



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 18, 2005

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on Lucas 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 \$9,475,849 for the year ended June 30, 2004, which included \$576,717 in tax credits from the state. The County forwarded \$6,958,750 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$2,517,099 of the local tax revenue to finance County operations. Other revenues included charges for service of \$556,563, operating grants, contributions and restricted interest of \$2,145,412, capital grants, contributions and restricted interest of \$1,088,104, unrestricted investment earnings of \$60,635 and other general revenues of \$59,346.

Expenses for County operations totaled \$5,471,094, and included \$2,285,343 for roads and transportation, \$801,097 for public safety and legal services and \$767,410 for mental health.

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

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Lucas County

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------|----------------------|---------------------|
| Clarence Gee | Board of Supervisors | Jan 2005 |
| Cathy Reece | Board of Supervisors | Jan 2005 |
| Larry Davis | Board of Supervisors | Jan 2007 |
| Linda Reed | County Auditor | Retired |
| Julie Masters (Appointed) | County Auditor | Jan 2005 |
| Phyllis Baker | County Treasurer | Jan 2007 |
| Sheryl Pierce | County Recorder | Jan 2007 |
| Delbert Longley | County Sheriff | Jan 2005 |
| Paul Goldsmith | County Attorney | Jan 2007 |
| Tim McGee | County Assessor | Jan 2010 |

Lucas County



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Independent Auditor's Report

To the Officials of Lucas County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lucas 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 Lucas 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.

The County did not determine the amount of materials and supplies inventories pertaining to the Secondary Roads Fund, a major governmental fund, at July 1, 2003, although required by U.S. generally accepted accounting principles. As a result, the net assets of the governmental activities and the fund balance of the Secondary Roads Fund are understated at the beginning of the year, and the expenses of the governmental activities and expenditures of the Secondary Roads Fund are understated for the year ended June 30, 2004 by the same amount. These amounts are not reasonably determinable.

In our opinion, except for the effects of the omission of the materials and supplies inventories for the Secondary Roads Fund at July 1, 2003 on the governmental activities and the Secondary Roads Fund, as described above, the financial statements referred to above present fairly, in all material respects, the changes in financial position of the governmental activities and the Secondary Roads Fund of Lucas County for the year ended June 30, 2004 in conformity with U.S. generally accepted accounting principles.

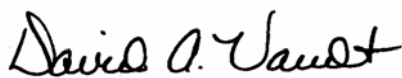
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lucas County as of June 30, 2004, and the respective changes in financial position of the General Fund, Mental Health Fund, Rural Services Fund and the aggregate remaining fund information thereof for the year ended 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, Lucas 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.

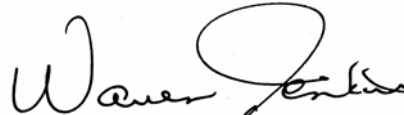
In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2004 on our consideration of Lucas County’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 38 through 41 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 Lucas County’s basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed qualified opinions on those financial statements for the effects of the omission of the statement of general fixed assets and the omission of the materials and supplies inventories pertaining primarily to the Special Revenue Funds. 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 7, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2004 FINANCIAL HIGHLIGHTS

- The County's governmental fund revenues decreased approximately \$500,000, or 8%, from fiscal 2003 to fiscal 2004. Property and other county tax decreased approximately \$46,000, intergovernmental revenues decreased approximately \$568,000 and miscellaneous revenues increased approximately \$138,000.
- The County's governmental fund expenditures decreased approximately \$238,000, or 4%, from fiscal 2003 to fiscal 2004. Roads and transportation expenditures decreased by approximately \$78,000, capital projects expenditures decreased approximately \$260,000 and administration expenditures increased approximately \$114,000.
- The County's net assets increased 15%, or approximately \$956,000, 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 Lucas 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 Lucas 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 Lucas 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 funds 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, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include

Agency Funds that account for drainage districts, emergency management services and the County Assessor, to name a few.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

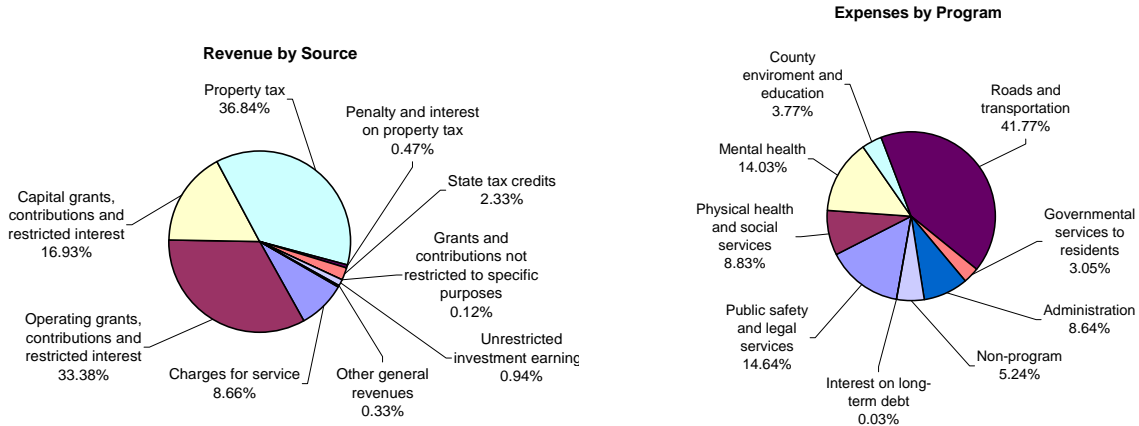
As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental activities.

| Net Assets of Governmental Activities | |
|---|---------------------|
| | June 30, 2004 |
| Current and other assets | \$ 6,540,623 |
| Capital assets | 3,575,585 |
| Total assets | <u>10,116,208</u> |
| Long-term liabilities | 151,573 |
| Other liabilities | 2,663,758 |
| Total liabilities | <u>2,815,331</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 3,575,585 |
| Restricted | 3,247,646 |
| Unrestricted | <u>477,646</u> |
| Total net assets | <u>\$ 7,300,877</u> |

Net assets of Lucas County’s governmental activities increased by 15% (\$7.3 million compared to \$6.3 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 reported at approximately \$478,000 at June 30, 2004.

Changes in Net Assets of Governmental Activities

| | Year ended June 30, 2004 |
|--|-----------------------------|
| Revenues: | |
| Program revenues: | |
| Charges for service | \$ 556,563 |
| Operating grants, contributions and restricted interest | 2,145,412 |
| Capital grants, contributions and restricted interest | 1,088,104 |
| General revenues: | |
| Property tax | 2,367,132 |
| Penalty and interest on property tax | 30,189 |
| State tax credits | 149,967 |
| Grants and contributions not restricted to specific purposes | 8,015 |
| Unrestricted investment earnings | 60,635 |
| Other general revenues | 21,142 |
| Total revenues | 6,427,159 |
| Program expenses: | |
| Public safety and legal services | 801,097 |
| Physical health and social services | 483,082 |
| Mental health | 767,410 |
| County environment and education | 206,353 |
| Roads and transportation | 2,285,343 |
| Governmental services to residents | 167,085 |
| Administration | 472,720 |
| Non-program | 286,494 |
| Interest on long-term debt | 1,510 |
| Total expenses | 5,471,094 |
| Increase in net assets | 956,065 |
| Net assets beginning of year, as restated | 6,344,812 |
| Net assets end of year | \$ 7,300,877 |



The County decreased property tax rates for 2004 by an average of two percent. This decrease, the first in two years, decreased the County's property tax revenue by approximately \$25,000 in 2004. Decreases in the total assessed valuation and in tax levies in FY 05 will decrease property tax revenue by an additional \$53,718 next year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lucas County completed the year, its governmental funds reported a combined fund balance of approximately \$3.8 million, which remains virtually unchanged from a year ago. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues decreased approximately \$189,000 from the prior year, mainly due to the County's E911 notes issued in FY 03 and recorded in the General Fund. These notes were paid off in FY 03. Expenditures remained consistent when compared to the prior year. The ending fund balance showed a decrease of approximately \$183,000 from the prior year to \$816,303.
- Mental Health Fund revenues decreased approximately \$107,000 over the prior year due to a property tax decrease because the tax levy was lowered. The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$765,000, an increase of 1% from the prior year. The Mental Health Fund balance at year ended decreased by approximately \$95,000 from the prior year to \$849,222.
- There were no significant changes in revenues, expenditures and the fund balance of the Rural Services Fund.
- Secondary Roads Fund revenues decreased by approximately \$270,000 from the prior year, due principally to a decrease in road use tax receipts of \$121,544. Bridge replacement money (BROS grants) from the DOT decreased from \$420,856 in FY 03 to \$189,431 in FY 04. Secondary Roads Fund expenditures decreased by approximately \$310,000 from the prior year due to the decrease in construction. The County had only one major bridge project during FY 04 (BROS 30) compared to three bridge projects in FY 03 (BROS 29, STP 23, and BROS 26). The ending fund balance showed an increase of approximately \$167,000, or 11%, from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lucas County amended its budget two times. The first amendment was made in February 2004 and resulted in an increase in budgeted disbursements related to worker's compensation, insurance, board and lodging at the Law Enforcement Center and various equipment at the Courthouse. The second amendment was made in March 2004 and was due to decreases in state revenues. Each department lowered their budget to help with the shortfall from the state.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Lucas County had approximately \$3.6 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges.

| Capital Assets of Governmental Activities at Year End | |
|---|---------------------|
| | June 30, 2004 |
| Land | \$ 626,713 |
| Buildings and improvements | 359,734 |
| Equipment and vehicles | 1,608,863 |
| Infrastructure | 980,275 |
| Total | <u>\$ 3,575,585</u> |
| This year's major additions included: | |
| Capital assets contributed by the Iowa Department of Transportation | \$ 820,856 |
| Replacement of a Secondary Roads Department dump truck | 60,047 |
| Total | <u>\$ 880,903</u> |

The County had depreciation expense of \$247,513 in FY 04 and total accumulated depreciation of \$1,845,574 at June 30, 2004. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2004, Lucas County had no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lucas County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various County activities. In an ongoing effort to maintain County services without raising tax levies, the Lucas County Board of Supervisors is committed to limiting expenditure increases, using excess fund balances and reducing funding to non-mandated programs to provide essential services for the citizens of Lucas County.

Budgeted disbursements in the FY 2005 operating budget are approximately \$7,493,000, an increase of 1% over the final FY 2004 budget. Lucas County will spend down fund balances to finance programs currently offered to offset the effect inflation has on program costs. Increased wage adjustments for union and pay-plan employees represent the largest portion of the increased expenses. Lucas County has added no major programs to the FY 2005 budget.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Lucas 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 Lucas County Auditor's Office, 916 Braden Avenue, Chariton, Iowa 50049.

Basic Financial Statements

Exhibit A

Lucas County
Statement of Net Assets
June 30, 2004

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and pooled investments | \$ 3,692,655 |
| Receivables: | |
| Property tax: | |
| Delinquent | 9,184 |
| Succeeding year | 2,469,000 |
| Interest and penalty on property tax | 16,467 |
| Accounts | 8,419 |
| Accrued interest | 2,017 |
| Due from other governments | 256,143 |
| Inventories | 86,738 |
| Capital assets (net of accumulated depreciation) | <u>3,575,585</u> |
| Total assets | <u>10,116,208</u> |
| Liabilities | |
| Accounts payable | 82,127 |
| Salaries and benefits payable | 33,568 |
| Due to other governments | 79,063 |
| Deferred revenue: | |
| Succeeding year property tax | 2,469,000 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| Compensated absences | 99,879 |
| Portion due or payable after one year: | |
| Compensated absences | <u>51,694</u> |
| Total liabilities | <u>2,815,331</u> |
| Net Assets | |
| Invested in capital assets | 3,575,585 |
| Restricted for: | |
| Supplemental levy purposes | 723,227 |
| Mental health purposes | 847,442 |
| Secondary roads purposes | 1,551,353 |
| Debt service | 11,341 |
| Other purposes | 114,283 |
| Unrestricted | <u>477,646</u> |
| Total net assets | <u>\$ 7,300,877</u> |

See notes to financial statements.

Lucas County
Statement of Activities
Year ended June 30, 2004

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|------------------------|--|--|---|
| | Expenses | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | |
| Functions / Programs: | | | | | |
| Governmental activities: | | | | | |
| Public safety and legal services | \$ 801,097 | 92,290 | 7,663 | - | (701,144) |
| Physical health and social services | 483,082 | 111,021 | 169,078 | - | (202,983) |
| Mental health | 767,410 | 26,805 | 328,530 | - | (412,075) |
| County environment and education | 206,353 | 13,919 | 44,828 | 34,956 | (112,650) |
| Roads and transportation | 2,285,343 | 122,922 | 1,594,898 | 1,053,148 | 485,625 |
| Governmental services to residents | 167,085 | 183,052 | 274 | - | 16,241 |
| Administration | 472,720 | 6,554 | - | - | (466,166) |
| Non-program | 286,494 | - | - | - | (286,494) |
| Interest on long-term debt | 1,510 | - | 141 | - | (1,369) |
| Total | \$ 5,471,094 | 556,563 | 2,145,412 | 1,088,104 | (1,681,015) |
| General Revenues: | | | | | |
| Property and other county tax levied for: | | | | | |
| General purposes | | | | | 2,321,901 |
| Debt service | | | | | 45,231 |
| Penalty and interest on property tax | | | | | 30,189 |
| State tax credits | | | | | 149,967 |
| Grants and contributions not restricted to specific purpose | | | | | 8,015 |
| Unrestricted investment earnings | | | | | 60,635 |
| Miscellaneous | | | | | 21,142 |
| Total general revenues | | | | | 2,637,080 |
| Change in net assets | | | | | 956,065 |
| Net assets beginning of year, as restated | | | | | 6,344,812 |
| Net assets end of year | | | | | \$ 7,300,877 |

See notes to financial statements.

Lucas County
Balance Sheet
Governmental Funds

June 30, 2004

| Assets | Special Revenue | | | |
|--|---------------------|------------------|-------------------|--------------------|
| | General | Mental Health | Rural Services | Secondary Roads |
| Cash and pooled investments | \$ 858,366 | 910,822 | 359,689 | 1,438,935 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 5,659 | 1,279 | 2,050 | - |
| Succeeding year | 1,363,000 | 308,000 | 752,000 | - |
| Interest and penalty on property tax | 16,467 | - | - | - |
| Accounts | 6,232 | 770 | - | 750 |
| Accrued interest | 2,017 | - | - | - |
| Due from other funds | - | 3,124 | - | 66 |
| Due from other governments | 96,542 | - | 831 | 158,770 |
| Inventories | - | - | - | 86,738 |
| Total assets | \$ 2,348,283 | 1,223,995 | 1,114,570 | 1,685,259 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 34,889 | 8,277 | 8 | 38,871 |
| Salaries and benefits payable | 18,198 | 777 | 6,241 | 8,352 |
| Due to other funds | 3,124 | - | 66 | - |
| Due to other governments | 16,153 | 56,447 | 272 | 6,191 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 1,363,000 | 308,000 | 752,000 | - |
| Other | 96,616 | 1,272 | 2,050 | - |
| Total liabilities | 1,531,980 | 374,773 | 760,637 | 53,414 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Supplemental levy purposes | 565,466 | - | 163,628 | - |
| Debt service | - | - | - | - |
| Unreserved: | | | | |
| Designated for future capital project | - | 200,000 | - | - |
| Undesignated, reported in: | | | | |
| General fund | 250,837 | - | - | - |
| Special revenue funds | - | 649,222 | 190,305 | 1,631,845 |
| Total fund balances | 816,303 | 849,222 | 353,933 | 1,631,845 |
| Total liabilities and fund balances | \$ 2,348,283 | 1,223,995 | 1,114,570 | 1,685,259 |

See notes to financial statements.

| Nonmajor Governmental Funds | Total |
|-----------------------------------|------------------|
| 124,843 | 3,692,655 |
| 196 | 9,184 |
| 46,000 | 2,469,000 |
| - | 16,467 |
| 667 | 8,419 |
| - | 2,017 |
| - | 3,190 |
| - | 256,143 |
| - | 86,738 |
| <u>171,706</u> | <u>6,543,813</u> |
| 82 | 82,127 |
| - | 33,568 |
| - | 3,190 |
| - | 79,063 |
| 46,000 | 2,469,000 |
| 195 | 100,133 |
| <u>46,277</u> | <u>2,767,081</u> |
| - | 729,094 |
| 11,146 | 11,146 |
| - | 200,000 |
| - | 250,837 |
| 114,283 | 2,585,655 |
| <u>125,429</u> | <u>3,776,732</u> |
| <u>171,706</u> | <u>6,543,813</u> |

Lucas County

Lucas County

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

June 30, 2004

Total governmental fund balances (page 17) \$ 3,776,732

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$5,421,159 and the accumulated depreciation is \$1,845,574. 3,575,585

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 100,133

Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (151,573)

Net assets of governmental activities (page 14) \$ 7,300,877

See notes to financial statements.

Lucas County

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

Year ended June 30, 2004

| | Special Revenue | | | |
|---|------------------|----------------|------------------|------------------|
| | General | Mental Health | Rural Services | Secondary Roads |
| Revenues: | | | | |
| Property and other county tax | \$ 1,293,367 | 292,373 | 735,639 | - |
| Interest and penalty on property tax | 29,919 | - | - | - |
| Intergovernmental | 323,572 | 348,165 | 40,464 | 1,806,474 |
| Licenses and permits | 250 | - | - | 295 |
| Charges for service | 245,098 | 26,805 | 13,919 | - |
| Use of money and property | 60,925 | - | - | - |
| Miscellaneous | 51,407 | - | - | 132,821 |
| Total revenues | 2,004,538 | 667,343 | 790,022 | 1,939,590 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | 696,138 | - | 76,870 | - |
| Physical health and social services | 456,859 | - | 22,854 | - |
| Mental health | - | 765,304 | - | - |
| County environment and education | 116,547 | - | 38,833 | - |
| Roads and transportation | - | - | 171,603 | 1,926,326 |
| Governmental services to residents | 160,878 | - | - | - |
| Administration | 714,422 | - | 54,307 | - |
| Debt service | - | - | - | - |
| Capital projects | - | - | - | 358,632 |
| Total expenditures | 2,144,844 | 765,304 | 364,467 | 2,284,958 |
| Excess (deficiency) of revenues over (under) expenditures | (140,306) | (97,961) | 425,555 | (345,368) |
| Other financing sources (uses): | | | | |
| Sale of capital assets | 1,029 | - | - | 2,320 |
| Operating transfers in | - | 3,124 | - | 510,537 |
| Operating transfers out | (43,720) | - | (469,941) | - |
| Capital loan notes issued | - | - | - | - |
| Total other financing sources (uses) | (42,691) | 3,124 | (469,941) | 512,857 |
| Net change in fund balances | (182,997) | (94,837) | (44,386) | 167,489 |
| Fund balances beginning of year, as restated | 999,300 | 944,059 | 398,319 | 1,464,356 |
| Fund balances end of year | \$ 816,303 | 849,222 | 353,933 | 1,631,845 |

See notes to financial statements.

| Nonmajor Governmental | |
|--------------------------|------------------|
| Funds | Total |
| 45,036 | 2,366,415 |
| - | 29,919 |
| 11,793 | 2,530,468 |
| - | 545 |
| 35,335 | 321,157 |
| 15,023 | 75,948 |
| 31,031 | 215,259 |
| <u>138,218</u> | <u>5,539,711</u> |
| 1,389 | 774,397 |
| - | 479,713 |
| - | 765,304 |
| 6,928 | 162,308 |
| - | 2,097,929 |
| - | 160,878 |
| - | 768,729 |
| 48,760 | 48,760 |
| 37,283 | 395,915 |
| <u>94,360</u> | <u>5,653,933</u> |
| <u>43,858</u> | <u>(114,222)</u> |
| - | 3,349 |
| - | 513,661 |
| - | (513,661) |
| 47,250 | 47,250 |
| <u>47,250</u> | <u>50,599</u> |
| 91,108 | (63,623) |
| <u>34,321</u> | <u>3,840,355</u> |
| <u>125,429</u> | <u>3,776,732</u> |

Lucas 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 21) \$ (63,623)

**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 expense in the current year, as follows:

| | | |
|---|------------------|-----------|
| Expenditures for capital assets | \$ 408,831 | |
| Capital assets contributed by the Iowa Department of Transportation | 820,856 | |
| Capital assets contributed by others | 34,956 | |
| Depreciation expense | <u>(247,513)</u> | 1,017,130 |

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (10,720)

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 | 987 | |
| Other | <u>30,649</u> | 31,636 |

Proceeds from issuing short-term liabilities provide current financial resources to governmental funds. Repayment of short-term liabilities is an expenditure in the governmental funds.

| | | |
|--------|---------------|---|
| Issued | (47,250) | |
| Repaid | <u>47,250</u> | - |

Compensated absences 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. (18,358)

Change in net assets of governmental activities (page 15) \$ 956,065

See notes to financial statements.

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

Assets

| | |
|------------------------------|------------------|
| Cash and pooled investments: | |
| County Treasurer | \$ 422,142 |
| Other County officials | 3,671 |
| Receivables: | |
| Property tax: | |
| Delinquent | 29,053 |
| Succeeding year | 6,534,000 |
| Accounts | 14,105 |
| Special assessments | 129,000 |
| Total assets | 7,131,971 |

Liabilities

| | |
|-------------------------------|------------------|
| Accounts payable | 449 |
| Salaries and benefits payable | 202 |
| Due to other governments | 7,105,222 |
| Trusts payable | 10,045 |
| Compensated absences | 16,053 |
| Total liabilities | 7,131,971 |

| | |
|-------------------|-------------|
| Net assets | \$ - |
|-------------------|-------------|

See notes to financial statements.

Lucas County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Lucas 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, Lucas 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. Lucas County has no component units which meet the Governmental Accounting Standards Boards criteria.

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

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Southeast Iowa Case Management, Chariton Valley Rural Economic Development Inc., Ten Fifteen Regional Transit Agency, Southeast Iowa Drug Task Force, Lucas County Law Enforcement Center, South Iowa Area Detention Service Agency, Lucas County Solid Waste Management Commission, South Central Iowa Solid Waste Agency and the Heartland Group.

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.

Special Assessments Receivable – Special assessments receivable represent the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Special assessments receivable represent assessments which have been made but have not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|----------------------------------|-----------|
| Infrastructure | \$ 65,000 |
| Land, buildings and improvements | 30,000 |
| Equipment and vehicles | 10,000 |

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 and improvements | 25 - 50 |
| Land improvements | 10 - 50 |
| Infrastructure | 10 - 65 |
| Equipment | 3 - 20 |
| Vehicles | 5 - 15 |

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and comp time 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

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 in certain departments exceeded the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$592,004 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

| Receivable Fund | Payable Fund | Amount |
|-------------------------------------|------------------------------------|-----------------|
| Special Revenue: Secondary Roads | Special Revenue: Rural Services | \$ 66 |
| Mental Health | General Fund | 3,124 |
| Total | | <u>\$ 3,190</u> |

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

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

| Transfer to | Transfer from | Amount |
|-------------------------------------|------------------------------------|-------------------|
| Special Revenue: Secondary Roads | General | \$ 40,596 |
| | Special Revenue: Rural Services | 469,941 |
| Mental Health | General | <u>3,124</u> |
| Total | | <u>\$ 513,661</u> |

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

(5) 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 |
|---|--|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 502,980 | 123,733 | - | 626,713 |
| Construction in progress | - | 309,202 | - | 309,202 |
| Total capital assets not being depreciated | <u>502,980</u> | <u>432,935</u> | <u>-</u> | <u>935,915</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 479,705 | - | - | 479,705 |
| Equipment and vehicles | 3,312,503 | 114,629 | (153,672) | 3,273,460 |
| Infrastructure, road network | - | 732,079 | - | 732,079 |
| Total capital assets being depreciated | <u>3,792,208</u> | <u>846,708</u> | <u>(153,672)</u> | <u>4,485,244</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 111,467 | 8,504 | - | 119,971 |
| Equipment and vehicles | 1,614,546 | 178,003 | (127,952) | 1,664,597 |
| Infrastructure, road network | - | 61,006 | - | 61,006 |
| Total accumulated depreciation | <u>1,726,013</u> | <u>247,513</u> | <u>(127,952)</u> | <u>1,845,574</u> |
| Total capital assets being depreciated, net | <u>2,066,195</u> | <u>599,195</u> | <u>(25,720)</u> | <u>2,639,670</u> |
| Governmental activities capital assets, net | <u>\$ 2,569,175</u> | <u>1,032,130</u> | <u>(25,720)</u> | <u>3,575,585</u> |

Depreciation expense was charged to the following functions:

| | |
|--|-------------------|
| Governmental activities: | |
| Public safety and legal services | \$ 23,644 |
| Mental health | 1,395 |
| County environment and education | 6,141 |
| Roads and transportation | 206,486 |
| Governmental services to residents | 7,677 |
| Administration | <u>2,170</u> |
| Total depreciation expense - governmental activities | <u>\$ 247,513</u> |

(6) Due to Other Governments

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

| <u>Fund</u> | <u>Description</u> | <u>Amount</u> |
|------------------------------|--------------------|----------------------------|
| General | Services | <u>\$ 16,153</u> |
| Special Revenue: | | |
| Mental Health | Services | 56,447 |
| Rural Services | Services | 272 |
| Secondary Roads | Services | <u>6,191</u> |
| | | <u>62,910</u> |
| Total for governmental funds | | <u><u>\$ 79,063</u></u> |
| Agency: | | |
| County Assessor | Collections | \$ 182,243 |
| Schools | | 3,962,844 |
| Community Colleges | | 188,274 |
| Corporations | | 1,514,423 |
| Auto License and Use Tax | | 173,655 |
| All other | | <u>1,083,783</u> |
| Total for agency funds | | <u><u>\$ 7,105,222</u></u> |

(7) Changes in Long-Term Liabilities

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

| | <u>Capital</u> | <u>Compen-</u> | |
|----------------------------------|----------------|-----------------|----------------|
| | <u>Loan</u> | <u>sated</u> | |
| | <u>Notes</u> | <u>Absences</u> | <u>Total</u> |
| Balance beginning | | | |
| of year, as restated (see below) | \$ - | 133,215 | 133,215 |
| Increases | 47,250 | 125,523 | 172,773 |
| Decreases | 47,250 | 107,165 | 154,415 |
| | | | <u>151,573</u> |
| Balance end of year | <u>\$ -</u> | <u>151,573</u> | <u>151,573</u> |
| Due within one year | <u>\$ -</u> | <u>99,879</u> | <u>99,879</u> |

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

| | |
|--|-------------------|
| Balance June 30, 2003, as previously reported | \$ 206,642 |
| South Iowa Area Detention Service Agency (SIADSA) capital loan notes were removed from long-term debt and reclassified as a contingent liability since the note principal and interest are paid by the SIADSA (see note 10). | (68,000) |
| Heartland Group capital loan notes were removed from long-term debt and reclassified as a contingent liability since the note principal and interest are paid by the Heartland Group (see note 10). | (38,000) |
| Compensated absences were increased due to the implementation of Governmental Accounting Standards Board Interpretation No. 6, <u>Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.</u> | <u>32,573</u> |
| Balance July 1, 2003, as restated | <u>\$ 133,215</u> |

(8) 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 \$121,722, \$118,089 and \$113,159, respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) Contingent Liabilities

South Central Iowa Solid Waste Agency

Lucas County participates in the South Central Iowa Solid Waste Agency under Chapter 28E of the Code of Iowa. The purpose of the Agency includes providing economic disposal of solid waste produced or generated within the member counties and municipalities.

The County has provided a local government guarantee for a portion of the closure and postclosure care costs of the Agency in accordance with Chapter 111.6(8) of the Iowa Administrative Code. The County's financial assurance obligation is \$114,811.

In the event the South Central Iowa Solid Waste Agency fails to perform closure or postclosure care in accordance with the appropriate plan or permit, whenever required to do so, or fails to obtain alternate financial assurance within 90 days of intent to cancel, Lucas County will perform or pay a third party to perform closure and/or postclosure care or establish a standby trust fund in the name of the South Central Iowa Solid Waste Agency or obtain alternate financial assurance of \$114,811.

Detention Service Capital Loan Notes

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

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

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

Heartland Group

The Heartland Group is a public authority established under a 28E agreement between Jefferson, Keokuk, Lucas, Wapello and Washington counties. In March 1994, the Heartland Group issued \$800,000 in general obligation capital loan notes. Each of the five counties approved the issuance of \$160,000 in general obligation capital loan notes as a guarantee of the Heartland Group's issuance.

To date, Lucas County has not issued any debt as a guarantor for the Heartland Group. However, the County remains contingently liable in the event the Heartland Group cannot satisfy its debt payments.

(11) Subsequent Event

On July 9, 2004, the County issued \$45,000 of general obligation notes to pay the costs of acquiring County Sheriff patrol cars and construction of an exercise area at the Law Enforcement Center. The repayment terms require two equal installments of \$22,500 to be paid on December 1, 2004 and June 1, 2005, including 3.9% per annum interest.

(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 for 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. These 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 governmental funds are presented 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.

In addition, the Capital Projects Fund, Capital Improvements Account reported in previous years was eliminated at July 1, 2003. The fund included \$15,000 held by the South Iowa Area Detention Service Agency (SIADSA) for the County. However, SIADSA will not be refunding the \$15,000 to the County since it has been or will be used for paying the indebtedness. Also, the Conservation Land Acquisition Fund was reclassified from an Expendable Trust Fund to a Special Revenue Fund.

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

| | <u>Amount</u> |
|--|---------------------|
| Net assets June 30, 2003, as previously reported | \$ 3,822,782 |
| GASB Interpretation 6 adjustments | 32,573 |
| Capital Projects Fund eliminated | <u>(15,000)</u> |
| Net assets July 1, 2003, as restated for governmental funds | 3,840,355 |
| GASB 34 adjustments: | |
| Capital assets, net of accumulated depreciation of \$1,726,013 | 2,569,175 |
| Long-term liabilities | (133,215) |
| Deferral of long-term assets | <u>68,497</u> |
| Net assets July 1, 2003, as restated | <u>\$ 6,344,812</u> |

Lucas County

Required Supplementary Information

Lucas 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

| | <u>Actual</u> |
|---|---------------------|
| Receipts: | |
| Property and other county tax | \$ 2,367,153 |
| Interest and penalty on property tax | 30,342 |
| Intergovernmental | 2,563,950 |
| Licenses and permits | 545 |
| Charges for service | 332,060 |
| Use of money and property | 77,739 |
| Miscellaneous | 212,088 |
| Total receipts | <u>5,583,877</u> |
| Disbursements: | |
| Public safety and legal services | 763,547 |
| Physical health and social services | 483,075 |
| Mental health | 777,156 |
| County environment and education | 165,554 |
| Roads and transportation | 2,187,916 |
| Governmental services to residents | 159,831 |
| Administration | 761,989 |
| Debt service | 48,760 |
| Capital projects | 454,414 |
| Total disbursements | <u>5,802,242</u> |
| Deficiency of receipts under disbursements | (218,365) |
| Other financing sources, net | <u>50,599</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (167,766) |
| Balance beginning of year | <u>3,860,421</u> |
| Balance end of year | <u>\$ 3,692,655</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to Net Variance |
|------------------|------------------|-----------------------------|
| Original | Final | |
| 2,376,343 | 2,376,343 | (9,190) |
| 13,600 | 13,600 | 16,742 |
| 3,041,798 | 3,041,798 | (477,848) |
| 450 | 450 | 95 |
| 322,250 | 333,760 | (1,700) |
| 115,825 | 115,825 | (38,086) |
| 22,100 | 22,100 | 189,988 |
| <u>5,892,366</u> | <u>5,903,876</u> | <u>(319,999)</u> |
| 819,756 | 802,281 | 38,734 |
| 588,870 | 536,282 | 53,207 |
| 1,164,383 | 1,164,383 | 387,227 |
| 209,631 | 206,358 | 40,804 |
| 2,467,942 | 2,467,942 | 280,026 |
| 202,612 | 195,622 | 35,791 |
| 751,566 | 795,419 | 33,430 |
| 48,760 | 48,760 | - |
| 1,218,550 | 1,218,550 | 764,136 |
| <u>7,472,070</u> | <u>7,435,597</u> | <u>1,633,355</u> |
| (1,579,704) | (1,531,721) | 1,313,356 |
| 47,750 | 47,750 | 2,849 |
| (1,531,954) | (1,483,971) | 1,316,205 |
| 2,315,420 | 3,857,734 | 2,687 |
| <u>783,466</u> | <u>2,373,763</u> | <u>1,318,892</u> |

Lucas 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 | \$ 5,583,877 | (44,166) | 5,539,711 |
| Expenditures | 5,802,242 | (148,309) | 5,653,933 |
| Net | (218,365) | 104,143 | (114,222) |
| Other financing sources, net | 50,599 | - | 50,599 |
| Beginning fund balances | 3,860,421 | (20,066) | 3,840,355 |
| Ending fund balances | \$ 3,692,655 | 84,077 | 3,776,732 |

See accompanying independent auditor's report.

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments decreased budgeted disbursements by \$36,473. 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 in certain departments exceeded the amounts appropriated.

Lucas County

Other Supplementary Information

Lucas County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2004

| | County Recorder's Records Management | Resource Enhancement and Protection | Construction Donation | Special County Recorder's Electronic Transaction Fee |
|--|---|--|--------------------------|--|
| Assets | | | | |
| Cash and pooled investments | \$ 19,770 | 9,078 | 2,199 | 22,721 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | - | - | - | - |
| Succeeding year | - | - | - | - |
| Accounts | - | - | - | - |
| Total assets | \$ 19,770 | 9,078 | 2,199 | 22,721 |
| Liabilities and Fund Equity | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | - | - | - |
| Deferred revenue: | | | | |
| Succeeding year property tax | - | - | - | - |
| Other | - | - | - | - |
| Total liabilities | - | - | - | - |
| Fund equity: | | | | |
| Fund balances: | | | | |
| Reserved for debt service | - | - | - | - |
| Unreserved | 19,770 | 9,078 | 2,199 | 22,721 |
| Total fund equity | 19,770 | 9,078 | 2,199 | 22,721 |
| Total liabilities and fund equity | \$ 19,770 | 9,078 | 2,199 | 22,721 |

See accompanying independent auditor's report.

| Revenue | | | | |
|-------------------------------------|--------------------------------|-----------------|---------|--|
| Conservation Land Acquisition | Prisoner Reim- bursement | Debt Service | Total | |
| 51,018 | 8,912 | 11,145 | 124,843 | |
| - | - | 196 | 196 | |
| - | - | 46,000 | 46,000 | |
| 667 | - | - | 667 | |
| 51,685 | 8,912 | 57,341 | 171,706 | |
| - | 82 | - | 82 | |
| - | - | 46,000 | 46,000 | |
| - | - | 195 | 195 | |
| - | 82 | 46,195 | 46,277 | |
| - | - | 11,146 | 11,146 | |
| 51,685 | 8,830 | - | 114,283 | |
| 51,685 | 8,830 | 11,146 | 125,429 | |
| 51,685 | 8,912 | 57,341 | 171,706 | |

Lucas County

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

Year ended June 30, 2004

| | County Recorder's Records Management | Resource Enhancement and Protection | Special Construction Donation |
|--|---|--|-------------------------------------|
| Revenues: | | | |
| Property and other county tax | \$ - | - | - |
| Intergovernmental | - | 8,783 | - |
| Charges for service | 2,427 | - | - |
| Use of money and property | 242 | 14 | - |
| Miscellaneous | - | - | - |
| Total revenues | <u>2,669</u> | <u>8,797</u> | <u>-</u> |
| Expenditures: | | | |
| Operating: | | | |
| Public safety and legal services | - | - | - |
| County environment and education | - | - | 6,928 |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Total expenditures | <u>-</u> | <u>-</u> | <u>6,928</u> |
| Excess (deficiency) of revenues over (under) expenditures | 2,669 | 8,797 | (6,928) |
| Other financing sources: | | | |
| Capital loan note proceeds | - | - | - |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | 2,669 | 8,797 | (6,928) |
| Fund balances beginning of year, as restated | <u>17,101</u> | <u>281</u> | <u>9,127</u> |
| Fund balances end of year | <u>\$ 19,770</u> | <u>9,078</u> | <u>2,199</u> |

See accompanying independent auditor's report.

| Revenue | | | | | | |
|---------|---|-------------------------------------|--------------------------------|-----------------|---------------------|---------|
| County | Recorder's Electronic Transaction Fee | Conservation Land Acquisition | Prisoner Reim- bursement | Debt Service | Capital Projects | Total |
| | - | - | - | 45,036 | - | 45,036 |
| | - | - | - | 3,010 | - | 11,793 |
| | 22,689 | - | 10,219 | - | - | 35,335 |
| | 32 | 14,594 | - | 141 | - | 15,023 |
| | - | 31,031 | - | - | - | 31,031 |
| | 22,721 | 45,625 | 10,219 | 48,187 | - | 138,218 |
| | - | - | 1,389 | - | - | 1,389 |
| | - | - | - | - | - | 6,928 |
| | - | - | - | 48,760 | - | 48,760 |
| | - | 37,163 | - | - | 120 | 37,283 |
| | - | 37,163 | 1,389 | 48,760 | 120 | 94,360 |
| | 22,721 | 8,462 | 8,830 | (573) | (120) | 43,858 |
| | - | - | - | - | 47,250 | 47,250 |
| | 22,721 | 8,462 | 8,830 | (573) | 47,130 | 91,108 |
| | - | 43,223 | - | 11,719 | (47,130) | 34,321 |
| | 22,721 | 51,685 | 8,830 | 11,146 | - | 125,429 |

Lucas County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2004

| | County Offices | Agricultural Extension Education | County Assessor |
|-------------------------------|-------------------|--|--------------------|
| Assets | | | |
| Cash and pooled investments: | | | |
| County Treasurer | \$ - | 928 | 76,076 |
| Other County officials | 3,671 | - | - |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 213 | 516 |
| Succeeding year | - | 50,000 | 122,000 |
| Accounts | - | - | - |
| Special assessments | - | - | - |
| Total assets | \$ 3,671 | 51,141 | 198,592 |
| Liabilities | | | |
| Accounts payable | \$ - | - | 94 |
| Salaries and benefits payable | - | - | 202 |
| Due to other governments | - | 51,141 | 182,243 |
| Trusts payable | 3,671 | - | - |
| Compensated absences | - | - | 16,053 |
| Total liabilities | \$ 3,671 | 51,141 | 198,592 |

See accompanying independent auditor's report.

| Schools | Community Colleges | Corporations | Townships | Auto License and Use Tax | Other | Total |
|------------------|--------------------|------------------|----------------|--------------------------|----------------|------------------|
| 69,037 | 3,473 | 24,759 | 2,466 | 173,655 | 71,748 | 422,142 |
| - | - | - | - | - | - | 3,671 |
| 15,807 | 801 | 8,664 | 266 | - | 2,786 | 29,053 |
| 3,878,000 | 184,000 | 1,481,000 | 133,000 | - | 686,000 | 6,534,000 |
| - | - | - | - | - | 14,105 | 14,105 |
| - | - | - | - | - | 129,000 | 129,000 |
| 3,962,844 | 188,274 | 1,514,423 | 135,732 | 173,655 | 903,639 | 7,131,971 |
| - | - | - | - | - | 355 | 449 |
| - | - | - | - | - | - | 202 |
| 3,962,844 | 188,274 | 1,514,423 | 135,732 | 173,655 | 896,910 | 7,105,222 |
| - | - | - | - | - | 6,374 | 10,045 |
| - | - | - | - | - | - | 16,053 |
| 3,962,844 | 188,274 | 1,514,423 | 135,732 | 173,655 | 903,639 | 7,131,971 |

Lucas 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 |
|------------------------------------|-------------------|--|--------------------|-----------|
| Assets and Liabilities | | | | |
| Balances beginning of year | \$ 44,719 | 50,257 | 204,454 | 3,714,424 |
| Additions: | | | | |
| Property and other county tax | - | 49,768 | 121,966 | 3,884,123 |
| E911 surcharge | - | - | - | - |
| State tax credits | - | 3,274 | 7,919 | 243,420 |
| Office fees and collections | 172,454 | - | - | - |
| Auto licenses, use tax and postage | - | - | - | - |
| Assessments | - | - | - | - |
| Trusts | 99,843 | - | - | - |
| Miscellaneous | 20 | - | 220 | - |
| Total additions | 272,317 | 53,042 | 130,105 | 4,127,543 |
| Deductions: | | | | |
| Agency remittances: | | | | |
| To other funds | 141,724 | - | - | - |
| To other governments | 59,459 | 52,158 | 135,967 | 3,879,123 |
| Trusts paid out | 112,182 | - | - | - |
| Total deductions | 313,365 | 52,158 | 135,967 | 3,879,123 |
| Balances end of year | \$ 3,671 | 51,141 | 198,592 | 3,962,844 |

See accompanying independent auditor's report.

| Community Colleges | Corporations | Townships | Auto License and Use Tax | Other | Total |
|--------------------|--------------|-----------|--------------------------|-----------|-----------|
| 186,683 | 1,357,291 | 128,883 | 147,451 | 858,731 | 6,692,893 |
| 184,734 | 1,471,720 | 132,799 | - | 686,890 | 6,532,000 |
| - | - | - | - | 57,407 | 57,407 |
| 12,247 | 109,750 | 7,379 | - | 42,761 | 426,750 |
| - | - | - | - | - | 172,454 |
| - | - | - | 1,892,158 | 71,656 | 1,963,814 |
| - | - | - | - | 10,772 | 10,772 |
| - | - | - | - | 190,235 | 290,078 |
| - | - | - | - | 25,495 | 25,735 |
| 196,981 | 1,581,470 | 140,178 | 1,892,158 | 1,085,216 | 9,479,010 |
| - | - | - | 76,121 | 17,715 | 235,560 |
| 195,390 | 1,424,338 | 133,329 | 1,789,833 | 783,669 | 8,453,266 |
| - | - | - | - | 238,924 | 351,106 |
| 195,390 | 1,424,338 | 133,329 | 1,865,954 | 1,040,308 | 9,039,932 |
| 188,274 | 1,514,423 | 135,732 | 173,655 | 903,639 | 7,131,971 |

Schedule 5

Lucas 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 | \$ 2,366,415 | 2,412,793 | 2,324,230 | 2,215,248 |
| Interest and penalty on property tax | 29,919 | 33,861 | 33,232 | 34,847 |
| Intergovernmental | 2,530,468 | 3,098,559 | 2,721,389 | 2,901,797 |
| Licenses and permits | 545 | 685 | 400 | 1,098 |
| Charges for service | 321,157 | 336,046 | 330,439 | 293,153 |
| Use of money and property | 75,948 | 81,169 | 137,384 | 246,960 |
| Miscellaneous | 215,259 | 77,085 | 52,708 | 275,032 |
| Total | \$ 5,539,711 | 6,040,198 | 5,599,782 | 5,968,135 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | \$ 774,397 | 725,331 | 694,352 | 654,724 |
| Physical health and social services | 479,713 | 461,666 | 413,188 | 446,965 |
| Mental health | 765,304 | 756,214 | 765,012 | 730,048 |
| County environment and education | 162,308 | 197,762 | 166,902 | 168,000 |
| Roads and transportation | 2,097,929 | 2,175,662 | 2,166,227 | 2,314,012 |
| Governmental services to residents | 160,878 | 158,622 | 147,472 | 166,057 |
| Administration | 768,729 | 655,154 | 601,065 | 532,432 |
| Debt service | 48,760 | 105,473 | 156,306 | 61,065 |
| Capital projects | 395,915 | 656,048 | 311,569 | 503,029 |
| Total | \$ 5,653,933 | 5,891,932 | 5,422,093 | 5,576,332 |

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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

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

To the Officials of Lucas County:

We have audited the financial statements of Lucas County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 7, 2004. A qualified opinion was issued on the changes in financial position of the governmental activities and the Secondary Roads Fund, a major governmental fund, due to the omission of materials and supplies inventories pertaining to the Secondary Roads Fund at July 1, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lucas County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. 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 (2).

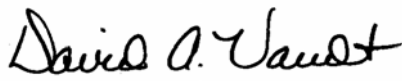
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lucas 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 Lucas 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.

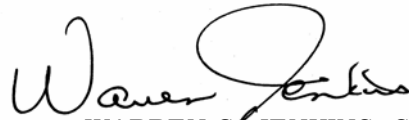
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 items (A), (I) and (J) are material weaknesses. Prior year reportable conditions have been resolved except for items (A), (B), (C) and (D).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lucas County and other parties to whom Lucas 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 Lucas 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 7, 2004

Lucas 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:

| | Applicable Offices |
|--|---------------------------|
| (1) Incoming mail is not opened by an employee who is not authorized to make entries to the accounting records. An initial listing of receipts is not prepared. | Sheriff |
| (2) The collection, deposit preparation and reconciliation functions are not performed by an individual who does not record and account for cash receipts. | Sheriff and Recorder |
| (3) The person who signs checks is not independent of the person preparing the checks, approving disbursements and recording cash disbursements. | Sheriff |
| (4) The individual performing bank reconciliations also signs checks and handles and records cash. Bank reconciliations are not reviewed by an independent person with no responsibility for receipts and disbursements. | Treasurer and Recorder |
| (5) The person responsible for the detailed record keeping of investments is also the custodian of the investments. Investments are not periodically inspected, confirmed or reconciled to the investment records by an independent person having no responsibility for investments. No independent verification of investment earnings is made. | Treasurer |

Lucas County

Schedule of Findings

Year ended June 30, 2004

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating 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. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review.

Response –

County Sheriff – We are trying to segregate duties as much as possible. With limited personnel, this is very difficult.

County Recorder – With only two people in the office at times, it's difficult to share obligations. I'll continue to strive towards that direction.

County Treasurer – In the future, I will have a member of my staff review, if not perform, the bank reconciliations for our different accounts. The bank reconciliations will be reviewed by the Board of Supervisors and they will sign off on this. For investments, I will have another person from this office review the reconciliation of investments on a monthly basis. Quarterly, I will have the Board of Supervisors review and sign off on the investments report.

Conclusion -

County Sheriff and County Recorder – Responses acknowledged. Where duties cannot be adequately segregated, it is important this work be reviewed by supervisory personnel.

County Treasurer – Response accepted.

- (B) County Auditor – A separate bank account is maintained for the remaining balance of the self-funded group health program that has been discontinued. The balance in this bank account totaled \$8,522 at June 30, 2004.

Recommendation – The remaining funds in the Lucas County Employee Group Health account should be remitted to the County Treasurer and expenditures should be presented to the County Board of Supervisors for approval and charged against the budget.

Response – We will discuss what we want to do about this account. It may stay the same for now depending on a decision for the use of the money.

Conclusion – Response acknowledged. The remaining funds should be remitted to the County Treasurer.

Lucas County

Schedule of Findings

Year ended June 30, 2004

- (C) Sheriff's Commissary Account – A separate bank account is maintained for the jail commissary. Jail commissary account profits are accumulating in the commissary account and have not been remitted to the County Treasurer. Also, expenditures other than those for commissary resale items were paid from this account and not charged against the budget.

Recommendation – Jail commissary profits should be remitted to the County Treasurer and recorded in the General or a Special Revenue Fund. Expenditures from these profits should be through the normal claims process, approved by the County Board of Supervisors and charged against the budget.

Response – The jail commissary account is used to purchase games, televisions and items for the inmates as well as other commissary items. These items should not have to be paid for through taxpayers' money. Inmates tend to break these items, and they should have to replace them.

Conclusion – Response acknowledged. Jail commissary profits should be remitted to the County Treasurer and expenditures other than those for commissary resale items should be presented to the County Board of Supervisors for approval and charged against the budget.

- (D) Sheriff's Forfeiture Account – A separate bank account is maintained for the collection and expenditure of forfeiture monies. Forfeiture monies have been accumulating in this account and have not been remitted to the County Treasurer. Also, expenditures for towing and supplies were paid from this account and not charged against the budget.

Recommendation – The forfeited funds activity should be included in the County's annual budget and financial statements. Proceeds are accepted by the County with the understanding they are not to replace those already budgeted. The receipt and disbursement of proceeds of this type may require a budget amendment before the end of the fiscal year. All proceeds should be remitted to the County Treasurer and disbursements should be charged to the appropriate expenditure account in accordance with the Uniform Chart of Accounts for Iowa County Governments.

Response – We will continue to keep this account as we have in the past. This money belongs to the State of Iowa, and must be approved by the State before any of it is spent.

Conclusion – Response acknowledged. Forfeiture funds should be remitted to the County Treasurer and expenditures presented to the County Board of Supervisors for approval and charged against the budget. Forfeiture funds may be placed in a Special Revenue Fund to account for the proceeds of these specific revenue sources if legally restricted to expenditure for specified purposes. The County should consult legal counsel to determine the disposition of this matter.

Lucas County

Schedule of Findings

Year ended June 30, 2004

- (E) Sheriff's Office Fee Account – A separate bank account is maintained for the collection and expenditure of office fees. Expenditures and reimbursements for credit cards, car insurance and computer maintenance were paid through this account and not charged against the budget.

Recommendation – Expenditures and reimbursements for credit cards, car insurance and computer maintenance should be recorded in the County's accounting system and charged against the budget.

Response – The reason that the car insurance and computer maintenance were paid out of this account is because we paid the bills out of the budget and were refunded by the vendors. This money cannot go back into the budget, therefore, we pay directly to the vendor on the next bill. The credit card will be paid directly by the County Auditor from now on.

Conclusion – Response acknowledged. Expenditures and vendor reimbursements should run through the County's records. Vendor refunds should be remitted to the County Treasurer and, if necessary, the budget should be amended to allow for disbursements of the refunds.

- (F) Capital Assets – A lack of segregation of duties exists in recording and reconciling capital assets. Independent personnel do not reconcile significant assets with the accounting records. Periodic comparisons are not made of amounts recorded in the accounting system with the physical assets. Capital assets are not tested periodically by an individual with no responsibility for capital assets. Depreciation calculations are not reviewed to ensure accuracy. Land received as a gift was not recorded at fair market value in accordance with County policy.

Recommendation – The Board of Supervisors should develop a written policy for capital assets. The policy should include, but not be limited to, responsibilities for custody and safekeeping of assets, periodic comparisons of capital asset records with the physical assets and review of depreciation calculations. Also, donated capital assets should be recorded in accordance with County policy.

Response – We will look into setting up a policy and appointing an individual to oversee this situation.

Conclusion – Response accepted.

- (G) Journal Entries – A lack of supporting documentation exists for journal entries made in the County Auditor's office.

Recommendation – The County Auditor should maintain supporting documentation for all journal entries.

Response – When a journal entry is made, we will document an explanation for the entry and initials for the person making the entry.

Conclusion – Response accepted.

Lucas County

Schedule of Findings

Year ended June 30, 2004

- (H) State Warrants – State warrants for an EMS System Development grant were not deposited into the County’s General Fund or recorded in the County’s accounting records. Instead, the warrants were turned over to the EMS Association.

Recommendation – All monies received by the County should be deposited into the General Fund. A County warrant should then be written to disburse grant funds.

Response – In the future, we will maintain a paper trail for the EMS grant money.

Conclusion – Response accepted.

- (I) Public Health Department – One individual in the Public Health Department has responsibility for opening mail, collection, deposit preparation and reconciliation. In addition, receipts were not deposited timely during FY 04.

For the NEST account, one individual in the Public Health Department has responsibility for approving disbursements, preparing and signing checks.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Receipts should also be deposited timely.

Response – The Nurse Administrator or her designee will open the mail. They will turn the monies over to the secretary for her to record. The secretary will then prepare the deposit which will be approved by the Nurse Administrator or her designee. In the absence of the secretary, the Nurse Administrator or her designee will prepare the deposit. Reconciliations will be a joint effort of the secretary and Nurse Administrator.

The NEST Coordinator keeps a log of all purchases made. The log includes the date of purchase, place of purchase, items purchased, amount of purchase, and check number of the purchase. The Nurse Administrator or her designee will review all receipts for purchases made by the NEST Coordinator.

Conclusion – Response accepted.

- (J) Public Health Department Receivables – Accounts receivable reconciliations were not prepared and detail listings of receivables were not generated at the end of each month. Also, the Department did not submit any billings for Medicaid or Medicare reimbursements during FY 04 since the cost reports were not submitted to the appropriate entities as required.

Recommendation – A reconciliation of billings, collections and accounts receivable should be prepared and accounts receivable listings should be generated at the end of each month. Amounts for Medicaid and Medicare should be billed timely, and cost reports should be submitted to the appropriate entities as required.

Lucas County

Schedule of Findings

Year ended June 30, 2004

Response – Every attempt will be made to develop an accounts receivable log with an accounts receivable listing generated at the end of each month. Attempts will be made to file a cost analysis as required, with billings to Medicare and Medicaid submitted in a timely fashion. We will attempt to keep an electronic log and/or paper log of monthly billings to Medicare and Medicaid.

Conclusion – Response accepted.

- (K) Public Health Department Mental Health Billings – The Mental Health Fund inappropriately paid \$3,124 to the Public Health Department during FY 04. This payment included charges for inappropriate clientele (NEST patients).

Recommendation – Services provided to NEST clients are not proper uses of mental health funding. The General Fund should reimburse the Mental Health Fund \$3,124.

Response – We agree the services provided to NEST clients are not allowable and \$3,124 should be repaid by the General Fund to the Mental Health Fund.

Conclusion – Response accepted.

Lucas 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.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted. Disbursements in the local health, road clearing and conservation land acquisition departments exceeded the amounts appropriated. Disbursements in the worker's comp department were exceeded before the appropriation was amended on February 9, 2004.

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

Response – In the future, we will keep a close eye on the amounts appropriated and try to amend before overspending.

Conclusion – Response accepted.

- (3) Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – No business transactions between the County and County officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to 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. Although the minutes were published, two of the four meetings tested were not published within 15 days as required by Chapter 349.18 of the Code of Iowa.

Recommendation – Minutes should be published as required by the Code of Iowa.

Response – In the future, Board minutes will be published in a timely manner.

Conclusion – Response accepted.

Lucas County

Schedule of Findings

Year ended June 30, 2004

- (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.

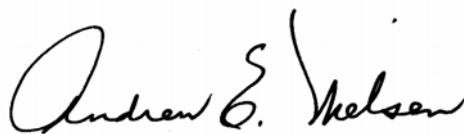
Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

Lucas County

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor II
Heather L. Templeton, Staff Auditor
Cheryl R. McNaught, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State