



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

January 21, 2005

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on Butler 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 include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$16,496,399 for the year ended June 30, 2004, which included \$1,112,407 in tax credits from the state. The County forwarded \$12,356,108 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,140,291 of the local tax revenue to finance County operations. Other revenues included charges for service of \$1,260,606, operating grants, contributions and restricted interest of \$4,062,110, capital grants, contributions and restricted interest of \$2,524,811, local option sales tax of \$359,023, unrestricted investment earnings of \$163,450 and other general revenues of \$412,655.

Expenses for County operations totaled \$9,650,847, and included \$3,810,323 for roads and transportation, \$1,348,774 for public safety and legal services and \$1,292,365 for administration.

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

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**Butler County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Backer	Board of Supervisors	Jan 2005
Ken Oldenburger	Board of Supervisors	Jan 2007
John Zimmerman	Board of Supervisors	Jan 2007
Holly A. Fokkena	County Auditor	Jan 2005
Louise Squires	County Treasurer	Jan 2007
Craig J. Franken	County Recorder	Jan 2007
Timothy A. Junker	County Sheriff	Jan 2005
Gregory M. Lievens	County Attorney	Jan 2007
Deborah McWhirter	County Assessor	Jan 2010

**Butler County**



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Independent Auditor's Report

To the Officials of Butler County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Butler County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Butler County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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.

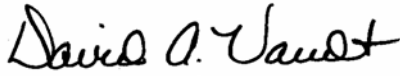
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Butler County at June 30, 2004, in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Butler 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 October 1, 2004 on our consideration of Butler County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 40 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Butler County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 1, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Butler County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Butler 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**

- Governmental fund revenues decreased approximately \$546,000 from fiscal 2003 to fiscal 2004. Property taxes and other county tax increased approximately \$262,000.
- Governmental fund expenditures were approximately \$125,000 less in fiscal 2004 than in fiscal 2003. Roads and transportation expenditures decreased by approximately \$77,000 and capital projects expenditures increased approximately \$686,000. County environment and education expenditures decreased approximately \$718,000.
- Net assets increased 27%, or approximately \$3,254,000, 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 Butler County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Butler County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Butler County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

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

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

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



## **REPORTING THE COUNTY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

The County has two kinds of funds:

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

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

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911, emergency management services, empowerment and the County Assessor, to name a few.

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

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

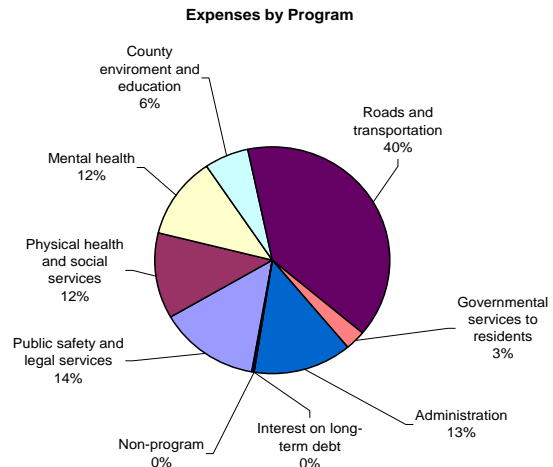
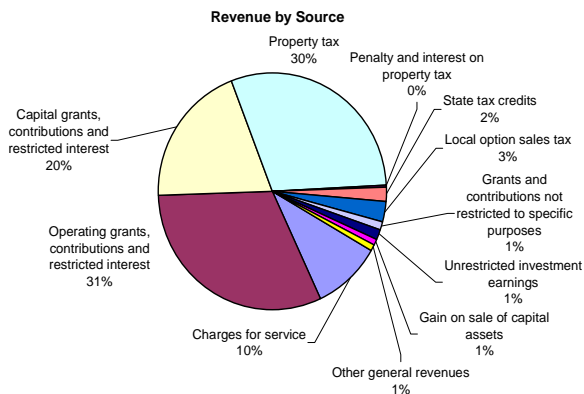
As noted earlier, net assets may serve over time as a useful indicator of financial position. Butler County's net assets at June 30, 2004 totaled \$15,249,875. This compares to fiscal 2003 at \$11,996,216, as restated. The analysis that follows focuses on the net assets for governmental activities.

Net Assets of Governmental Activities	
	June 30, 2004
Current and other assets	\$ 11,747,614
Capital assets	8,274,274
Total assets	<u>20,021,888</u>
Long-term debt outstanding	669,021
Other liabilities	4,102,992
Total liabilities	<u>4,772,013</u>
Net assets:	
Invested in capital assets	8,274,274
Restricted	4,302,530
Unrestricted	<u>2,673,071</u>
Total net assets	<u>\$ 15,249,875</u>

Net assets of Butler County's governmental activities increased by approximately \$3.3 million as a result of capital assets contributed by the Iowa Department of Transportation of approximately \$2.5 million. The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment). Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—are approximately \$2,673,000 at June 30, 2004.

**Changes in Net Assets of Governmental Activities**

	Year ended June 30, 2004
<b>Revenues:</b>	
<b>Program revenues:</b>	
Charges for service	\$ 1,260,606
Operating grants, contributions and restricted interest	4,062,110
Capital grants, contributions and restricted interest	2,524,811
<b>General revenues:</b>	
Property tax	3,873,028
Penalty and interest on property tax	27,540
State tax credits	267,263
Local option sales tax	359,023
Grants and contributions not restricted to specific purposes	153,043
Unrestricted investment earnings	163,450
Gain on sale of capital assets	89,391
Other general revenues	124,241
<b>Total revenues</b>	<b>12,904,506</b>
<b>Program expenses:</b>	
Public safety and legal services	1,348,774
Physical health and social services	1,177,754
Mental health	1,114,860
County environment and education	601,307
Roads and transportation	3,810,323
Governmental services to residents	269,265
Administration	1,292,365
Non-program	15,400
Interest on long-term debt	20,799
<b>Total expenses</b>	<b>9,650,847</b>
Increase in net assets	3,253,659
Net assets beginning of year, as restated	11,996,216
Net assets end of year	\$ 15,249,875



Butler County increased property tax rates for 2004 by an average of 3.56 percent. The County increased the General Fund property tax levy rates by \$.35279 per \$1,000 of property valuation. The Mental Health Fund property tax levy rate was increased by \$.17067 per \$1,000 of property valuation. Rural Services property tax levy was decreased by \$.25000 per \$1,000 of property valuation. Based on decreases in the total assessed valuation, property tax revenues for fiscal year 2005 are budgeted to decrease approximately \$397,000.

### **INDIVIDUAL MAJOR FUND ANALYSIS**

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

- The General Fund, the operating fund for Butler County, ended fiscal 2004 with a fund balance totaling \$2,239,162. This was an increase from fiscal 2003, which ended at \$2,018,980. Of the \$220,182 increase in fund balance, approximately \$170,000 will be used in fiscal year 2005 and/or fiscal year 2006 for costs associated with replacing the county's election equipment as required by the Help America Vote Act.
- The Mental Health Fund balance at year end increased by \$102,367 over the prior year. This was partially due to the County receiving from the State a per capita expenditure target allocation totaling \$158,872.
- The Rural Services Fund ended fiscal 2004 with a fund balance of \$1,134,020, a modest decrease of \$90,851 from the ending balance for fiscal 2003. The levy rate was decreased by \$0.25 to \$3.25 per \$1,000 of property valuation for fiscal 2004, and continues at \$3.25 per \$1,000 of property valuation in fiscal 2005 in an attempt to further reduce the ending fund balance to a more acceptable level.
- The Secondary Roads Fund ended fiscal year 2004 with a fund balance of \$3,589,951. The fund balance decreased \$633,324 from the prior year due to an increase in capital projects expenditures for bridges. The Secondary Roads Department maintains 960 miles of secondary roads within the County. It also has 220 bridges that exceed 20 feet in length on this system. Many of these bridges are older and have a reduced load limit. The County is on an extensive program to upgrade these bridges in order to eliminate the problems caused by less than legal loads. The useful life of the bridges is approximately 60 years. In order to break even, the County has to replace a minimum of 4 bridges per year. Currently, we are replacing them at the rate of about 11 per year in order to make the road system legal for modern loads. Our cash balance puts us in a strong position to actively pursue the replacement of more bridges and upgrades on the existing paved roads.

### **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on a cash basis. Over the course of the year, Butler County amended its budget twice. The first amendment, made in January 2004, was to cover increased expenditures for autopsy costs and family protective services, as well as additional costs associated with local election administration and motor vehicle registration and licensing. The second amendment was made in May 2004. This amendment was made to allow additional Revolving Loan Fund monies to be distributed to approved applicants.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2004, Butler County had approximately \$8.3 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$3.7 million over last year.

<u>Capital Assets of Governmental Activities at Year End</u>	
	<u>June 30, 2004</u>
Land	\$ 374,570
Buildings	79,958
Equipment and vehicles	3,776,367
Infrastructure	<u>4,043,379</u>
Total	<u>\$ 8,274,274</u>
This year's major additions included:	
Capital assets contributed by the Iowa Department of Transportation	\$ 2,524,811
Replacement of two motorgraders and other Secondary Roads equipment	<u>608,700</u>
Total	<u>\$ 3,133,511</u>

The County had total accumulated depreciation of approximately \$6 million at June 30, 2004.

The County's fiscal year 2004 capital projects budget included \$1,440,000 for capital projects, principally for completion of a county conservation bike trail and several bridge projects. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

### Long-Term Debt

At June 30, 2004, Butler County had approximately \$669,000 in outstanding debt compared to approximately \$687,000 at June 30, 2003, as shown below.

<u>Outstanding Debt of Governmental Activities at Year-End</u>	
	<u>June 30, 2004</u>
General obligation capital loan notes	\$ 394,385
Compensated absences	<u>274,636</u>
Total	<u>\$ 669,021</u>

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Butler County's outstanding general obligation debt is significantly below its constitutional debt limit of \$28 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Notes 6 and 7 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Butler County's officials considered many factors when setting the fiscal year 2005 budget, tax rates and the fees that will be charged for various County activities. One of those factors is the economy. Unemployment in the County for the period from July 2003 to June 2004 was 5.1 percent. This compares with the State's unemployment rate of 4.4 percent and the national rate of 5.8 percent for the same period.

There continues to be some uncertainty regarding reimbursements for certain property tax credits from the State of Iowa. This uncertainty makes budgeting revenues for the County a difficult task. Another major concern in budgeting is the unknown, but anticipated, increases in health insurance costs for employees.

These concerns were taken into account when adopting the budget for fiscal year 2005. Cash amounts available for appropriation in the General Fund budget are \$1.7 million. Budgeted revenues decreased approximately \$448,000. In response to anticipated revenue declines, budgeted expenditures were decreased by approximately \$296,000. Existing fund balances may be used to cover increases in health insurance costs for employees if they are higher than anticipated.

The County has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the County's budgetary operating 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 Butler County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Butler County Auditor's Office, 428 6<sup>th</sup> Street, City of Allison, Iowa, 50602.

**Butler County**

## **Basic Financial Statements**



**Exhibit A**

Butler County  
Statement of Net Assets  
June 30, 2004

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 6,606,131
Receivables:	
Property tax:	
Delinquent	19,479
Succeeding year	3,735,000
Interest and penalty on property tax	25,042
Accounts	45,634
Economic development loans	73,608
E911 lease	354,385
Due from other governments	436,451
Inventories	316,358
Prepaid insurance	135,526
Capital assets (net of accumulated depreciation)	8,274,274
<b>Total assets</b>	<u>20,021,888</u>
<b>Liabilities</b>	
Accounts payable	144,446
Accrued interest payable	159
Salaries and benefits payable	110,011
Due to other governments	113,376
Deferred revenue:	
Succeeding year property tax	3,735,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	29,934
Compensated absences	209,671
Portion due or payable after one year:	
Capital loan notes	364,451
Compensated absences	64,965
<b>Total liabilities</b>	<u>4,772,013</u>
<b>Net Assets</b>	
Invested in capital assets	8,274,274
Restricted for:	
Supplemental levy purposes	253,111
Mental health purposes	108,273
Secondary roads purposes	3,408,964
Other purposes	532,182
Unrestricted	2,673,071
<b>Total net assets</b>	<u>\$ 15,249,875</u>

See notes to financial statements.

Butler 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	
<b>Functions / Programs:</b>					
Governmental activities:					
Public safety and legal services	\$ 1,348,774	189,063	1,255	-	(1,158,456)
Physical health and social services	1,177,754	668,422	405,614	-	(103,718)
Mental health	1,114,860	11,254	825,005	-	(278,601)
County environment and education	601,307	18,320	1,080	-	(581,907)
Roads and transportation	3,810,323	103,487	2,745,841	2,524,811	1,563,816
Governmental services to residents	269,265	257,698	25,652	-	14,085
Administration	1,292,365	12,362	4,178	-	(1,275,825)
Non-program	15,400	-	35,045	-	19,645
Interest on long-term debt	20,799	-	18,440	-	(2,359)
<b>Total</b>	<b>\$ 9,650,847</b>	<b>1,260,606</b>	<b>4,062,110</b>	<b>2,524,811</b>	<b>(1,803,320)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					3,873,028
Penalty and interest on property tax					27,540
State tax credits					267,263
Local option sales tax					359,023
Grants and contributions not restricted to specific purpose					153,043
Unrestricted investment earnings					163,450
Gain on sale of capital assets					89,391
Miscellaneous					124,241
<b>Total general revenues</b>					<b>5,056,979</b>
Change in net assets					3,253,659
Net assets beginning of year, as restated					11,996,216
Net assets end of year					<b>\$ 15,249,875</b>

See notes to financial statements.

Butler County  
Balance Sheet  
Governmental Funds

June 30, 2004

	General	Special Revenue	
		Mental Health	Rural Services
<b>Assets</b>			
Cash and pooled investments	\$ 1,707,120	243,752	1,157,653
Receivables:			
Property tax:			
Delinquent	10,884	1,817	6,778
Succeeding year	2,131,000	389,000	1,201,000
Interest and penalty on property tax	25,042	-	-
Accounts	45,189	-	-
Economic development loans	-	-	-
E911 lease	354,385	-	-
Due from other funds	-	-	-
Due from other governments	147,638	6,472	39,031
Inventories	-	-	-
Prepaid insurance	74,948	-	-
<b>Total assets</b>	<b>\$ 4,496,206</b>	<b>641,041</b>	<b>2,404,462</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 28,008	34,906	1,284
Salaries and benefits payable	61,607	24	8,004
Due to other funds	-	-	52,326
Due to other governments	2,014	108,838	1,050
Deferred revenue:			
Succeeding year property tax	2,131,000	389,000	1,201,000
Other	34,415	1,794	6,778
Total liabilities	<u>2,257,044</u>	<u>534,562</u>	<u>1,270,442</u>
Fund balances:			
Reserved for:			
Supplemental levy purposes	257,051	-	-
Inventories	-	-	-
E911 lease receivable	354,385	-	-
Unreserved:			
Designated for jail and courthouse security	3,759	-	-
Undesignated, reported in:			
General fund	1,623,967	-	-
Special revenue funds	-	106,479	1,134,020
Total fund balances	<u>2,239,162</u>	<u>106,479</u>	<u>1,134,020</u>
<b>Total liabilities and fund balances</b>	<b>\$ 4,496,206</b>	<b>641,041</b>	<b>2,404,462</b>

See notes to financial statements.

Secondary Roads	Nonmajor Governmental	Total
3,039,168	458,438	6,606,131
-	-	19,479
-	14,000	3,735,000
-	-	25,042
309	136	45,634
-	73,608	73,608
-	-	354,385
52,326	-	52,326
243,310	-	436,451
316,358	-	316,358
60,578	-	135,526
<u>3,712,049</u>	<u>546,182</u>	<u>11,799,940</u>
80,248	-	144,446
40,376	-	110,011
-	-	52,326
1,474	-	113,376
-	14,000	3,735,000
-	73,608	116,595
<u>122,098</u>	<u>87,608</u>	<u>4,271,754</u>
-	-	257,051
316,358	-	316,358
-	-	354,385
-	-	3,759
-	-	1,623,967
<u>3,273,593</u>	<u>458,574</u>	<u>4,972,666</u>
<u>3,589,951</u>	<u>458,574</u>	<u>7,528,186</u>
<u>3,712,049</u>	<u>546,182</u>	<u>11,799,940</u>

**Butler County**

Butler County

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

June 30, 2004

**Total governmental fund balances (page 19)** \$ 7,528,186

***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 \$14,242,167 and the accumulated depreciation is \$5,967,893. 8,274,274

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 116,595

Long-term liabilities, including notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (669,180)

**Net assets of governmental activities (page 16)** \$ 15,249,875

See notes to financial statements.

Butler 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
<b>Revenues:</b>				
Property and other county tax	\$ 2,173,666	362,639	1,493,234	179,512
Interest and penalty on property tax	41,696	-	-	-
Intergovernmental	1,199,733	843,332	209,171	2,811,195
Licenses and permits	-	-	9,050	1,890
Charges for service	458,602	11,256	945	5,003
Use of money and property	233,853	-	-	1,028
Miscellaneous	92,200	-	10	75,573
Total revenues	4,199,750	1,217,227	1,712,410	3,074,201
<b>Expenditures:</b>				
Operating:				
Public safety and legal services	882,290	-	370,888	-
Physical health and social services	1,153,795	-	-	-
Mental health	-	1,114,860	-	-
County environment and education	258,939	-	278,145	-
Roads and transportation	-	-	60,559	3,498,993
Governmental services to residents	262,277	-	6,835	-
Administration	1,286,002	-	-	-
Debt service	37,413	-	-	-
Capital projects	20,870	-	-	1,345,666
Total expenditures	3,901,586	1,114,860	716,427	4,844,659
Excess (deficiency) of revenues over (under) expenditures	298,164	102,367	995,983	(1,770,458)
<b>Other financing sources (uses):</b>				
Sale of capital assets	1,542	-	-	300
Operating transfers in	-	-	-	1,136,834
Operating transfers out	(79,524)	-	(1,086,834)	-
Total other financing sources (uses)	(77,982)	-	(1,086,834)	1,137,134
Net change in fund balances	220,182	102,367	(90,851)	(633,324)
Fund balances beginning of year, as restated	2,018,980	4,112	1,224,871	4,223,275
Fund balances end of year	\$ 2,239,162	106,479	1,134,020	3,589,951

See notes to financial statements.

Nonmajor Governmental	Total
14,331	4,223,382
-	41,696
24,999	5,088,430
-	10,940
27,441	503,247
30,389	265,270
21,622	189,405
<u>118,782</u>	<u>10,322,370</u>
15,668	1,268,846
-	1,153,795
-	1,114,860
51,748	588,832
-	3,559,552
1,022	270,134
-	1,286,002
12,400	49,813
61,461	1,427,997
<u>142,299</u>	<u>10,719,831</u>
<u>(23,517)</u>	<u>(397,461)</u>
-	1,842
41,924	1,178,758
<u>(12,400)</u>	<u>(1,178,758)</u>
<u>29,524</u>	<u>1,842</u>
6,007	(395,619)
<u>452,567</u>	<u>7,923,805</u>
<u>458,574</u>	<u>7,528,186</u>



Butler County

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

Year ended June 30, 2004

**Net change in fund balances - Total governmental funds (page 23)** \$ (395,619)

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

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

Expenditures for capital assets	\$ 1,712,661	
Capital assets contributed by the Iowa Department of Transportation	2,524,811	
Depreciation expense	<u>(659,711)</u>	3,577,761

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.

87,549

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	(19,467)	
Other	<u>(14,438)</u>	(33,905)

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

28,974

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	(11,140)	
Interest on long-term debt	<u>39</u>	<u>(11,101)</u>

**Change in net assets of governmental activities (page 17)** **\$ 3,253,659**

See notes to financial statements.

Butler County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2004

**Assets**

Cash and pooled investments:	
County Treasurer	\$ 868,755
Other County officials	85,479
Receivables:	
Property tax:	
Delinquent	50,708
Succeeding year	11,526,000
Accounts	17,968
Due from other funds	1,780
Due from other governments	1,204
<b>Total assets</b>	<b>12,551,894</b>

**Liabilities**

Accounts payable	31,919
Salaries and benefits payable	5,400
Due to other funds	1,780
Due to other governments	12,423,303
Trusts payable	84,711
Compensated absences	4,781
<b>Total liabilities</b>	<b>12,551,894</b>

<b>Net assets</b>	<b>\$ -</b>
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See notes to financial statements.

Butler County

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

Butler County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

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

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

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

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Butler County Assessor’s Conference Board, Butler County Emergency Management Commission and Butler County Joint E911 Service Board. Financial transactions of these organizations are included in the County’s financial statements only to the extent of the County’s fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

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

B. Basis of Presentation

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

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

*Invested in capital assets* consists of capital assets, net of accumulated depreciation.

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants 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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

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

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

#### D. Assets, Liabilities and Fund Equity

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

Cash and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value 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.

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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50
Building improvements	25-50
Infrastructure	10-75
Equipment	3-20
Vehicles	5-15

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and comp hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees 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, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted and 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.

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

**(3) Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Secondary Roads	General	\$ 50,000
	Special Revenue:	
	Rural Services	<u>1,086,834</u>
		1,136,834
Special Revenue:		
Conservation Land Acquisition Trust	General	29,524
Sinclair Elevator Project - TIF	Debt Service	<u>12,400</u>
Total		<u>\$ 1,178,758</u>

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

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year (as restated) Note 12	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 374,570	-	-	374,570
Construction in progress	-	526,920	-	526,920
Total capital assets not being depreciated	<u>374,570</u>	<u>526,920</u>	<u>-</u>	<u>901,490</u>
Capital assets being depreciated:				
Buildings	1,823,019	-	-	1,823,019
Equipment and vehicles	7,810,307	681,058	(561,947)	7,929,418
Infrastructure, other	414,234	-	-	414,234
Infrastructure, road network	-	3,174,006	-	3,174,006
Total capital assets being depreciated	<u>10,047,560</u>	<u>3,855,064</u>	<u>(561,947)</u>	<u>13,340,677</u>
Less accumulated depreciation for:				
Buildings	1,737,073	5,988	-	1,743,061
Equipment and vehicles	4,069,188	588,846	(504,983)	4,153,051
Infrastructure, other	6,904	6,904	-	13,808
Infrastructure, road network	-	57,973	-	57,973
Total accumulated depreciation	<u>5,813,165</u>	<u>659,711</u>	<u>(504,983)</u>	<u>5,967,893</u>
Total capital assets being depreciated, net	<u>4,234,395</u>	<u>3,195,353</u>	<u>(56,964)</u>	<u>7,372,784</u>
Governmental activities capital assets, net	<u>\$ 4,608,965</u>	<u>3,722,273</u>	<u>(56,964)</u>	<u>8,274,274</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 122,220
Physical health and social services	22,123
County environment and education	22,658
Roads and transportation	459,506
Administration	17,803
Non-program	15,401
Total depreciation expense - governmental activities	<u>\$ 659,711</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	\$ 2,014
Special Revenue:		
Mental Health	Services	108,838
Rural Services	Services	1,050
Secondary Roads	Services	1,474
		<u>111,362</u>
Total for governmental funds		<u>\$ 113,376</u>
Agency:		
Agricultural Extension Education	Collections	\$ 101,982
County Assessor		481,559
Schools		7,964,422
Community Colleges		475,563
Corporations		2,710,116
Townships		173,632
Empowerment Board		145,084
Auto License and Use Tax		287,571
All other		83,374
Total for agency funds		<u>\$ 12,423,303</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:

	General Obligation Capital Loan Notes	Compen- sated Absences	Total
Balance beginning of year	\$ 423,359	263,496	686,855
Increases	-	256,273	256,273
Decreases	28,974	245,133	274,107
Balance end of year	<u>\$ 394,385</u>	<u>274,636</u>	<u>669,021</u>
Due within one year	<u>\$ 29,934</u>	<u>209,671</u>	<u>239,605</u>

**(7) General Obligation Capital Loan Notes**

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

A summary of the County’s June 30, 2004 general obligation capital loan note indebtedness for this issue is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	4.80%	\$ 10,000	1,920	11,920
2006	4.80	10,000	1,440	11,440
2007	4.80	10,000	960	10,960
2008	4.80	10,000	480	10,480
Total		\$ 40,000	4,800	44,800

During the year ended June 30, 2004, notes totaling \$10,000 were retired.

Capital Loan Note for E911 Service Board Equipment – A general obligation capital loan note was issued on December 3, 2001, totaling \$390,000, for the purpose of paying costs of acquiring replacement equipment for use by the Butler County E911 Service Board. The note is to be paid from the General Fund in 30 equal semi-annual payments of \$18,707, including interest of 5% per annum. The final payment is payable on January 1, 2017. The balance of the note at June 30, 2004 totaled \$354,385.

**(8) E911 Lease Receivable**

The County entered into a lease agreement with the E911 Service Board. Under the agreement, the E911 Service Board is to make semi-annual payments of \$18,707 to the County, an amount equal to the semi-annual payment required by the capital loan note, as detailed in Note 7 of the notes to financial statements. The payments from the E911 Service Board of the semi-annual payments of principal and interest are credited to the General Fund. The following is a schedule of the future minimum lease payments to be received by the County, including interest of 5% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2004.

Year ending June 30,	Total
2005	\$ 37,414
2006	37,414
2007	37,414
2008	37,414
2009	37,414
2010-2014	187,070
2015-2017	112,227
Total minimum lease payments	486,367
Less amount representing interest	(131,982)
Present value of net minimum lease payments	\$ 354,385

**(9) Butler County Economic Development Revolving Loan Fund**

Butler County has eleven economic development loans receivable totaling \$73,608 as of June 30, 2004 due from businesses located in Butler County. The loans were made to the businesses to promote economic development.

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

**(10) Pension and Retirement Benefits**

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

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 \$216,275, \$209,859 and \$202,257, respectively, equal to the required contributions for each year.

**(11) Risk Management**

Butler County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2004 were \$135,526.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(12) 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 during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

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 and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

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	\$ 7,861,063
GASB Interpretation 6 adjustments	62,742
Net assets July 1, 2003, as restated for governmental funds	<u>7,923,805</u>
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$5,813,165	4,608,965
Long-term liabilities	(687,054)
Deferral of long-term assets	<u>150,500</u>
Net assets July 1, 2003, as restated	<u>\$ 11,996,216</u>

**Required Supplementary Information**



Butler County

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

Required Supplementary Information

Year ended June 30, 2004

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property and other county tax	\$ 4,200,306	-
Interest and penalty on property tax	41,887	-
Intergovernmental	4,214,037	-
Licenses and permits	10,890	-
Charges for service	546,540	-
Use of money and property	271,929	-
Miscellaneous	218,572	-
Total receipts	<u>9,504,161</u>	<u>-</u>
Disbursements:		
Public safety and legal services	1,275,387	-
Physical health and social services	1,166,003	-
Mental health	1,075,336	-
County environment and education	589,055	-
Roads and transportation	3,590,957	-
Governmental services to residents	269,278	-
Administration	1,293,273	-
Non-program	-	-
Debt service	49,813	-
Capital projects	417,633	-
Total disbursements	<u>9,726,735</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(222,574)	-
Other financing sources, net	<u>1,222</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(221,352)	-
Balance beginning of year	<u>6,827,483</u>	<u>1,093</u>
Balance end of year	<u>\$ 6,606,131</u>	<u>1,093</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
4,200,306	4,193,315	4,193,315	6,991
41,887	8,000	8,000	33,887
4,214,037	4,290,837	4,290,837	(76,800)
10,890	4,150	4,650	6,240
546,540	411,135	411,135	135,405
271,929	313,068	313,068	(41,139)
218,572	60,450	62,097	156,475
<u>9,504,161</u>	<u>9,280,955</u>	<u>9,283,102</u>	<u>221,059</u>
1,275,387	1,291,578	1,306,578	31,191
1,166,003	1,415,254	1,440,254	274,251
1,075,336	1,100,000	1,100,000	24,664
589,055	615,099	665,599	76,544
3,590,957	3,854,000	3,854,000	263,043
269,278	272,070	287,870	18,592
1,293,273	1,447,431	1,450,410	157,137
-	2,000	2,000	2,000
49,813	49,815	49,815	2
417,633	1,440,000	1,440,000	1,022,367
<u>9,726,735</u>	<u>11,487,247</u>	<u>11,596,526</u>	<u>1,869,791</u>
(222,574)	(2,206,292)	(2,313,424)	2,090,850
1,222	-	4,893	(3,671)
(221,352)	(2,206,292)	(2,308,531)	2,087,179
<u>6,826,390</u>	<u>5,710,678</u>	<u>5,857,966</u>	<u>968,424</u>
<u>6,605,038</u>	<u>3,504,386</u>	<u>3,549,435</u>	<u>3,055,603</u>

Butler 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	\$ 9,504,161	818,209	10,322,370
Expenditures	9,726,735	993,096	10,719,831
Net	(222,574)	(174,887)	(397,461)
Other financing sources, net	1,222	620	1,842
Beginning fund balances, as restated	6,827,483	1,096,322	7,923,805
Ending fund balances	\$ 6,606,131	922,055	7,528,186

See accompanying independent auditor's report.

Butler 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 the blended component unit 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, Special Revenue Funds and Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$109,279. 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 did not exceed the amounts budgeted.

**Butler County**

**Other Supplementary Information**

Butler County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2004

	Special			
	Economic Development Revolving Loan	Sinclair Elevator Project - TIF	Sheriff's Commisary and Telephone	Seized and Forfeited Property
<b>Assets</b>				
Cash and pooled investments	\$ 119,039	25,603	5,556	12,269
Receivables:				
Succeeding year property tax	-	14,000	-	-
Accounts	-	-	136	-
Economic development loans	73,608	-	-	-
<b>Total assets</b>	<b>\$ 192,647</b>	<b>39,603</b>	<b>5,692</b>	<b>12,269</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ -	14,000	-	-
Other	73,608	-	-	-
Total liabilities	73,608	14,000	-	-
Fund equity:				
Fund balances:				
Unreserved	119,039	25,603	5,692	12,269
<b>Total liabilities and fund equity</b>	<b>\$ 192,647</b>	<b>39,603</b>	<b>5,692</b>	<b>12,269</b>

See accompanying independent auditor's report.

Revenue								
Sesquennial Memorial	County Recorder's Records Management	County Recorder's Electronic Transfer Fee	Drainage Districts	Conservation Land Acquisition Trust	Conservation Trust	Resource Enhancement and Protection	Total	
905	11,453	22,813	1,093	144,466	56,903	58,338	458,438	
-	-	-	-	-	-	-	14,000	
-	-	-	-	-	-	-	136	
-	-	-	-	-	-	-	73,608	
905	11,453	22,813	1,093	144,466	56,903	58,338	546,182	
-	-	-	-	-	-	-	14,000	
-	-	-	-	-	-	-	73,608	
-	-	-	-	-	-	-	87,608	
905	11,453	22,813	1,093	144,466	56,903	58,338	458,574	
905	11,453	22,813	1,093	144,466	56,903	58,338	546,182	



Butler County

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

Year ended June 30, 2004

	Economic Development Revolving Loan	Sinclair Elevator Project - TIF	Sheriff's Commisary and Telephone	Special Seized and Forfeited Property
Revenues:				
Property and other county tax	\$ -	14,331	-	-
Intergovernmental	-	46	-	-
Charges for service	-	-	-	-
Use of money and property	27,372	-	738	-
Miscellaneous	-	-	-	3,000
Total revenues	<u>27,372</u>	<u>14,377</u>	<u>738</u>	<u>3,000</u>
Expenditures:				
Operating:				
Public safety and legal services	-	-	587	15,081
County environment and education	51,706	-	-	-
Governmental services to residents	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total expenditures	<u>51,706</u>	<u>-</u>	<u>587</u>	<u>15,081</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(24,334)</u>	<u>14,377</u>	<u>151</u>	<u>(12,081)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	(12,400)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(12,400)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(24,334)</u>	<u>1,977</u>	<u>151</u>	<u>(12,081)</u>
Fund balances beginning of year	<u>143,373</u>	<u>23,626</u>	<u>5,541</u>	<u>24,350</u>
Fund balances end of year	<u>\$ 119,039</u>	<u>25,603</u>	<u>5,692</u>	<u>12,269</u>

See accompanying independent auditor's report.

Revenue								
Sesquennial Memorial	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Drainage Districts	Conservation Land Acquisition Trust	Conservation Trust	Resource Enhancement and Protection	Debt Service	Total
-	-	-	-	-	-	-	-	14,331
-	-	-	-	-	-	24,953	-	24,999
-	4,752	22,689	-	-	-	-	-	27,441
16	152	124	-	-	894	1,093	-	30,389
-	-	-	-	-	8,530	10,092	-	21,622
16	4,904	22,813	-	-	9,424	36,138	-	118,782
-	-	-	-	-	-	-	-	15,668
42	-	-	-	-	-	-	-	51,748
-	1,022	-	-	-	-	-	-	1,022
-	-	-	-	-	-	-	12,400	12,400
-	-	-	-	368	-	61,093	-	61,461
42	1,022	-	-	368	-	61,093	12,400	142,299
(26)	3,882	22,813	-	(368)	9,424	(24,955)	(12,400)	(23,517)
-	-	-	-	29,524	-	-	12,400	41,924
-	-	-	-	-	-	-	-	(12,400)
-	-	-	-	29,524	-	-	12,400	29,524
(26)	3,882	22,813	-	29,156	9,424	(24,955)	-	6,007
931	7,571	-	1,093	115,310	47,479	83,293	-	452,567
905	11,453	22,813	1,093	144,466	56,903	58,338	-	458,574

Butler County  
 Combining Schedule of Fiduciary Assets and Liabilities  
 Agency Funds

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
<b>Assets</b>					
Cash and pooled investments:					
County Treasurer	\$ -	1,470	191,405	113,021	5,594
Other county officials	85,479	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	512	1,345	38,401	1,969
Succeeding year	-	100,000	296,000	7,813,000	468,000
Accounts	351	-	1,077	-	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
<b>Total assets</b>	<b>\$ 85,830</b>	<b>101,982</b>	<b>489,827</b>	<b>7,964,422</b>	<b>475,563</b>
<b>Liabilities</b>					
Accounts payable	\$ -	-	239	-	-
Salaries and benefits payable	-	-	3,911	-	-
Due to other funds	1,780	-	-	-	-
Due to other governments	130	101,982	481,559	7,964,422	475,563
Trusts payable	83,920	-	-	-	-
Compensated absences	-	-	4,118	-	-
<b>Total liabilities</b>	<b>\$ 85,830</b>	<b>101,982</b>	<b>489,827</b>	<b>7,964,422</b>	<b>475,563</b>

See accompanying independent auditor's report.

Corporations	Townships	City Special Assessments	Auto License and Use Tax	Empowerment Board	Other	Total
25,572	2,726	4,117	287,571	175,392	61,887	868,755
-	-	-	-	-	-	85,479
7,544	906	-	-	-	31	50,708
2,677,000	170,000	-	-	-	2,000	11,526,000
-	-	-	-	-	16,540	17,968
-	-	-	-	-	1,780	1,780
-	-	-	-	710	494	1,204
<b>2,710,116</b>	<b>173,632</b>	<b>4,117</b>	<b>287,571</b>	<b>176,102</b>	<b>82,732</b>	<b>12,551,894</b>
-	-	-	-	30,064	1,616	31,919
-	-	-	-	954	535	5,400
-	-	-	-	-	-	1,780
2,710,116	173,632	4,117	287,571	145,084	79,127	12,423,303
-	-	-	-	-	791	84,711
-	-	-	-	-	663	4,781
<b>2,710,116</b>	<b>173,632</b>	<b>4,117</b>	<b>287,571</b>	<b>176,102</b>	<b>82,732</b>	<b>12,551,894</b>

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

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
<b>Assets and Liabilities</b>					
Balances beginning of year	\$ 161,870	104,220	408,441	8,010,456	394,290
Additions:					
Property and other county tax	-	100,491	295,916	7,816,579	468,695
E911 surcharge	-	-	-	-	-
State tax credits	-	7,393	19,390	573,828	28,050
Office fees and collections	257,925	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	116,389	-	-	-	-
Miscellaneous	-	-	8,637	-	-
Total additions	374,314	107,884	323,943	8,390,407	496,745
Deductions:					
Agency remittances:					
To other funds	196,440	-	-	-	-
To other governments	99,536	110,122	242,557	8,436,441	415,472
Trusts paid out	154,378	-	-	-	-
Total deductions	450,354	110,122	242,557	8,436,441	415,472
Balances end of year	\$ 85,830	101,982	489,827	7,964,422	475,563

See accompanying independent auditor's report.

Corporations	Townships	City Special Assessments	Auto License and Use Tax	Empowerment Board	Other	Total
2,510,805	181,623	2,765	291,905	160,344	97,435	12,324,154
2,656,319	170,800	-	-	-	2,164	11,510,964
-	-	-	-	-	94,774	94,774
204,479	11,618	231	-	-	155	845,144
-	-	-	-	-	-	257,925
-	-	-	3,275,390	-	-	3,275,390
-	-	84,618	-	-	-	84,618
-	-	-	-	-	-	116,389
-	-	-	-	398,377	120,742	527,756
2,860,798	182,418	84,849	3,275,390	398,377	217,835	16,712,960
-	-	-	11,116	-	-	207,556
2,661,487	190,409	83,497	3,268,608	382,619	232,538	16,123,286
-	-	-	-	-	-	154,378
2,661,487	190,409	83,497	3,279,724	382,619	232,538	16,485,220
2,710,116	173,632	4,117	287,571	176,102	82,732	12,551,894

**Schedule 5**

## Butler 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	\$ 4,223,382	3,961,242	4,102,879	3,974,387
Interest and penalty on property tax	41,696	35,204	39,466	40,118
Intergovernmental	5,088,430	5,847,451	5,469,286	5,360,586
Licenses and permits	15,943	6,510	6,230	5,140
Charges for service	498,244	452,385	410,082	352,713
Use of money and property	265,270	304,188	345,162	480,185
Miscellaneous	189,405	261,049	126,284	108,295
Total	\$ 10,322,370	10,868,029	10,499,389	10,321,424
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,268,846	1,263,978	1,112,635	1,046,865
Physical health and social services	1,153,795	1,236,351	1,174,052	1,096,568
Mental health	1,114,860	1,114,443	1,093,461	1,082,024
County environment and education	588,832	1,306,388	746,221	505,722
Roads and transportation	3,559,552	3,636,570	3,437,410	3,757,953
Governmental services to residents	269,112	245,312	237,434	195,727
Administration	1,287,024	1,241,945	1,174,029	1,064,626
Non-program	-	832	-	342
Debt service	37,413	45,052	7,880	2,880
Capital projects	1,440,397	754,202	1,041,571	639,672
Total	\$ 10,719,831	10,845,073	10,024,693	9,392,379

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

To the Officials of Butler County:

We have audited the financial statements of Butler County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004. 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 Butler 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 item (11).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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 Butler County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.




A material weakness is a 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, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for item (A).

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Butler County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 1, 2004

Butler 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. Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
Bank accounts are not reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.	Recorder, Treasurer
Receipts – opening and listing mail receipts, collecting, depositing, posting and daily reconciling	Treasurer

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports.

Response –

County Treasurer – Bank accounts are reconciled promptly by two employees, however, everyone in the office must wait on the counter and handle cash. Incoming cash is counted by two employees and listed and deposited in each department daily.

County Recorder – Bank accounts are reconciled on the day we receive them from the bank. I will double check the reconciled bank account and initial the cash book.

Conclusion – Response accepted.

Butler County

Schedule of Findings

Year ended June 30, 2004

- (B) Credit Cards – The County has credit cards for use by various employees while on County business. The County has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The County should adopt a formal written policy regulating the use of County credit cards. The policy at a minimum should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – Butler County will develop a written policy addressing concerns on credit card usage outlining specific procedures and will also set credit limits.

Conclusion – Response accepted.

- (C) Compensation of County Sheriff – The County Sheriff was paid \$675 for tobacco enforcement investigations which was not included in the salary approved by the Board of Supervisors. Also, these payment have not been subject to federal and state income tax withholdings and FICA and IPERS contributions.

Recommendation – The County Sheriff's payroll should not exceed the salary recommended by the Compensation Board and approved by the Board of Supervisors. Also, all compensation should be processed through County payroll records.

Response – From now on any additional compensation will be included as payroll.

Conclusion – Response acknowledged. Also, the County Sheriff's payroll should not exceed the salary recommended by the Compensation Board and approved by the Board of Supervisors. In addition, the County should consult legal counsel to determine the disposition of this matter.

Butler 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 did not exceed the amounts budgeted.
- (3) Questionable Expenditures – Lodging expense of \$982 was paid to Fillenwarth Beach for four nights for the Assistant County Attorney and family to attend the County Attorney Spring Training Conference in Arnolds Park, Iowa. This expenditure may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

Recommendation – According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The Board of Supervisors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures which document the public purpose served.

Response – The attorneys from the office have met for the spring conference at Arnold's Park at the school gym adjacent to Fillenwarth Beach Resort. Staying at the resort is very convenient since we can walk to the sessions. Many of the after class functions are held at the resort. While the accommodations are higher in price than other areas of the State, the accommodations selected have not been in any way "top of the line" or extravagant. The conference is held before summer rates apply and we receive a discount for the tie period. The resort consists of a variety of lodging selections and most are designed for more than one person alone. The conference is planned with families in mind and many families do attend with the attorneys. The after class functions with families are an important part of the conference. Topics discussed in class as well as other issues that come up in the office are discussed and many helpful connections are made during these times. Being a prosecutor with a family is an issue all by itself. Allocating time, dealing with the safety concerns for our families, and other issues come up often in these after class activities. Continuing education is a requirement to be an attorney and the ability for our families to be with us helps us get this accomplished. Since events can come up which would require one of us to return before the conference is over, we drive to the conference separately when we both attend. No expenses other than the lodging would be family expenses. We have paid for family items separately. The conference is an end of the year budget consideration, and there have been years we have not claimed mileage reimbursement or one of us has not attended in order to stay within our budget.

Butler County  
 Schedule of Findings  
 Year ended June 30, 2004

Although this expense has been in place for many years, it has just now been seen as possibly questionable, perhaps directly related to the recent articles in the Des Moines Register. We do not want any appearance of impropriety; therefore, we propose in the future to pay the difference between a smaller Lakefront Apartment suitable for one person and the lodging we actually use. As an example, for 2004, the difference would have been \$305, plus 5% hotel tax. It is important for the Board to know these accommodations are not always available. The resort is usually sold out each year and it takes a while to get a spot there.

Conclusion – Response accepted.

- (4) Travel Expense – Except as noted above, no expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tamera Fleshner, Nursing Department employee	CPR Training	\$ 1,845
Northview Apartments, owned by County Auditor's husband	Rental of office space	350
Cody Neuendorf, son of County Auditor	Mileage during GIS internship for Assessor	279
Kristen Debner, daughter of Public Health Nurse	Childcare for workshop	78
Dix Electric, Plumbing & Heating, husband of Ag Extension Employee	Ag Extension building improvements	117

In accordance with Chapter 331.342(10) of the Code, the transactions with Tamara Fleshner may represent a conflict of interest since the total cumulative transactions exceeded \$1,500 during the fiscal year. The remaining transactions do not appear to represent conflicts of interest since the total transactions with each individual were less than \$1,500 during the fiscal year.

Recommendation – The County should consult legal counsel to determine the disposition of this matter.

Response – The County Attorney has determined that no conflict of interest exists. The County Attorney will address concerns about dollar amounts paid to Public Health employee with Public Health Director.

Conclusion – Response accepted.

Butler County

Schedule of Findings

Year ended June 30, 2004

- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (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 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.

- (11) Economic Development – During the year ended June 30, 2004, the County paid \$30,000 to the Butler County Economic Development Corporation which may not be an appropriate expenditure of public funds since the benefits to be derived have not been clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Board should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require documentation of how the funds were used to accomplish economic development activities.

Response – Currently we have passed a board resolution documenting the public purpose.

Conclusion – Response accepted.

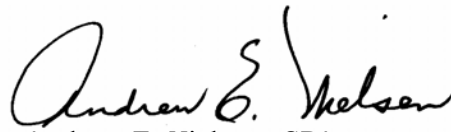
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Butler County

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Darryl J. Brumm, CPA, Senior Auditor II  
Billie Jo Heth, Senior Auditor  
Heather B. Allen, Staff Auditor  
Bobbie J. Zediker, Assistant Auditor  
Cynthia R. Ellingson, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive, flowing style.

Andrew E. Nielsen, CPA  
Deputy Auditor of State