2.50 | 355,000 | 164,299 | 519,299 |
| 2008 | 3.25 | 365,000 | 155,424 | 520,424 |
| 2009 | 3.25 | 375,000 | 143,561 | 518,561 |
| 2010 - 2014 | 3.25-3.80 | 2,070,000 | 520,201 | 2,590,201 |
| 2015 - 2017 | 3.90-4.00 | 1,440,000 | 116,340 | 1,556,340 |
| Total | | \$ 5,285,000 | 1,454,048 | <u>6,739,048</u> |

During the ended June 30, 2004, the County issued \$5,285,000 in general obligation bonds which were sold at a discount. Unamortized discount at June 30, 2004 totaled \$457,391.

Refunded General Obligation Bonds

During the year ended June 30, 2004, the County entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. government securities. These securities were placed in an escrow account for the express purpose of paying the principal and interest on the refunded general obligation capital loan notes as they become due. After the principal and interest on all of the outstanding notes have been paid, the remaining funds in the escrow account, together with any interest thereon, shall be returned to the County. The transactions, balances and liabilities of the escrow account are not recorded by the County. The amount of the refunded general obligation capital loan notes considered extinguished and, therefore, excluded from long-term liabilities was \$4,740,000 at June 30, 2004.

The reacquisition price exceeded the net carrying amount of the old debt by \$545,000. This amount is being netted against the new debt and amortized over the remaining life of the old debt, which is shorter than the life of the new debt. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$211,529 and resulted in an economic gain of \$187,709.

Rural Development Loan

On July 25, 2002, the County entered into an interest-free loan agreement with Farmers Electric Cooperative, Inc. of Greenfield, Iowa. The County borrowed \$24,000 to help finance the expansion and renovation of Three Mile Lodge operated by the Union County Conservation Board. The loan requires six equal payments of \$3,425, beginning three years after receipt of the funds, with a final payment of \$3,450 in the tenth year. The balance owed on the loan was \$24,000 at June 30, 2004. The proceeds of this loan are accounted for in the Special Revenue, Conservation Land Acquisition Fund.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$116,273, \$108,669 and \$109,171, respectively, equal to the required contributions for each year.

(8) Risk Management

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

(9) Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with American Administrators. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$20,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to American Administrators from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2004 was \$871,932.

Amounts payable from the Employee Group Health Fund at June 30, 2004 total \$85,000, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims and to establish a reserve for catastrophic losses. That reserve was \$349,050 at June 30, 2004 and is reported as a designation of the Internal Service, Employee Group Health Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

| | |
|---|-------------------------|
| Unpaid claims beginning of year | \$ 105,000 |
| Incurred claims (including claims incurred but not reported at June 30, 2004) | 503,096 |
| Payment on claims during the fiscal year | <u>(523,096)</u> |
| Unpaid claims end of year | <u><u>\$ 85,000</u></u> |

(10) Jointly Governed Organization

Union County participates in the Creston - Union Law Enforcement Commission, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the County's financial statements as part of the Other Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2004:

Additions:

Contributions from governmental units:

| | | |
|-----------------|-----------|------------|
| Union County | \$ 52,334 | |
| City of Creston | 53,113 | |
| Total additions | 105,447 | \$ 105,447 |

Deductions:

| | | |
|-------------------------------|---------|-----------|
| Office supplies | 6,195 | |
| Telephone | 7,339 | |
| Computer software maintenance | 10,312 | |
| Office equipment and repair | 10,952 | |
| Contractual services | 5,287 | |
| Inmate supplies | 1,522 | |
| Janitorial | 4,004 | |
| Utilities | 21,709 | |
| Insurance | 2,615 | |
| Principal redeemed | 39,692 | |
| Interest paid | 4,124 | |
| Building improvements | 7,718 | |
| Miscellaneous | 4,077 | 125,546 |
| | 125,546 | |
| Net | | (20,099) |
| Balance beginning of year | | 30,945 |
| Balance end of year | | \$ 10,846 |

(11) Health Care Facility and Industrial Development Revenue Bonds

The County has issued \$4,900,000 of Health Care Facility and Industrial revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely out of revenues derived from a loan agreement entered into between the issuer and borrower, and the bond principal and interest do not constitute a liability of the County.

(12) Hospital Revenue Capital Loan Notes

The County has issued \$1,021,500 of Hospital Revenue Capital Loan Notes pursuant to Chapters 331.402(3) and 331.461(1)(d) of the Code of Iowa. The notes and related interest are payable solely out of the net earnings of the Hospital and do not constitute a liability of the County.

(13) Contingent Liabilities

Southwest Iowa Residential Facility, Inc.

Southwest Iowa Residential Facility, Inc. received a \$200,000 Farmers Home Administration (FmHA) loan in June, 1987 to assist in the construction of two group homes for mentally handicapped adults. Other financing for the project was provided through the Iowa Community Development Block Grant Program. Annual payments for the FmHA loan are to be made by Southwest Iowa Residential Facility, Inc. through June, 2011. However, Union County has agreed to guarantee these payments in the event Southwest Iowa Residential Facility, Inc. is unable to make the payments. At June 30, 2004, the balance of the loan was \$100,314.

South Iowa Area Detention Service Agency

The South Iowa Area Detention Service Agency (SIADSA) is a public authority established in 1991 under a 28E agreement by Appanoose, Davis, Des Moines, Jefferson, Lee, Lucas, Louisa, Mahaska, Union and Wapello counties. On May 1, 1991, SIADSA issued \$2,300,000 in capital loan note certificates for construction of the detention center facilities and purchase of equipment. Each member county authorized separate loan agreements with SIADSA which were pledged as security for SIADSA's debt obligation through the 2005/2006 fiscal year.

During the year ended June 30, 2004, SIADSA refinanced the 1991 debt issuance to receive better interest rates. Each member county consented to SIADSA incurring indebtedness to refund the 1991 capital loan note certificates for cost savings and pledged the 1991 loan agreements as security for the new debt obligation provided the refunding debt does not extend beyond the 2005/2006 fiscal year.

Although Union County has authorized the loan agreement, it has not issued any debt as a guarantor for SIADSA. Accordingly, the County remains contingently liable in the event SIADSA cannot satisfy its debt obligation.

Law Enforcement Center Bank Loan

On October 27, 2000, the Law Enforcement Center, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa, entered into a loan agreement with Iowa State Savings Bank of Creston to borrow \$80,000 for updating the Union County Dispatch Center. The loan requires five annual payments of \$18,061 beginning January 15, 2001, including interest at 5.75% per annum. The Law Enforcement Center paid more than the required annual payment during the year ended June 30, 2004. The balance owed on the loan was \$7,530 at June 30, 2004.

On November 15, 2002, the Law Enforcement Center, entered into a loan agreement with Iowa State Savings Bank of Creston to borrow \$30,000 for jail improvements. The loan requires three annual payments of \$10,755 beginning July 15, 2003, including interest at 4.5% per annum. The Law Enforcement Center paid more than the required annual payment during the year ended June 30, 2004. The balance owed on the loan was \$16,006 at June 30, 2004.

The loan principal and related interest are to be paid exclusively from Law Enforcement Center revenues and do not constitute a liability of the County. The transactions for these loans are accounted for in an Agency Fund.

(14) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Also, the Capital Projects Fund reported in previous years was eliminated at July 1, 2003. The fund included \$15,000 held by the South Iowa Area Detention Service Agency (SIADSA) for the County. However, SIADSA will not be refunding the \$15,000 to the County since it has been or will be used for paying the indebtedness.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting. These changes include the write-off of delinquent property tax for a soybean processing plant in an urban renewal project at July 1, 2003 determined to be uncollectible due to bankruptcy.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

| | <u>Amount</u> |
|--|---------------------|
| Net assets June 30, 2003, as previously reported | \$ 2,488,106 |
| GASB Interpretation 6 adjustments | 19,245 |
| Elimination of Capital Projects Fund | <u>(15,000)</u> |
| Net assets July 1, 2003, as restated for governmental funds | 2,492,351 |
| GASB 34 adjustments: | |
| Capital assets, net of accumulated depreciation of \$3,088,913 | 1,620,560 |
| Internal Service Fund | 120,790 |
| Accrued interest payable | (26,511) |
| Long-term liabilities | (5,097,204) |
| Deferral of long-term assets | 1,304,716 |
| Write-off delinquent uncollectible property tax | <u>(1,265,559)</u> |
| Net assets July 1, 2003, as restated | <u>\$ (850,857)</u> |

Union County

Required Supplementary Information

Union 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, 2004

| | Actual | Budgeted Amounts | | Final to Net Variance |
|---|---------------------|------------------|------------------|-----------------------------|
| | | Original | Final | |
| Receipts: | | | | |
| Property and other county tax | \$ 4,373,370 | 3,955,960 | 3,754,060 | 619,310 |
| Interest and penalty on property tax | 48,916 | 31,695 | 31,695 | 17,221 |
| Intergovernmental | 3,120,101 | 3,095,075 | 3,095,075 | 25,026 |
| Licenses and permits | 14,709 | 16,190 | 16,190 | (1,481) |
| Charges for service | 397,890 | 292,005 | 292,005 | 105,885 |
| Use of money and property | 103,417 | 158,760 | 158,760 | (55,343) |
| Miscellaneous | 82,730 | 39,882 | 47,907 | 34,823 |
| Total receipts | <u>8,141,133</u> | <u>7,589,567</u> | <u>7,395,692</u> | <u>745,441</u> |
| Disbursements: | | | | |
| Public safety and legal services | 1,159,531 | 1,154,574 | 1,248,630 | 89,099 |
| Physical health and social services | 285,305 | 369,701 | 369,414 | 84,109 |
| Mental health | 1,382,035 | 1,541,437 | 1,541,437 | 159,402 |
| County environment and education | 311,206 | 319,689 | 324,548 | 13,342 |
| Roads and transportation | 2,405,408 | 2,582,997 | 2,607,997 | 202,589 |
| Governmental services to residents | 304,596 | 340,350 | 349,109 | 44,513 |
| Administration | 957,854 | 783,238 | 1,081,511 | 123,657 |
| Debt service | 543,435 | 542,836 | 542,836 | (599) |
| Capital projects | 660,549 | 255,040 | 552,720 | (107,829) |
| Total disbursements | <u>8,009,919</u> | <u>7,889,862</u> | <u>8,618,202</u> | <u>608,283</u> |
| Excess (deficiency) of receipts over (under) disbursements | 131,214 | (300,295) | (1,222,510) | 1,353,724 |
| Other financing sources, net | 43,553 | - | 107,300 | (63,747) |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 174,767 | (300,295) | (1,115,210) | 1,289,977 |
| Balance beginning of year, as restated | 2,490,239 | 3,436,355 | 3,436,355 | (946,116) |
| Balance end of year | <u>\$ 2,665,006</u> | <u>3,136,060</u> | <u>2,321,145</u> | <u>343,861</u> |

See accompanying independent auditor's report.

Union County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

| | Governmental Funds | | |
|--------------------------------------|---------------------|-----------------------------|------------------------------|
| | Cash Basis | Accrual Adjust- ments | Modified Accrual Basis |
| Revenues | \$ 8,141,133 | 8,897 | 8,150,030 |
| Expenditures | 8,009,919 | (36,727) | 7,973,192 |
| Net | 131,214 | 45,624 | 176,838 |
| Other financing sources, net | 43,553 | 23,000 | 66,553 |
| Beginning fund balances, as restated | 2,490,239 | 2,112 | 2,492,351 |
| Ending fund balances | <u>\$ 2,665,006</u> | <u>70,736</u> | <u>2,735,742</u> |

See accompanying independent auditor's report.

Union County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 Internal Service and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$728,340. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service and capital projects functions and disbursements in certain departments exceeded the amounts appropriated.

Other Supplementary Information

Union County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2004

| | | Flood and Erosion | Resource Enhancement and Protection | County Recorder's Records Management | Special County Recorder's Electronic Transaction Fee |
|---|-----------|-------------------------|--|---|--|
| Assets | | | | | |
| Cash and pooled investments | \$ | 1,678 | 7,000 | 31,627 | 24,601 |
| Accrued interest receivable | | - | - | - | - |
| Total assets | \$ | 1,678 | 7,000 | 31,627 | 24,601 |
| Fund Equity | | | | | |
| Fund equity: | | | | | |
| Fund balances: | | | | | |
| Reserved for resource enhancement and protection | \$ | - | 7,000 | - | - |
| Unreserved | | 1,678 | - | 31,627 | 24,601 |
| Total fund equity | \$ | 1,678 | 7,000 | 31,627 | 24,601 |

See accompanying independent auditor's report.

| Revenue | | | |
|-------------------------------------|---------------------------|------------|---------|
| Conservation Land Acquisition | Care Facility Trust | Commissary | Total |
| 20,342 | 112,567 | 1,784 | 199,599 |
| - | 562 | - | 562 |
| 20,342 | 113,129 | 1,784 | 200,161 |
| - | | - | 7,000 |
| 20,342 | 113,129 | 1,784 | 193,161 |
| 20,342 | 113,129 | 1,784 | 200,161 |

Union County

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

Year ended June 30, 2004

| | Flood and Erosion | Resource Enhancement and Protection | County Recorder's Records Management | Special County Recorder's Electronic Transaction Fee |
|---|-------------------------|--|---|--|
| Revenues: | | | | |
| Intergovernmental | \$ - | 24,889 | - | - |
| Charges for service | - | - | 3,380 | 24,519 |
| Use of money and property | - | 9,835 | 237 | 82 |
| Total revenues | <u>-</u> | <u>34,724</u> | <u>3,617</u> | <u>24,601</u> |
| Expenditures: | | | | |
| Operating: | | | | |
| Physical health and social services | - | - | - | - |
| County environment and education | 8,473 | - | - | - |
| Governmental services to residents | - | - | 2,235 | - |
| Capital projects | - | - | - | - |
| Total expenditures | <u>8,473</u> | <u>-</u> | <u>2,235</u> | <u>-</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(8,473)</u> | <u>34,724</u> | <u>1,382</u> | <u>24,601</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | (30,918) | - | - |
| Total other financing sources (uses): | <u>-</u> | <u>(30,918)</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | <u>(8,473)</u> | <u>3,806</u> | <u>1,382</u> | <u>24,601</u> |
| Fund balances beginning of year, as restated | <u>10,151</u> | <u>3,194</u> | <u>30,245</u> | <u>-</u> |
| Fund balances end of year | <u>\$ 1,678</u> | <u>7,000</u> | <u>31,627</u> | <u>24,601</u> |

See accompanying independent auditor's report.

| Revenue | | | | |
|-------------------------------------|---------------------------|------------|---------------------|-----------|
| Conservation Land Acquisition | Care Facility Trust | Commissary | Capital Projects | Total |
| 114,719 | - | - | - | 139,608 |
| - | - | - | - | 27,899 |
| 173 | 1,041 | 1,784 | - | 13,152 |
| 114,892 | 1,041 | 1,784 | - | 180,659 |
| - | 9,500 | - | - | 9,500 |
| - | - | - | - | 8,473 |
| - | - | - | - | 2,235 |
| - | - | - | 129,133 | 129,133 |
| - | 9,500 | - | 129,133 | 149,341 |
| 114,892 | (8,459) | 1,784 | (129,133) | 31,318 |
| - | - | - | 129,133 | 129,133 |
| (98,215) | - | - | - | (129,133) |
| (98,215) | - | - | 129,133 | - |
| 16,677 | (8,459) | 1,784 | - | 31,318 |
| 3,665 | 121,588 | - | - | 168,843 |
| 20,342 | 113,129 | 1,784 | - | 200,161 |

Union County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2004

| | County Offices | Agricultural Extension Education | County Assessor | County Hospital | Schools |
|-------------------------------|-------------------|--|--------------------|--------------------|------------------|
| Assets | | | | | |
| Cash and pooled investments: | | | | | |
| County Treasurer | \$ - | 1,663 | 93,642 | 21,347 | 91,578 |
| Other county officials | 22,159 | - | - | - | - |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | - | 668 | 1,457 | 8,572 | 36,513 |
| Succeeding year | - | 76,000 | 152,000 | 933,000 | 4,113,000 |
| Accounts | - | - | - | - | - |
| Special assessments | - | - | - | - | - |
| Due from other funds | - | - | - | - | - |
| Due from other governments | - | 60 | 120 | 736 | 3,201 |
| Prepaid insurance | - | - | - | - | - |
| Total assets | \$ 22,159 | 78,391 | 247,219 | 963,655 | 4,244,292 |
| Liabilities | | | | | |
| Accounts payable | \$ - | - | 355 | - | - |
| Salaries and benefits payable | - | - | - | - | - |
| Due to other funds | 1,830 | - | - | - | - |
| Due to other governments | 8,183 | 78,391 | 243,229 | 963,655 | 4,244,292 |
| Trusts payable | 12,146 | - | - | - | - |
| Compensated absences | - | - | 3,635 | - | - |
| Total liabilities | \$ 22,159 | 78,391 | 247,219 | 963,655 | 4,244,292 |

See accompanying independent auditor's report.

| Community Colleges | Corporations | Auto License and Use Tax | Prairie Solid Waste Agency | Other | Total |
|--------------------|------------------|--------------------------|----------------------------|----------------|------------------|
| 3,976 | 46,111 | 201,204 | 750,024 | 120,293 | 1,329,838 |
| - | - | - | - | - | 22,159 |
| 1,596 | 20,385 | - | - | 884 | 70,075 |
| 176,000 | 2,282,000 | - | - | 111,000 | 7,843,000 |
| - | - | - | 48,930 | 12,212 | 61,142 |
| - | - | - | - | 204 | 204 |
| - | - | - | - | 1,830 | 1,830 |
| 139 | 2,584 | - | - | 9,032 | 15,872 |
| - | - | - | 8,337 | - | 8,337 |
| <u>181,711</u> | <u>2,351,080</u> | <u>201,204</u> | <u>807,291</u> | <u>255,455</u> | <u>9,352,457</u> |
| - | - | - | 3,859 | 19,573 | 23,787 |
| - | - | - | 286 | - | 286 |
| - | - | - | - | - | 1,830 |
| 181,711 | 2,351,080 | 201,204 | 801,044 | 197,002 | 9,269,791 |
| - | - | - | - | 35,674 | 47,820 |
| - | - | - | 2,102 | 3,206 | 8,943 |
| <u>181,711</u> | <u>2,351,080</u> | <u>201,204</u> | <u>807,291</u> | <u>255,455</u> | <u>9,352,457</u> |

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

Year ended June 30, 2004

| | County Offices | Agricultural Extension Education | County Assessor | County Hospital | County Schools |
|------------------------------------|-------------------|--|--------------------|--------------------|-------------------|
| Assets and Liabilities | | | | | |
| Balances beginning of year | \$ 25,313 | 75,042 | 239,199 | 949,191 | 4,236,208 |
| Additions: | | | | | |
| Property and other county tax | - | 86,978 | 177,418 | 1,081,158 | 4,652,173 |
| State tax credits | - | 5,860 | 12,781 | 75,201 | 322,268 |
| Contract law enforcement | - | - | - | - | - |
| Drivers license fees | - | - | - | - | - |
| Office fees and collections | 213,886 | - | - | - | - |
| Electronic transaction fees | - | - | - | - | - |
| Auto licenses, use tax and postage | - | - | - | - | - |
| Solid waste management fees | - | - | - | - | - |
| Assessments | - | - | - | - | - |
| Trusts | 76,092 | - | - | - | - |
| Miscellaneous | - | - | 2,969 | - | - |
| Total additions | 289,978 | 92,838 | 193,168 | 1,156,359 | 4,974,441 |
| Deductions: | | | | | |
| Agency remittances: | | | | | |
| To other funds | 150,438 | - | - | - | - |
| To other governments | 69,691 | 89,489 | 185,148 | 1,141,895 | 4,966,357 |
| Trusts paid out | 73,003 | - | - | - | - |
| Total deductions | 293,132 | 89,489 | 185,148 | 1,141,895 | 4,966,357 |
| Balances end of year | \$ 22,159 | 78,391 | 247,219 | 963,655 | 4,244,292 |

See accompanying independent auditor's report.

| Community Colleges | Corpora- tions | Auto License and Use Tax | Prairie Solid Waste Agency | Other | Total |
|-----------------------|-------------------|-----------------------------------|-------------------------------------|---------|------------|
| 185,209 | 2,513,296 | 203,735 | 1,052,249 | 290,757 | 9,770,199 |
| 196,077 | 2,385,639 | - | - | 131,070 | 8,710,513 |
| 14,007 | 218,912 | - | - | 7,090 | 656,119 |
| - | - | - | - | 105,447 | 105,447 |
| - | - | - | - | 98,428 | 98,428 |
| - | - | - | - | - | 213,886 |
| - | - | - | - | 16,903 | 16,903 |
| - | - | 2,459,432 | - | - | 2,459,432 |
| - | - | - | 576,639 | - | 576,639 |
| - | - | - | - | 15,779 | 15,779 |
| - | - | - | - | 337,535 | 413,627 |
| - | - | - | 89,350 | 231,525 | 323,844 |
| 210,084 | 2,604,551 | 2,459,432 | 665,989 | 943,777 | 13,590,617 |
| - | - | 89,241 | - | 250 | 239,929 |
| 213,582 | 2,766,767 | 2,372,722 | 910,947 | 827,377 | 13,543,975 |
| - | - | - | - | 151,452 | 224,455 |
| 213,582 | 2,766,767 | 2,461,963 | 910,947 | 979,079 | 14,008,359 |
| 181,711 | 2,351,080 | 201,204 | 807,291 | 255,455 | 9,352,457 |

Union County

Union County

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

For the Last Four Years

| | Modified Accrual Basis | | | |
|--------------------------------------|------------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2002 | 2001 |
| Revenues: | | | | |
| Property and other county tax | \$ 4,373,383 | 3,290,664 | 3,269,726 | 3,513,719 |
| Interest and penalty on property tax | 48,989 | 42,956 | 44,220 | 37,846 |
| Intergovernmental | 3,157,926 | 3,084,980 | 4,081,816 | 2,959,489 |
| Licenses and permits | 14,649 | 15,362 | 12,496 | 10,358 |
| Charges for service | 381,389 | 332,637 | 320,143 | 274,294 |
| Use of money and property | 97,546 | 158,313 | 233,068 | 280,432 |
| Miscellaneous | 76,148 | 105,261 | 159,316 | 120,375 |
| Total | \$ 8,150,030 | 7,030,173 | 8,120,785 | 7,196,513 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | \$ 1,166,689 | 1,021,263 | 1,039,061 | 1,007,939 |
| Physical health and social services | 270,334 | 315,862 | 275,879 | 296,802 |
| Mental health | 1,362,450 | 1,278,649 | 1,518,334 | 1,546,327 |
| County environment and education | 319,864 | 283,016 | 298,477 | 296,694 |
| Roads and transportation | 2,356,278 | 2,435,477 | 2,208,228 | 2,158,252 |
| Governmental services to residents | 304,926 | 284,120 | 350,770 | 346,816 |
| Administration | 984,631 | 836,747 | 930,718 | 843,208 |
| Non-program | - | 543,222 | - | - |
| Debt service | 543,435 | - | 542,450 | 545,516 |
| Capital projects | 664,585 | 721,925 | 367,409 | 246,387 |
| Total | \$ 7,973,192 | 7,720,281 | 7,531,326 | 7,287,941 |

See accompanying independent auditor's report.

Union County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Officials of Union County:

We have audited the financial statements of Union County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 27, 2005. 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 Union County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved except for items (2) and (7).

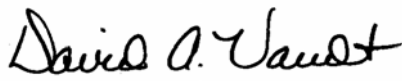
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Union County's 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. 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 Union 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe, none of the reportable conditions described above are material weakness. Prior year reportable conditions have been resolved except for items (B) and (C).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Union County and other parties to whom Union 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 Union 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

January 27, 2005

Union County

Union County
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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. One or two individuals in the Agricultural Extension Office may have control over the following areas for which no compensating controls exist.

One individual issues receipts, prepares deposits, records cash receipts, reconciles bank accounts and opens mail. Also, a listing of money and checks received through the mail is not being prepared and compared with the cash receipt records by an independent person.

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

Response – The Director currently receives all mail addressed to the Union County Agricultural Extension, reviews and returns to the Office Assistant for processing - writing receipts, recording in electronic ledger and depositing. Bank statements are opened by the Director, reconciled against the electronic ledger, initialed and given to the Office Assistant for further processing.

A listing of daily receipts will be made before returning to the Office Assistant and will be checked weekly against receipt books and electronic ledger. The Council Treasurer will be asked to review all transaction reports and reconciliations immediately prior to the monthly Council meetings so said member can give an accurate report to the Council.

Conclusion – Response accepted.

Union County
Schedule of Findings
Year ended June 30, 2004

- (B) County Sheriff Commissary – The inmate trust account listing and the accumulated profits in the account were not reconciled with the bank balance monthly.

Recommendation – The listing of inmate trust account balances and the accumulated profits in the account should be reconciled with the bank balance monthly.

Response – Beginning this month the jail will print out a monthly statement of the monies being held for all prisoners. This will be reconciled with the bank statement.

Conclusion - Response accepted.

- (C) Cellular Phone Policies – Expenditures were made by the County for cellular telephone service. However, written policies governing the use of cellular phones and the extent of payment or reimbursement have not been adopted.

Recommendation – The Board of Supervisors should establish written policies governing the use of cellular phones. In addition, cellular phone bills should be scrutinized for proper usage by the County Auditor's office and Board of Supervisors prior to payment.

Response – The County Auditor will check with other counties on their policies and will get one in place as soon as possible.

Conclusion - Response accepted.

Union County
Schedule of Findings
Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the debt service and capital projects functions.

Disbursements for the supervisors, conservation and debt service departments during the year ended June 30, 2004 exceeded the appropriation prior to an approved appropriation amendment and in total for the year. Also, an incorrect appropriation was published for the vegetation management department.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, appropriated amounts should be correctly published.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – The County Auditor will take steps in watching closer and do budget amendment more timely.

Conclusion – Response accepted.

- (3) Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – No business transactions between the County and County officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Although minutes of Board proceedings were published, documentation of the date they were delivered to the newspaper was not maintained. Therefore, it could not be determined if they were delivered within the time period required by Chapter 349.18 of the Code of Iowa.

Union County

Schedule of Findings

Year ended June 30, 2004

Recommendation – The County should maintain documentation of the date the board minutes were delivered for publication.

Response – Have already started a sign off sheet for Creston News Advertiser when minutes are delivered.

Conclusion – Response accepted.

- (8) 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.
- (9) 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).
- (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 the County operations and, consequently, is not included in Exhibits A or B.

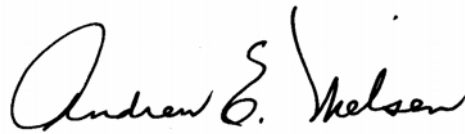
Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

Union County

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
Karen L. Brustkern, CPA, Senior Auditor
Scott P. Boisen, Assistant Auditor
Stephanie A. Bernard, Assistant Auditor
Brandon J. Yuska, Assistant Auditor
Cheryl R. McNaught, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State