



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 22, 2005

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

The County had local tax revenue of \$22,004,355 for the year ended June 30, 2004, which included \$1,383,993 in tax credits from the state. The County forwarded \$15,126,414 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$6,877,941 of the local tax revenue to finance County operations, a 9 percent increase over the prior year. Other revenues included charges for service of \$1,324,315, operating grants, contributions and restricted interest of \$6,031,411, capital grants, contributions and restricted interest of \$1,304,177, local option sales tax of \$628,041, unrestricted investment earnings of \$270,728 and other general revenues of \$302,696.

Expenses for County operations totaled \$15,574,118, a 21 percent decrease from the prior year. Expenses included \$7,301,092 for roads and transportation, \$2,398,649 for public safety and \$1,976,654 for mental health.

The significant decrease in expenses is due primarily to an economic development loan to Midwest Grain Processors in the prior year.

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

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Kossuth County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert J. Cink	Board of Supervisors	Jan 2005
Eugene Elsbecker	Board of Supervisors	Jan 2005
Donald Besch	Board of Supervisors	Jan 2007
Lee Froehlich	Board of Supervisors	Jan 2007
Donald G. McGregor	Board of Supervisors	Jan 2007
Joann Bormann	County Auditor	Jan 2005
Nicholas P. Rahm	County Treasurer	Jan 2007
Karen Benschoter	County Recorder	Jan 2007
Paul Gronbach	County Sheriff	Jan 2005
Todd Holmes	County Attorney	Jan 2007
K. Donald Patton	County Assessor	Jan 2010

Kossuth County



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Independent Auditor's Report

To the Officials of Kossuth County:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Kossuth 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 Kossuth County's management. Our responsibility is to express opinions on these financial statements based on our audit.

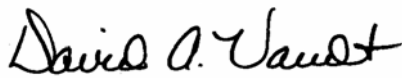
We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

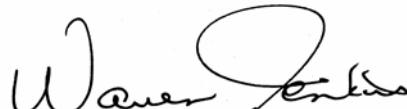
In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2004 on our consideration of Kossuth County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is 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 48 through 51 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 Kossuth 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 year ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2002 (which are not presented herein) were audited by other auditors who expressed a qualified opinion on those financial statements because of the omission of separate accounts maintained by the Sheriff's Office. The financial statements for the two years ended June 30, 2001 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8 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 for the year ended June 30, 2004.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Kossuth 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.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased 19.2%, or \$3,867,340, from fiscal 2003 to fiscal 2004. Property and other county tax increased \$533,728, operating grants and contributions decreased \$4,896,390 and capital grants and contributions increased \$786,601.
- Program expenses for governmental activities were 21.3%, or \$4,064,488, less in fiscal 2004 than in fiscal 2003. County environment and education expense decreased \$4,987,888 and roads and transportation expense increased \$788,710.
- The County's net assets increased 3%, or \$1,165,191, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased \$1,168,937 and the assets of the business type activities decreased by \$3,746.

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 Kossuth 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 Kossuth 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 Kossuth County acts solely as an agent or custodian for the benefit of those outside of the government.

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 Special Revenue and the individual Internal Service and 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 fiscal year. All changes in net assets are reported as soon as the event or 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.

In the Statement of Net Assets and the Statement of Activities, we have divided the County into two kinds of activities:

- **Governmental Activities** – Most of the County's basic services are reported here, such as 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 and interest on long-term debt. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** – The County charges fees to customers to cover the cost of these services. These activities include operation of the County Landfill.

Fund Financial Statements

The County has three kinds of funds:

1) **Governmental funds** account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These governmental funds include the General Fund and Special Revenue Funds, such as Mental Health, Rural Services, Secondary Roads and Midwest Grain Processors. 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 government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

2) **Proprietary funds** report services for which the County charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide financial statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements.

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

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for emergency management services, E911 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 described in Note 13 on page 45, beginning governmental activities net assets decreased by \$510,188 to correct accumulated depreciation and increased by \$71,411 to report a decrease in drainage warrants payable. To enhance comparability, all amounts presented for governmental and business type activities for fiscal year 2003 in this discussion and analysis were revised, where applicable, to reflect these changes as if the changes had been made in the prior year.

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following analysis shows the County's total net assets at June 30, 2004 and 2003.

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 19,032,860	18,608,677	979,412	1,059,155	20,012,272	19,667,832
Capital assets	34,442,513	34,148,900	787,036	636,323	35,229,549	34,785,223
Total assets	<u>53,475,373</u>	<u>52,757,577</u>	<u>1,766,448</u>	<u>1,695,478</u>	<u>55,241,821</u>	<u>54,453,055</u>
Long-term liabilities	6,026,792	6,764,767	639,454	548,278	6,666,246	7,313,045
Other liabilities	8,022,411	7,735,577	17,424	33,884	8,039,835	7,769,461
Total liabilities	<u>14,049,203</u>	<u>14,500,344</u>	<u>656,878</u>	<u>582,162</u>	<u>14,706,081</u>	<u>15,082,506</u>
Net assets:						
Invested in capital assets, net of related debt	33,673,958	32,938,804	710,791	636,323	34,384,749	33,575,127
Restricted	3,873,995	3,829,504	49,165	115,780	3,923,160	3,945,284
Unrestricted	1,878,217	1,488,925	349,614	361,213	2,227,831	1,850,138
Total net assets	<u>\$ 39,426,170</u>	<u>38,257,233</u>	<u>1,109,570</u>	<u>1,113,316</u>	<u>40,535,740</u>	<u>39,370,549</u>

Net assets of governmental activities increased from FY03 by \$1,168,937, or three percent. Net assets of business type activities decreased from FY03 by \$3,746, or less than one percent. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represents 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, legislation or other legal requirements, increased for governmental activities from \$1,488,925 at June 30, 2003 to \$1,878,217 at the end of this year, an increase of 26.1 percent.

The unrestricted net assets for business type activities decreased moderately from \$361,213 at June 30, 2003 to \$349,614 at the end of this year, a decrease of 3.2 percent.

The following analysis provides the changes in net assets for the County's governmental and business type activities for the years ended June 30, 2004 and 2003.

	Governmental Activities		Business type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program revenues:						
Charges for service	\$ 881,072	1,124,687	443,243	415,027	1,324,315	1,539,714
Operating grants, contributions and restricted interest	6,025,230	10,921,620	6,181	23,001	6,031,411	10,944,621
Capital grants, contributions and restricted interest	1,304,177	517,576	-	-	1,304,177	517,576
General revenues:						
Property and other county tax	6,472,480	5,938,752	-	-	6,472,480	5,938,752
Penalty and interest on property tax	55,761	99,039	-	-	55,761	99,039
State tax credits	405,461	384,738	-	-	405,461	384,738
Local option sales tax	628,041	616,651	-	-	628,041	616,651
Grants and contributions not restricted to specific purpose	30,911	213,612	-	-	30,911	213,612
Unrestricted investment earnings	247,432	108,815	23,296	35,594	270,728	144,409
Gain/loss disposition of capital assets	107,645	126,203	38,104	(1,907)	145,749	124,296
Miscellaneous	70,275	44,140	-	10,209	70,275	54,349
Total revenues	<u>16,228,485</u>	<u>20,095,833</u>	<u>510,824</u>	<u>481,924</u>	<u>16,739,309</u>	<u>20,577,757</u>
Program expenses:						
Public safety and legal services	2,398,649	2,305,553	-	-	2,398,649	2,305,553
Physical health and social services	377,889	476,267	-	-	377,889	476,267
Mental health	1,976,654	1,977,025	-	-	1,976,654	1,977,025
County environment and education	719,000	5,706,888	-	-	719,000	5,706,888
Roads and transportation	7,301,092	6,512,382	-	-	7,301,092	6,512,382
Governmental service to residents	488,533	410,967	-	-	488,533	410,967
Administration	1,325,272	1,259,193	-	-	1,325,272	1,259,193
Non-program	194,010	249,027	-	-	194,010	249,027
Interest on long-term debt	278,449	237,146	-	-	278,449	237,146
Landfill	-	-	514,570	476,801	514,570	476,801
Total expenses	<u>15,059,548</u>	<u>19,134,448</u>	<u>514,570</u>	<u>476,801</u>	<u>15,574,118</u>	<u>19,611,249</u>
Increase (decrease) in net assets	1,168,937	961,385	(3,746)	5,123	1,165,191	966,508
Net assets July 1, restated	<u>38,257,233</u>	<u>37,295,848</u>	<u>1,113,316</u>	<u>1,108,193</u>	<u>39,370,549</u>	<u>38,404,041</u>
Net assets June 30	<u>\$ 39,426,170</u>	<u>38,257,233</u>	<u>1,109,570</u>	<u>1,113,316</u>	<u>40,535,740</u>	<u>39,370,549</u>

Kossuth County's net assets of governmental activities increased by \$1,168,937 during the year. Revenues for governmental activities decreased by \$3,867,348 over the prior year, with property and other county tax up from the prior year by \$533,728, or 9.0 percent. The increase in property and other county tax was a result of an 11% increase in property tax rates for 2004.

The cost of all governmental activities this year was \$15,059,548 compared to \$19,134,448 last year. However, as shown in the Statement of Activities on pages 16 and 17, the amount taxpayers ultimately financed for these activities was only \$6,849,069 because some of the cost was paid by those directly benefited from the programs (\$881,072) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,329,407). Overall, the County's governmental activities program revenues, including intergovernmental aid and fees for services, decreased in 2004 from \$12,563,883 to \$8,210,479. The decreases in governmental activities expenses and program revenues are primarily due to prior year expenses for an ethanol plant project and the related revenue for a note receivable for the project received from Midwest Grain Processors Cooperative.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Kossuth County completed the year, its governmental funds reported a combined fund balance of \$5,636,472, an increase of \$188,081 above last year's total of \$5,448,391.

The General Fund, the operating fund for Kossuth County, ended FY04 with a fund balance of \$1,215,402, an increase of \$191,626 over FY03's ending balance of \$1,023,776. Revenues increased \$637,975 over the prior year and expenditures increased \$223,935 over the prior year. The increase in revenues was primarily a result of the County levying a general supplemental levy for the first time in FY04.

The Mental Health Fund ended FY04 with a \$953,099 balance, compared to the prior year balance of \$682,459. Revenues and expenditures remained relatively constant for the year.

The Rural Services Fund ended FY04 with a \$453,718 balance compared to the prior year ending balance of \$356,748. Revenues and expenditures remained relatively constant for the year.

The Secondary Roads Fund ended FY04 with a \$2,421,954 balance compared to the prior year ending balance of \$2,684,306. Capital project expenditures increased from FY03 by approximately \$285,000. Kossuth County maintained 1,118 miles of gravel, 37 miles of dirt and 500 miles of paved roads, as well as 285 bridges, with the resources of this fund.

The Midwest Grain Processors Fund ended the year with a balance of \$52,377 compared to the prior year ending balance of \$241,846. This fund accounts for debt service activity for loan repayments received from Midwest Grain Processors Cooperative and repayments of general obligation bonds issued by the County for the project.

INDIVIDUAL MAJOR BUSINESS TYPE ACTIVITY FUND ANALYSIS

The Landfill Fund ended FY04 with a \$1,109,570 net asset balance compared to the prior year ending net asset balance of \$1,113,316. Revenues and expenses remained relatively constant for the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Kossuth County amended the operating budget twice. The first amendment was made in December 2003 for various reasons as summarized: public safety and legal services for various grants, mental health for unemployment moved from administration, county environment for establishing an economic development revolving loan fund, roads and transportation for equipment, road clearing and edge painting and capital projects for conservation trees and a handicapped dock. The second amendment was made in May 2004 for various reasons as summarized: physical health and social services for board of health grants and treatment services, mental health reduced for unemployment, administration for audit costs and workers compensation, debt service for additional payments on the local option sales tax revenue bonds and capital projects for conservation trees.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY04, Kossuth County had \$34,442,513 invested in a broad range of capital assets used for governmental activities, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase of \$293,613, or less than one percent, over last year. The County had depreciation expense of \$2,713,919 for governmental activities in FY04 and total accumulated depreciation of \$33,682,983 at June 30, 2004.

At the end of FY04, Kossuth County had \$787,036 invested in capital assets used for business type activities. This is a net increase of \$150,713, or 23.7 percent over last year. The increase is a result of the purchase of a compactor and skid loader during the fiscal year. The County had depreciation expense of \$104,951 for business type activities in FY04 and total accumulated depreciation of \$691,163 at June 30, 2004.

Additional information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2004, the County's outstanding balance of general obligation bonds was \$4,741,882 compared to \$5,048,758 at June 30, 2003.

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the county's corporate limits. Kossuth County's outstanding general obligation debt is significantly below its constitutional debt limit of \$54 million. Other long-term debt outstanding at June 30, 2004 included \$768,555 of local option sales tax revenue bonds. The County paid principal of \$441,541 during the year ended June 30, 2004 on these bonds.

Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Kossuth County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that finance the various County services. One of the factors is the economy. Kossuth County experienced a loss of population of 5.1% between 1995 and 2000 that ranks first, or highest, among all counties in the state according to the 2000 census. Kossuth County had a family poverty rate of 7.5% that ranks 19th highest among all counties in the state according to the 2000 census.

These indicators were taken into account when adopting the budget for FY05. Amounts available for appropriation are \$15,539,482, a decrease of less than one percent from the final FY04 budget. The General Fund is budgeted to end FY05 with a balance of \$905,038.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Kossuth 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 Kossuth County Auditor's office, 114 West State Street, Algona, Iowa 50511.

Basic Financial Statements

Kossuth County
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business type Activities	Total
Assets			
Cash and pooled investments	\$ 5,815,624	331,768	6,147,392
Receivables:			
Property tax:			
Delinquent	18,911	-	18,911
Succeeding year	7,097,000	-	7,097,000
Interest and penalty on property tax	56,703	-	56,703
Accounts	2,801	39,704	42,505
Accrued interest	71,661	4,231	75,892
Drainage assessments:			
Current	112,131	-	112,131
Future	124,822	-	124,822
Notes	4,695,003	-	4,695,003
Due from other governments	648,800	3,709	652,509
Inventories	389,404	-	389,404
Restricted cash and pooled investments	-	600,000	600,000
Capital assets (net of accumulated depreciation)	34,442,513	787,036	35,229,549
Total assets	53,475,373	1,766,448	55,241,821
Liabilities			
Accounts payable	460,616	-	460,616
Accrued interest payable	79,046	-	79,046
Salaries and benefits payable	223,945	17,424	241,369
Due to other governments	161,804	-	161,804
Deferred revenue:			
Succeeding year property tax	7,097,000	-	7,097,000
Long-term liabilities:			
Portion due or payable within one year:			
Revenue bonds	209,158	-	209,158
General obligation bonds	440,000	-	440,000
Compensated absences	201,749	9,705	211,454
Drainage warrants	247,104	-	247,104
Installment purchase	-	33,042	33,042
Portion due or payable after one year:			
Revenue bonds	559,397	-	559,397
General obligation bonds (net of \$28,118 unamortized discount)	4,301,882	-	4,301,882
Compensated absences	67,502	2,669	70,171
Installment purchase	-	43,203	43,203
Estimated liability for landfill closure and postclosure care	-	550,835	550,835
Total liabilities	14,049,203	656,878	14,706,081

Kossuth County
 Statement of Net Assets
 June 30, 2004

	Governmental Activities	Business type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	33,673,958	710,791	34,384,749
Restricted for:			
Supplemental levy purposes	76,221	-	76,221
Mental health purposes	949,679	-	949,679
Secondary roads purposes	2,342,073	-	2,342,073
Debt service	177,923	-	177,923
Closure and postclosure care	-	49,165	49,165
Other purposes	328,099	-	328,099
Unrestricted	1,878,217	349,614	2,227,831
Total net assets	\$ 39,426,170	1,109,570	40,535,740

See notes to financial statements.

Kossuth County

Statement of Activities

Year ended June 30, 2004

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety and legal services	\$ 2,398,649	309,522	357,635	-
Physical health and social services	377,889	9,481	195,067	-
Mental health	1,976,654	-	1,112,067	-
County environment and education	719,000	30,983	64,266	30,000
Roads and transportation	7,301,092	84,984	3,978,302	1,274,177
Governmental services to residents	488,533	318,569	36,145	-
Administration	1,325,272	24,964	45,307	-
Non-program	194,010	102,569	131,724	-
Interest on long-term debt	278,449	-	104,717	-
Total governmental activities	15,059,548	881,072	6,025,230	1,304,177
Business type activities:				
Landfill	514,570	443,243	6,181	-
Total	\$ 15,574,118	1,324,315	6,031,411	1,304,177

General Revenues:

Property and other county tax levied for general purposes
 Penalty and interest on property tax
 State tax credits
 Local option sales tax
 Grants and contributions not restricted to specific purpose
 Unrestricted investment earnings
 Gain on disposal of capital assets
 Miscellaneous

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

See notes to financial statements.

Net (Expenses) Revenue and Changes in Net Assets		
Governmental Activities	Business type Activities	Total
(1,731,492)	-	(1,731,492)
(173,341)	-	(173,341)
(864,587)	-	(864,587)
(593,751)	-	(593,751)
(1,963,629)	-	(1,963,629)
(133,819)	-	(133,819)
(1,255,001)	-	(1,255,001)
40,283	-	40,283
(173,732)	-	(173,732)
(6,849,069)	-	(6,849,069)
-	(65,146)	(65,146)
(6,849,069)	(65,146)	(65,146)
6,472,480	-	6,472,480
55,761	-	55,761
405,461	-	405,461
628,041	-	628,041
30,911	-	30,911
247,432	23,296	270,728
107,645	38,104	145,749
70,275	-	70,275
8,018,006	61,400	8,079,406
1,168,937	(3,746)	1,165,191
38,257,233	1,113,316	39,370,549
\$ 39,426,170	1,109,570	40,535,740

Kossuth County
Balance Sheet
Governmental Funds

June 30, 2004

	General	Mental Health	Special Rural Services
Assets			
Cash and pooled investments	\$ 1,213,851	1,146,049	436,356
Receivables:			
Property tax:			
Delinquent	13,353	2,931	2,627
Succeeding year	4,352,000	955,000	1,790,000
Interest and penalty on property tax	56,703	-	-
Accounts	100	358	-
Accrued interest	19,688	-	-
Drainage assessments:			
Current	-	-	-
Future	-	-	-
Notes	-	-	-
Due from other funds	45,307	-	-
Due from other governments	118,077	30,420	19,111
Inventories	-	-	-
Total assets	\$ 5,819,079	2,134,758	2,248,094
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 40,417	59,157	546
Salaries and benefits payable	47,657	1,097	1,203
Due to other funds	1,906	45,307	-
Due to other governments	35,524	118,176	-
Deferred revenue:			
Succeeding year property tax	4,352,000	955,000	1,790,000
Other	126,173	2,922	2,627
Total liabilities	4,603,677	1,181,659	1,794,376
Fund balances:			
Reserved for:			
Inventories	-	-	-
Supplemental levy purposes	80,290	-	-
Drainage warrants	-	-	-
Debt service	-	-	-
Unreserved:			
Designated for nature center	124,164	-	-
Undesignated, reported in:			
General fund	1,010,948	-	-
Special revenue funds	-	953,099	453,718
Total fund balances	1,215,402	953,099	453,718
Total liabilities and fund balances	\$ 5,819,079	2,134,758	2,248,094

See notes to financial statements.

Revenue		Nonmajor	
Secondary Roads	Midwest Grain Processors	Special Revenue	Total
2,181,604	49,047	470,556	5,497,463
-	-	-	18,911
-	-	-	7,097,000
-	-	-	56,703
2,343	-	-	2,801
-	50,909	-	70,597
-	-	112,131	112,131
-	-	124,822	124,822
-	4,695,003	-	4,695,003
1,906	-	-	47,213
385,421	-	95,771	648,800
389,404	-	-	389,404
2,960,678	4,794,959	803,280	18,760,848
298,462	47,579	12,209	458,370
173,988	-	-	223,945
-	-	-	47,213
8,104	-	-	161,804
-	-	-	7,097,000
58,170	4,695,003	251,149	5,136,044
538,724	4,742,582	263,358	13,124,376
389,404	-	-	389,404
-	-	-	80,290
-	-	33,358	33,358
-	52,377	192,661	245,038
-	-	-	124,164
-	-	-	1,010,948
2,032,550	-	313,903	3,753,270
2,421,954	52,377	539,922	5,636,472
2,960,678	4,794,959	803,280	18,760,848

Kossuth County

Kossuth County

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

June 30, 2004

Total governmental fund balances (page 19) \$ 5,636,472

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 \$68,125,496 and the accumulated depreciation is \$33,682,983. 34,442,513

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 5,136,044

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 316,979

Long-term liabilities, including bonds payable, drainage warrants payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (6,105,838)

Net assets of governmental activities (page 15) \$ 39,426,170

See notes to financial statements.

Kossuth County

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

Year ended June 30, 2004

	General	Special	
		Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 3,492,601	1,071,236	2,036,543
Interest and penalty on property tax	57,781	-	-
Intergovernmental	870,483	1,168,264	117,913
Licenses and permits	5,150	-	-
Charges for service	552,837	-	-
Use of money and property	237,407	-	-
Miscellaneous	58,920	13,057	-
Total revenues	<u>5,275,179</u>	<u>2,252,557</u>	<u>2,154,456</u>
Expenditures:			
Operating:			
Public safety and legal services	2,339,538	-	-
Physical health and social services	371,569	-	-
Mental health	-	1,981,917	-
County environment and education	482,815	-	150,284
Roads and transportation	-	-	-
Governmental services to residents	483,952	-	-
Administration	1,287,253	-	-
Non-program	59,039	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>5,024,166</u>	<u>1,981,917</u>	<u>150,284</u>
Excess (deficiency) of revenues over (under) expenditures	<u>251,013</u>	<u>270,640</u>	<u>2,004,172</u>
Other financing sources (uses):			
Sale of capital assets	45,500	-	-
Operating transfers in	50,000	-	-
Operating transfers out	(154,887)	-	(1,907,202)
Drainage warrants issued	-	-	-
Total other financing sources (uses)	<u>(59,387)</u>	<u>-</u>	<u>(1,907,202)</u>
Net change in fund balances	191,626	270,640	96,970
Fund balances beginning of year	<u>1,023,776</u>	<u>682,459</u>	<u>356,748</u>
Fund balances end of year	<u>\$ 1,215,402</u>	<u>953,099</u>	<u>453,718</u>

See notes to financial statements.

Revenue		Nonmajor	
Secondary Roads	Midwest Grain Processors	Special Revenue	Total
-	-	503,459	7,103,839
-	-	-	57,781
3,946,110	-	10,891	6,113,661
325	-	-	5,475
955	-	20,413	574,205
28,944	539,714	217	806,282
57,626	-	251,571	381,174
4,033,960	539,714	786,551	15,042,417
-	-	-	2,339,538
-	-	-	371,569
-	-	-	1,981,917
-	47,579	-	680,678
5,192,082	-	-	5,192,082
-	-	-	483,952
-	-	-	1,287,253
-	-	-	59,039
-	631,604	635,951	1,267,555
1,197,570	-	182,218	1,379,788
6,389,652	679,183	818,169	15,043,371
(2,355,692)	(139,469)	(31,618)	(954)
31,251	-	-	76,751
2,062,089	-	-	2,112,089
-	(50,000)	-	(2,112,089)
-	-	112,284	112,284
2,093,340	(50,000)	112,284	189,035
(262,352)	(189,469)	80,666	188,081
2,684,306	241,846	459,256	5,448,391
2,421,954	52,377	539,922	5,636,472

Kossuth County

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

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 23) \$ 188,081

**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	\$ 1,672,461	
Capital assets contributed by the Iowa Department of Transportation	1,274,177	
Other capital asset contributions	30,000	
Depreciation expense	(2,713,919)	262,719

In the Statement of Activities, the gain on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. 30,894

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	(3,318)	
Note receivable	(384,997)	
Other	146,290	(242,025)

Bond and drainage warrant proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded amounts issued, as follows:

Issued	(112,284)	
Repaid	864,799	752,515

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(14,540)	
Accrued interest on long-term debt	124,307	109,767

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 66,986

Change in net assets of governmental activities (page 17) \$ 1,168,937

See notes to financial statements.

Kossuth County
Statement of Net Assets
Proprietary Funds

June 30, 2004

	Business type Activities Enterprise Fund - Landfill	Governmental Activities Internal Service Funds
Assets		
Current assets:		
Cash and pooled investments	\$ 331,768	318,161
Receivables:		
Accounts	39,704	-
Accrued interest	4,231	1,064
Due from other governments	3,709	-
Total current assets	<u>379,412</u>	<u>319,225</u>
Noncurrent assets:		
Restricted cash and pooled investments	600,000	-
Capital assets (net of accumulated depreciation)	787,036	-
Total noncurrent assets	<u>1,387,036</u>	<u>-</u>
Total assets	<u>1,766,448</u>	<u>319,225</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ -	2,246
Salaries and benefits payable	17,424	-
Installment purchase agreement	33,042	-
Compensated absences	9,705	-
Total current liabilities	<u>60,171</u>	<u>2,246</u>
Noncurrent liabilities:		
Estimated liability for landfill closure and postclosure care	550,835	-
Intallment purchase agreement	43,203	-
Compensated absences	2,669	-
Total noncurrent liabilities	<u>596,707</u>	<u>-</u>
Total liabilities	<u>656,878</u>	<u>2,246</u>
Net Assets		
Invested in capital assets, net of related debt	710,791	-
Restricted for closure and postclosure care	49,165	-
Unrestricted	349,614	316,979
Total net assets	<u>\$ 1,109,570</u>	<u>316,979</u>

See notes to financial statements.

Exhibit H

Kossuth County

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

Year ended June 30, 2004

	Business type Activities	Governmental Activities
	Enterprise Fund - Landfill	Internal Service Fund - Health Insurance
Operating revenues:		
Intergovernmental	\$ 6,181	-
Charges for service	433,014	-
Miscellaneous	10,229	129,482
Total operating revenues	<u>449,424</u>	<u>129,482</u>
Operating expenses:		
Governmental activities:		
Medical claims	-	64,765
Business type activities:		
Closure and postclosure care	14,975	-
Depreciation	104,951	-
Other	391,956	-
Total operating expenses	<u>511,882</u>	<u>64,765</u>
Operating income (loss)	<u>(62,458)</u>	<u>64,717</u>
Non-operating revenues (expenses):		
Interest income	23,296	2,269
Interest expense	(2,688)	-
Gain on disposal of capital asset	38,104	-
Total nonoperating revenues (expenses)	<u>58,712</u>	<u>2,269</u>
Change in net assets	(3,746)	66,986
Net assets beginning of year	<u>1,113,316</u>	<u>249,993</u>
Net assets end of year	<u>\$ 1,109,570</u>	<u>316,979</u>

See notes to financial statements.

Kossuth County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2004

	Business type Activities	Governmental Activities
	Enterprise Fund - Landfill	Internal Service Fund
Cash flows from operating activities:		
Cash received from operating fund reimbursements	\$ -	86,068
Cash received from customers and others	431,812	43,414
Cash received from operating grants	6,181	-
Cash paid to suppliers for services	(410,089)	(71,961)
Net cash provided by operating activities	<u>27,904</u>	<u>57,521</u>
Cash flows from investing activities:		
Interest on investments	31,312	1,885
Sale of investments	139,381	-
Net cash provided by investing activities	<u>170,693</u>	<u>1,885</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(117,385)	-
Installment purchase agreement principal paid	(23,930)	-
Installment purchase agreement interest paid	(2,688)	-
Net cash used for capital and related financing activities	<u>(144,003)</u>	<u>-</u>
Net increase in cash and cash equivalents	54,594	59,406
Cash and cash equivalents beginning of year	167,691	258,755
Cash and cash equivalents end of year	<u>\$ 222,285</u>	<u>318,161</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (62,458)	64,717
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	104,951	-
(Increase) in accounts and other receivables	(11,431)	-
(Decrease) in accounts payable and other current liabilities	(18,133)	(7,196)
Increase in liability for closure and postclosure care costs	14,975	-
Net cash provided by operating activities	<u>\$ 27,904</u>	<u>57,521</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:		
Current assets:		
Cash and pooled investments	331,768	318,161
Restricted assets:		
Cash and pooled investments	600,000	-
	<u>931,768</u>	<u>318,161</u>
Less items not meeting the definition of a cash equivalent:		
Certificates of deposit	(709,483)	-
Cash and cash equivalents end of year	<u>\$ 222,285</u>	<u>318,161</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, \$100,175 of capital assets were acquired through a lease purchase agreement.

See notes to financial statements.

Kossuth County

Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2004

Assets

Cash and pooled investments:

County Treasurer	\$ 983,665
Other county officials	14,691

Receivables:

Property tax:

Delinquent	55,785
Succeeding year	14,164,000

Accounts	15,177
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Accrued interest	256
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Special assessments	58,622
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Drainage assessments:

Current	11,253
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Future	905,969
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Due from other governments	3,139
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Total assets	<u>16,212,557</u>
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Liabilities

Accounts payable	12,278
------------------	--------

Drainage warrants payable	916,742
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Salaries and benefits payable	848
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Due to other governments	15,267,642
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Trusts payable	1,290
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Compensated absences	13,757
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Total liabilities	<u>16,212,557</u>
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Net assets	<u>\$ -</u>
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See notes to financial statements.

Kossuth County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

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

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Five hundred fifty two drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from the agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Kossuth County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. The County has other drainage districts that are managed and supervised by elected trustees. The financial transactions of these districts are reported as an Agency Fund. Financial information of the individual drainage districts can be obtained from the Kossuth County Auditor's office.

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: Kossuth County Assessor’s Conference Board, Kossuth County Emergency Management Commission and Kossuth County Joint E911 Service Board. Financial transactions of these organizations are included in the County’s financial statements only to the extent of the County’s fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

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, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

The Midwest Grain Processors Fund is used to account for debt issued for an economic development loan to be repaid by the processing plant.

The County reports the following major proprietary fund:

The Landfill Fund is used to account for the operation of the County's sanitary landfill.

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be

susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

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

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

The proprietary funds of the County apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the County's Enterprise Fund is charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. The principal operating revenues of the County's Internal Service Fund are reimbursements from County departments for self insurance costs and payments from employers for flexible benefit contributions. Operating expenses for the Internal Service Fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at

the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2004 included certificates of deposits of \$709,483 with maturity dates longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2003.

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

Special Assessments Receivable – Special assessments receivable represent amounts assessed to individuals for work done that 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 are due and payable but have not been collected.

Drainage Assessments Receivable – Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit 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. Current drainage assessments receivable represent assessments which are due and payable but have not been collected. Future drainage assessments receivable represents remaining assessments which are payable but not yet due.

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	\$ 50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

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

Asset Class	Estimated Useful lives (In Years)
Buildings	25 - 50
Other improvements	10 - 50
Infrastructure	10 - 65
Equipment	3 - 20
Vehicles	3 - 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 property tax receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund 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 and Secondary Roads Funds.

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

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

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

Unrestricted Net Assets – The unrestricted net assets of the Internal Service Fund are designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

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

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

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$131,677 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
General	Special Revenue: Mental Health	\$ 45,307
Special Revenue: Secondary Roads	General	1,906
Total		<u>\$ 47,213</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
General	Special Revenue: Midwest Grain Processors	\$ 50,000
Special Revenue: Secondary Roads	General	154,887
	Special Revenue: Rural Services	1,907,202
Total		<u>\$ 2,112,089</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 13)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,397,166	-	-	1,397,166
Construction in progress, road network	54,766	2,453,838	(2,380,884)	127,720
Total capital assets not being depreciated	1,451,932	2,453,838	(2,380,884)	1,524,886
Capital assets being depreciated:				
Buildings	6,054,920	-	(771,586)	5,283,334
Improvements other than buildings	202,480	30,000	(76,293)	156,187
Equipment and vehicles	10,361,637	563,091	(384,564)	10,540,164
Infrastructure, road network	48,240,041	2,380,884	-	50,620,925
Total capital assets being depreciated	64,859,078	2,973,975	(1,232,443)	66,600,610
Less accumulated depreciation for:				
Buildings	2,204,654	114,314	(771,586)	1,547,382
Improvements other than buildings	72,185	7,881	(57,980)	22,086
Equipment and vehicles	5,872,785	720,990	(363,480)	6,230,295
Infrastructure, road network	24,012,486	1,870,734	-	25,883,220
Total accumulated depreciation	32,162,110	2,713,919	(1,193,046)	33,682,983
Total capital assets being depreciated, net	32,696,968	260,056	(39,397)	32,917,627
Governmental activities capital assets, net	\$ 34,148,900	2,713,894	(2,420,281)	34,442,513
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 261,000	-	-	261,000
Capital assets being depreciated:				
Buildings	246,630	-	-	246,630
Equipment and vehicles	859,633	293,473	(182,537)	970,569
Total capital assets being depreciated	1,106,263	293,473	(182,537)	1,217,199
Less accumulated depreciation for:				
Buildings	76,208	8,584	-	84,792
Equipment and vehicles	654,732	96,367	(144,728)	606,371
Total accumulated depreciation	730,940	104,951	(144,728)	691,163
Total capital assets being depreciated, net	375,323	188,522	(37,809)	526,036
Business type activities capital assets, net	\$ 636,323	188,522	(37,809)	787,036

Depreciation expense was charged to the following functions:

Governmental activities:		
Public safety and legal services		\$ 113,190
Physical health and social services		15,112
Mental health		5,603
County environment and education		13,089
Roads and transportation		2,510,746
Governmental services to residents		8,871
Administration		47,308
		<u>47,308</u>
Total depreciation expense - governmental activities		<u>\$ 2,713,919</u>
Business type activities:		
Landfill		\$ 104,951
		<u>104,951</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:

Fund	Description	Amount
General	Services	\$ 35,524
Special Revenue:		
Mental Health	Services	118,176
Secondary Roads	Services	8,104
		<u>126,280</u>
Total for governmental funds		<u>\$ 161,804</u>
Agency:		
County Offices	Collections	\$ 13,916
Agricultural Extension Education		72,715
County Assessor		432,978
Schools		9,910,814
Community Colleges		564,088
Corporations		3,162,104
Townships		278,743
County Hospital		286,814
Special Assessments		59,299
Auto License and Use Tax		332,882
Drainage Districts		71,506
All other		81,783
		<u>81,783</u>
Total for agency funds		<u>\$ 15,267,642</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:

Governmental Activities:	Local Option	General	Compen-	Drainage	Total
	Sales Tax Revenue Bonds	Obligation Bonds	sated Absences	Warrants	
Balance beginning of year, as restated	\$ 1,210,096	5,048,758	254,711	251,202	6,764,767
Increases	-	3,124	193,181	112,284	308,589
Decreases	441,541	310,000	178,641	116,382	1,046,564
Balance end of year	\$ 768,555	4,741,882 (a)	269,251	247,104	6,026,792
Due within one year	\$ 209,158	440,000	201,749	247,104	1,098,011

(a) Net of unamortized bond discount of \$28,118

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

Balance June 30, 2003, as previously reported	\$ 6,836,178
Drainage warrants payable decreased due to reclassification of certain trustee controlled drainage districts previously reported as Special Revenue Funds	<u>(71,411)</u>
Balance July 1, 2003, as restated	<u>\$ 6,764,767</u>

Business type Activities:	Landfill	Compen-	Installment	Total
	Closure and Postclosure Care	sated Absences	Purchase Agreement	
Balance beginning of year	\$ 535,860	12,418	-	548,278
Increases	14,975	8,756	100,175	123,906
Decreases	-	8,800	23,930	32,730
Balance end of year	\$ 550,835	12,374	76,245	639,454
Due within one year	\$ -	9,705	33,042	42,747

Local Option Sales Tax Revenue Bonds

A summary of the County's June 30, 2004 revenue bond indebtedness is as follows:

Year ending June 30,	Local Option Sales Tax Revenue Bonds			
	Issued Sep 30, 2001			
	Interest Rates	Principal	Interest	Total
2005	5.40%	\$ 209,158	36,376	245,534
2006	5.40	220,736	24,797	245,533
2007	5.40	232,956	12,578	245,534
2008	5.40	105,705	1,475	107,180
Total		\$ 768,555	75,226	843,781

During the year ended June 30, 2004, the County retired \$441,541 of revenue bonds.

The local option sales tax revenue bonds were issued for the purpose of defraying a portion of the costs of the construction of a law enforcement center. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the County in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

The resolution providing for the issuance of the local option sales tax revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from future local option sales tax revenues and the bond holders hold a lien on the future local option tax sales revenues.
- (b) Eighty percent of the local option sales tax revenues received by the County annually shall be deposited to the Special Revenue, Local Option Sales Tax Revenue Bond Fund for the repayment of principal and interest on the bonds.

The amounts credited to the Local Option Sales Tax Revenue Bond Fund during the fiscal year were sufficient to comply with the revenue bond resolution.

General Obligation Bonds

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

Year ending June 30,	General Obligation Economic Development Bonds			
	Issued Dec 1, 2002			
	Interest Rates	Principal	Interest	Total
2005	3.50%	\$ 440,000	203,252	643,252
2006	3.50	460,000	187,852	647,852
2007	3.50	480,000	171,752	651,752
2008	3.90	505,000	154,952	659,952
2009	4.20	525,000	135,258	660,258
2010-2013	4.50-5.00	2,360,000	294,312	2,654,312
Total		\$ 4,770,000	1,147,378	5,917,378

During the year ended June 30, 2004, the County retired \$310,000 of the bonds.

On December 1, 2002, the County issued \$5,080,000 of general obligation economic development bonds for the purpose of providing funds to make an economic development loan to Midwest Grain Processors Corporation (MGPC) to construct an ethanol plant. Upon closing, the County remitted \$5,000,000 to MGPC and retained the remaining bond proceeds to pay expenses incurred to issue the bonds. The County also received a \$100,000 railroad grant from the Iowa Department of Transportation which was remitted to MGPC pursuant to the grant agreement.

The County received a note for \$5,080,000 from MGPC. The County will use the principal and interest received from MGPC to make the principal and interest payments on the general obligation economic development bonds as they come due. The note receivable from MGPC bears interest at 6.506% per annum and requires quarterly payments beginning August 1, 2003 in the following amounts:

August 1, 2003 through May 1, 2004	\$	201,442
August 1, 2004 through May 1, 2005		187,586
August 1, 2005 through May 1, 2006		185,429
August 1, 2006 through May 1, 2007		182,947
August 1, 2007 and November 1, 2007		181,390

The remaining principal of the note, plus accrued interest, is due in full on December 31, 2007. During the year ended June 30 2004, the County received \$539,714 principal and interest on the note.

The note receivable from MGPC is secured through a mortgage between MGPC and the County. The mortgage provides the County with a security interest in the land, buildings, personal property and revenues of MGPC. The County has also entered into a subordination agreement with MGPC and the Iowa Department of Economic Development (IDED) which makes certain debt owed to IDED from MGPC subordinate to the County's note receivable.

Drainage Warrants

Drainage warrants are warrants which are legally drawn on drainage district funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented. Warrants will be paid as funds are available.

Drainage warrants are paid from the Special Revenue Fund solely from drainage assessments against benefited properties.

Closure and Postclosure Care Costs

To comply with federal and state regulations, the County is required to complete a monitoring system plan, a closure/postclosure plan and to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year postclosure care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs consist of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually for changes due to inflation or deflation, technology or applicable laws or regulations.

The total costs for Kossuth County have been estimated at \$141,564 for closure and \$751,200 for postclosure, for a total of \$892,764 as of June 30, 2004, and the portion

of the liability that has been recognized is \$550,835. This liability represents the cumulative amount reported to date based on the use of approximately 62 percent of the capacity of the landfill with a remaining life of eighteen years. A provision for the above liability has been made on the County's Enterprise Fund Statement of Net Assets as of June 30, 2004.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure accounts to accumulate resources for the payment of closure and postclosure care costs. The County has begun to accumulate resources to fund these costs and, at June 30, 2004, deposits of \$600,000 are held for these purposes, of which \$150,000 has been reserved for closure and \$450,000 for postclosure care. They are reported as restricted assets and restricted net assets on the Statement of Net Assets.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and postclosure costs are not fully funded, the County is required to demonstrate financial assurance for the unfunded costs. The County has adopted the local government financial test mechanism. Under this mechanism, the County must certify the following to the Iowa Department of Natural Resources:

- A ratio of cash and investments to total expenditures of greater than or equal to .05 for the previous two fiscal years.
- A ratio of annual debt service to total expenditures less than or equal to .20 for the previous two fiscal years.
- The County's financial statements are prepared in accordance with U.S. generally accepted accounting principles.
- The County is not in default on any outstanding general obligation bonds.
- The County has no outstanding general obligation bonds rated lower than Baa.
- The County did not operate at a deficit equal to 5 percent or more of total annual revenue in each of the past two fiscal years.
- The County did not receive an adverse opinion or disclaimer of opinion on its financial statements in each of the past two fiscal years.

The County has demonstrated compliance with the above requirements, except for fiscal years ended June 30, 2003 and June 30, 2002 the deficit of revenues under expenditures was greater than 5 percent. The Iowa Department of Natural Resources has formally accepted this variance as acceptable.

Installment Purchase Agreement

On September 1, 2003, the County entered into an agreement with Ziegler, Inc. to purchase a compactor for the landfill. Beginning October 1, 2003, the County was required to make monthly payments of \$2,958, including interest at 4% per annum. A summary of the payments due at June 30, 2004 is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	4.00%	\$ 33,042	2,448	35,490
2006	4.00	34,389	1,102	35,491
2007	4.00	8,814	59	8,873
Total		\$ 76,245	3,609	79,854

Payments under the agreement for the year ended June 30, 2004 totaled \$26,618.

(8) Economic Development Loan

During the year ended June 30, 2004, the County sold the County Care Facility to Rabiner Treatment Center for \$90,000. Under the Agreement, \$40,000 was paid to the County with the balance of \$50,000 considered an interest-free economic development loan from the County to Rabiner Treatment Center. The loan is payable to the County November 1, 2006. However, the balance due shall be reduced by \$1,000 for each staff position created by Rabiner Treatment Center at the facility. Because the amount to be paid to the County is not known, a receivable has not been included in the County's financial statements at June 30, 2004.

(9) 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 \$242,483, \$234,164 and \$225,366, respectively, equal to the required contributions for each year.

(10) Risk Management

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

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2004 were \$217,619.

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

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

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

The County also carries commercial insurance purchased from other insurers for coverage associated with employee blanket bond and workers compensation in the amount of \$20,000 (\$50,000 for certain employees) and \$1,000,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employee Health Insurance Plan

The Self Insurance Fund was established to account for the partial self-funding of the County's health insurance benefit plan. The plan is funded by County contributions and is administered by the County. Under the plan, the County reimburses employees for a portion of the deductible. The amount of the deductibles for employees and the County are as follows:

	<u>Single</u>	<u>Family</u>
Employee	\$ 100	200
County	400	800

Monthly payments of plan contributions to the Self Insurance Fund are recorded as expenditures from the operating funds. The County's contribution to the fund for the year June 30, 2004 was \$86,068. The County records the plan assets and related liabilities of the Self Insurance Fund as an Internal Service Fund. The amounts payable at June 30, 2004 for the incurred but not reported (IBNR) claims have been estimated but have not been actuarially determined since the County has not obtained an actuarial opinion as required by Chapter 509A.15 of the Code of Iowa.

(12) Pending Litigation

The County is a defendant in certain lawsuits seeking unspecified damages. The probability of loss, if any, is indeterminable.

(13) Restatement

Beginning net assets for governmental activities has been restated due to errors in reporting of accumulated depreciation in the prior year and adjustments for the reclassification of certain drainage districts from a Special Revenue Fund to an Agency Fund. The restatements decreased the beginning net assets by \$438,777, as follows:

	<u>Amount</u>
Net assets June 30, 2003, as previously reported	\$ 38,696,010
Correction of prior year accumulated depreciation	(510,188)
Drainage warrants payable decreased due to reclassification of certain trustee controlled drainage districts previously reported as Special Revenue Funds	<u>71,411</u>
Net assets July 1, 2003, as restated	<u>\$ 38,257,233</u>

Kossuth County

Required Supplementary Information

Kossuth County

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

Required Supplementary Information

Year ended June 30, 2004

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property and other county tax	\$ 7,104,472	-
Interest and penalty on property tax	57,856	-
Intergovernmental	6,056,581	-
Licenses and permits	5,485	-
Charges for service	574,175	-
Use of money and property	949,868	-
Miscellaneous	396,323	198,292
Total receipts	<u>15,144,760</u>	<u>198,292</u>
Disbursements:		
Public safety and legal services	2,393,075	-
Physical health and social services	359,963	-
Mental health	1,864,307	-
County environment and education	628,893	-
Roads and transportation	5,128,506	-
Governmental services to residents	484,436	-
Administration	1,321,884	-
Non-program	198,971	140,417
Debt service	1,127,138	-
Capital projects	1,425,586	124,801
Total disbursements	<u>14,932,759</u>	<u>265,218</u>
Excess (deficiency) of receipts over (under) disbursements	212,001	(66,926)
Other financing sources, net	<u>195,035</u>	<u>112,284</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	407,036	45,358
Balance beginning of year	<u>5,090,427</u>	<u>167,254</u>
Balance end of year	<u>\$ 5,497,463</u>	<u>212,612</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
7,104,472	7,007,403	7,125,403	(20,931)
57,856	21,100	21,100	36,756
6,056,581	5,890,211	6,043,811	12,770
5,485	3,850	3,850	1,635
574,175	428,780	428,780	145,395
949,868	241,600	947,368	2,500
198,031	71,835	134,835	63,196
14,946,468	13,664,779	14,705,147	241,321
2,393,075	2,528,923	2,561,923	168,848
359,963	321,806	452,406	92,443
1,864,307	2,228,311	2,252,811	388,504
628,893	588,040	638,040	9,147
5,128,506	4,905,000	5,155,000	26,494
484,436	555,468	555,468	71,032
1,321,884	1,514,111	1,501,836	179,952
58,554	59,036	59,036	482
1,127,138	1,034,354	1,129,354	2,216
1,300,785	1,337,500	1,354,500	53,715
14,667,541	15,072,549	15,660,374	992,833
278,927	(1,407,770)	(955,227)	1,234,154
82,751	805,868	45,600	37,151
361,678	(601,902)	(909,627)	1,271,305
4,923,173	3,200,091	4,923,172	1
5,284,851	2,598,189	4,013,545	1,271,306

Kossuth 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	\$ 15,144,760	102,343	15,042,417
Expenditures	14,932,759	(110,612)	15,043,371
Net	212,001	212,955	(954)
Other financing sources, net	195,035	6,000	189,035
Beginning fund balances	5,090,427	(357,964)	5,448,391
Ending fund balances	\$ 5,497,463	(139,009)	5,636,472

See accompanying independent auditor's report.

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$587,825. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

Kossuth County

Other Supplementary Information

Kossuth County
 Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2004

	County Recorder's Records Management	Resource Enhancement and Protection
Assets		
Cash and pooled investments	\$ 28,320	48,747
Receivables:		
Drainage assessments:		
Current	-	-
Future	-	-
Due from other governments	-	-
	\$ 28,320	48,747
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	\$ -	-
Deferred revenue - other	-	-
Total liabilities	-	-
Fund equity:		
Fund balances:		
Reserved for:		
Drainage warrants	-	-
Debt service	-	-
Unreserved	28,320	48,747
Total fund equity	28,320	48,747
	\$ 28,320	48,747

See accompanying independent auditor's report.

Drainage Districts	Local Option Sales Tax Revenue Bond	County Recorder's Electronic Transaction Fee	Conservation Land Acquisition	Total
212,612	111,086	15,653	54,138	470,556
112,131	-	-	-	112,131
124,822	-	-	-	124,822
-	81,575	14,196	-	95,771
449,565	192,661	29,849	54,138	803,280
2,725	-	-	9,484	12,209
236,953	-	14,196	-	251,149
239,678	-	14,196	9,484	263,358
33,358	-	-	-	33,358
-	192,661	-	-	192,661
176,529	-	15,653	44,654	313,903
209,887	192,661	15,653	44,654	539,922
449,565	192,661	29,849	54,138	803,280

Kossuth County

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

Year ended June 30, 2004

	County Recorder Records Management	Resource Enhancement and Protection
Revenues:		
Property and other county tax:		
Local option sales tax	\$ -	-
Intergovernmental	-	10,891
Charges for service	4,760	-
Use of money and property	72	145
Miscellaneous	-	-
Total revenues	<u>4,832</u>	<u>11,036</u>
Expenditures:		
Debt service	-	-
Capital projects	-	2,261
Total expenditures	<u>-</u>	<u>2,261</u>
Excess (deficiency) of revenues over (under) expenditures	4,832	8,775
Other financing sources:		
Drainage warrants issued	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	4,832	8,775
Fund balances beginning of year	<u>23,488</u>	<u>39,972</u>
Fund balances end of year	<u>\$ 28,320</u>	<u>48,747</u>

See accompanying independent auditor's report.

Special Revenue					
Drainage Districts	Local Option Sales Tax Revenue Bond	County Recorder Electronic Transaction Fee	Conservation Land Acquisition		Total
-	503,459	-	-		503,459
-	-	-	-		10,891
-	-	15,653	-		20,413
-	-	-	-		217
198,292	-	-	53,279		251,571
198,292	503,459	15,653	53,279		786,551
140,417	495,534	-	-		635,951
124,730	-	-	55,227		182,218
265,147	495,534	-	55,227		818,169
(66,855)	7,925	15,653	(1,948)		(31,618)
112,284	-	-	-		112,284
45,429	7,925	15,653	(1,948)		80,666
164,458	184,736	-	46,602		459,256
209,887	192,661	15,653	44,654		539,922

Schedule 3

Kossuth County

Combining Statement of Net Assets
Internal Service Funds

June 30, 2004

	Self Insurance	Employee Flexible Benefit Plan	Total
Assets			
Current assets:			
Cash and pooled investments	\$ 317,818	343	318,161
Accrued interest receivable	1,064	-	1,064
Total assets	318,882	343	319,225
Liabilities			
Current liabilities:			
Accounts payable	2,246	-	2,246
Net Assets			
Unrestricted	\$ 316,636	343	316,979

See accompanying independent auditor's report.

Kossuth County
 Combining Statement Revenues, Expenses and
 Changes in Fund Net Assets
 Internal Service Funds

Year ended June 30, 2004

	Self Insurance	Employee Flexible Benefit Plan	Total
Operating revenues:			
Miscellaneous	\$ 86,095	43,387	129,482
Operating expenses:			
Governmental activities:			
Medical claims	21,721	43,044	64,765
Operating income	64,374	343	64,717
Non-operating revenues:			
Interest income	2,269	-	2,269
Net income	66,643	343	66,986
Net assets beginning of year	249,993	-	249,993
Net assets end of year	\$ 316,636	343	316,979

See accompanying independent auditor's report.

Schedule 5

Kossuth County
Combining Statement of Cash Flows
Internal Service Funds

Year ended June 30, 2004

	Self Insurance	Employee Flexible Benefit Plan	Total
Cash flows from operating activities:			
Cash received from operating funds	\$ 86,068	-	86,068
Cash received from employees and others	27	43,387	43,414
Cash paid to suppliers for services	(28,917)	(43,044)	(71,961)
Net cash provided by operating activities	57,178	343	57,521
Cash flows from investing activities:			
Interest on investments	1,885	-	1,885
Net increase in cash and cash equivalents	59,063	343	59,406
Cash and cash equivalents at beginning of year	258,755	-	258,755
Cash and cash equivalents at end of year	\$ 317,818	343	318,161
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 64,374	343	64,717
Adjustment to reconcile operating income to net cash provided by operating activities:			
Changes in assets and liabilities:			
(Decrease) in accounts payable	(7,196)	-	(7,196)
Net cash provided by operating activities	\$ 57,178	343	57,521

See accompanying independent auditor's report.

Kossuth County

Kossuth County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corpor- ations
Assets						
Cash and pooled investments:						
County Treasurer	\$ -	1,499	188,985	226,490	13,393	61,557
Other county officials	13,916	-	-	-	-	-
Receivables:						
Property tax:						
Delinquent	-	216	781	29,324	1,695	22,547
Succeeding year	-	71,000	255,000	9,655,000	549,000	3,078,000
Accounts	515	-	-	-	-	-
Accrued interest	-	-	2	-	-	-
Special assessments	-	-	-	-	-	-
Drainage assessments:						
Current	-	-	-	-	-	-
Future	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Total assets	\$ 14,431	72,715	444,768	9,910,814	564,088	3,162,104
Liabilities						
Liabilities:						
Accounts payable	\$ -	-	1,046	-	-	-
Drainage warrants payable	-	-	-	-	-	-
Salaries and benefits payable	-	-	-	-	-	-
Due to other governments	13,916	72,715	432,978	9,910,814	564,088	3,162,104
Trusts payable	515	-	-	-	-	-
Compensated absences	-	-	10,744	-	-	-
Total liabilities	\$ 14,431	72,715	444,768	9,910,814	564,088	3,162,104

See accompanying independent auditor's report.

Townships	County Hospital	Special Assessments	Auto License and Use Tax	Drainage Districts	Other	Total
5,391	5,954	677	332,882	71,546	75,291	983,665
-	-	-	-	-	775	14,691
352	860	-	-	-	10	55,785
273,000	280,000	-	-	-	3,000	14,164,000
-	-	-	-	-	14,662	15,177
-	-	-	-	-	254	256
-	-	58,622	-	-	-	58,622
-	-	-	-	11,253	-	11,253
-	-	-	-	905,969	-	905,969
-	-	-	-	-	3,139	3,139
278,743	286,814	59,299	332,882	988,768	97,131	16,212,557
-	-	-	-	520	10,712	12,278
-	-	-	-	916,742	-	916,742
-	-	-	-	-	848	848
278,743	286,814	59,299	332,882	71,506	81,783	15,267,642
-	-	-	-	-	775	1,290
-	-	-	-	-	3,013	13,757
278,743	286,814	59,299	332,882	988,768	97,131	16,212,557

Kossuth County
Combining Schedule Changes in Fiduciary Assets and Liabilities
Agency Funds

Year Ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corpora- tions
Assets and Liabilities						
Balances beginning of year	\$ 13,473	71,634	393,363	10,718,504	641,899	3,010,793
Additions:						
Property and other county tax	-	71,336	255,066	9,669,422	550,312	3,042,635
E911 surcharge	-	-	-	-	-	-
State tax credits	-	4,476	15,722	672,487	40,010	212,359
Drivers license fees	-	-	-	-	-	-
Office fees and collections	495,745	-	-	-	-	-
Electronic transaction fee	-	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-	-
Assessments	-	-	-	-	-	-
Trusts	86,755	-	-	-	-	-
Miscellaneous	-	77	1,111	10,750	696	927
Total additions	582,500	75,889	271,899	10,352,659	591,018	3,255,921
Deductions:						
Agency remittances:						
To other funds	367,398	-	-	-	-	-
To other governments	122,205	74,808	220,494	11,160,349	668,829	3,104,610
Trusts paid out	91,939	-	-	-	-	-
Total deductions	581,542	74,808	220,494	11,160,349	668,829	3,104,610
Balances end of year	\$ 14,431	72,715	444,768	9,910,814	564,088	3,162,104

See accompanying independent auditor's report.

Townships	County Hospital	Special Assessments	Driver's License Tust	Auto License and Use Tax	Drainage Districts	Other	Total
261,669	285,492	176	-	319,304	395,146	100,193	16,211,646
275,203	280,466	-	-	-	-	3,442	14,147,882
-	-	-	-	-	-	73,145	73,145
15,474	17,785	-	-	-	-	219	978,532
-	-	-	136,914	-	-	-	136,914
-	-	-	-	-	-	-	495,745
-	-	-	-	-	-	30,835	30,835
-	-	-	-	4,116,297	-	201	4,116,498
-	-	71,852	-	-	287,474	-	359,326
-	-	-	-	-	-	215,259	302,014
402	305	-	-	-	91,856	55,475	161,599
291,079	298,556	71,852	136,914	4,116,297	379,330	378,576	20,802,490
-	-	-	-	158,043	-	-	525,441
274,005	297,234	12,729	136,914	3,944,676	702,450	167,154	20,886,457
-	-	-	-	-	-	214,484	306,423
274,005	297,234	12,729	136,914	4,102,719	702,450	381,638	21,718,321
278,743	286,814	59,299	-	332,882	72,026	97,131	15,295,815

Schedule 8

Kossuth County

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

For the Last Five Years

	Modified Accrual Basis				
	2004	2003	2002	2001	2000
Revenues:					
Property and other county tax	\$ 7,103,839	6,547,021	6,570,974	5,877,975	5,233,031
Interest and penalty on property tax	57,781	40,346	40,949	29,282	34,125
Intergovernmental	6,113,661	6,434,824	5,928,369	5,980,505	5,964,054
Licenses and permits	5,475	8,695	3,740	3,815	4,203
Charges for service	574,205	540,219	631,946	523,891	533,118
Use of money and property	806,282	384,202	179,658	304,967	317,043
Miscellaneous	381,174	520,849	372,802	459,245	525,306
Total	\$ 15,042,417	14,476,156	13,728,438	13,179,680	12,610,880
Expenditures:					
Operating:					
Public safety and legal services	\$ 2,339,538	2,217,988	1,822,640	1,449,978	1,198,177
Physical health and social services	371,569	455,870	483,383	496,697	539,622
Mental health	1,981,917	1,972,111	2,288,015	2,440,131	2,191,322
County environment and education	680,678	5,667,513	507,544	543,782	426,373
Roads and transportation	5,192,082	5,024,615	5,030,718	4,662,050	4,473,660
Governmental services to residents	483,952	397,752	421,578	408,030	375,259
Administration	1,287,253	1,255,880	1,182,054	1,095,437	1,080,501
Non-program	59,039	56,464	53,494	42,731	32,930
Debt service	1,267,555	824,949	2,502,379	-	133,300
Capital projects	1,379,788	1,148,667	1,895,981	4,300,031	2,793,211
Total	\$ 15,043,371	19,021,809	16,187,786	15,438,867	13,244,355

See accompanying independent auditor's report.

Kossuth County

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



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

To the Officials of Kossuth County:

We have audited the financial statements of Kossuth County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (11), (12) and (14).

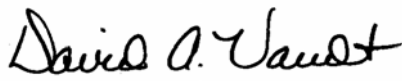
Internal Control Over Financial Reporting

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

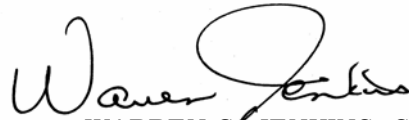
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected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

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

December 15, 2004

Kossuth County

Kossuth 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 cash and checks received is not prepared. Receipt collecting, recording and depositing duties are not segregated.	Treasurer and Sheriff
(2) Checks are not signed by an individual who does not otherwise participate in the preparation of the checks. The checks and supporting documentation are not reviewed for propriety. The checks are not mailed without allowing them to return to individuals who prepared the check or approved the payment.	Treasurer
(3) Payroll warrants are not signed by an individual who does not otherwise participate in the preparation of the checks or warrants. The checks or warrants and supporting documentation are not reviewed for propriety. After signing, the checks or warrants are not mailed or distributed without allowing them to return to individuals who prepared the checks or warrants or approved vouchers for payment.	Auditor
(4) Bank accounts are not reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.	Treasurer, Sheriff and Central Point of Coordination
(5) Detailed investment records are not maintained by a person who is not the custodian of the investments.	Treasurer

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.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

County Auditor Response – We can try to have another person print checks or help in the preparation of and review the payroll register.

County Treasurer Response –

- (1) With the amount of mail and the amount of employees in the Treasurer's Office, it makes it very difficult to segregate some of these duties. We will do the best we can to comply with this condition by doing spot checking on checks and cash received in the mail and making sure they are deposited properly.
- (2) After the conclusion of last years audit, the person who prepares the checks does not sign them. When a check is written there is verbal explanation and in some cases a paper document supporting the reason for the disbursement. After signing the check we will not allow the person who prepares them to send them out.
- (4) The reconciliation of bank statements will be reviewed by someone other than the one who performs them.
- (5) Investment records will be reviewed by someone who does not maintain the investment register.

County Sheriff Response – We have implemented or are currently working to implement the auditor's recommendations.

Central Point of Coordination Response – The Kossuth County CPC office will employ a staff starting January 3, 2005. Part of this person's job description will be to monitor and reconcile bank accounts independent of staff writing checks.

Conclusion – Responses accepted.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (B) Information Systems – During our review of internal control, the existing control activities in the County’s computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County’s computer based systems were noted:

The County does not have written policies for:

- password privacy and confidentiality.
- frequency of changing passwords, prohibiting reuse of passwords and required length of passwords.
- ensuring software not licensed to the County is not installed.

Also, the County does not have a written disaster recovery plan.

Recommendation – The County should develop written policies addressing the above items to improve control over computer based systems.

Response – We are in the process of preparing a written policy for a disaster recovery plan. At this time, we do have equipment and backup tapes in other places.

Conclusion – Response acknowledged. The County should also develop written policies addressing requirements for passwords and software not licensed to the County.

- (C) Credit Cards – The County has credit cards for use by certain employees while on County business. In June 2003, the County adopted a policy requiring itemized receipts be submitted to the County Auditor prior to payment of credit card accounts. However, the County has not adopted a formal policy to regulate the use of credit cards. Adequate supporting documentation was not always available to support credit card charges for the County Sheriff’s Office.

Recommendation – The County should adopt a formal written policy regulating the use of County credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose. The policy should also require an itemized vendor receipt to support each charge on the credit card statement.

Response – We will add to the policy as to who can use the cards and for what purpose.

Conclusion – Response acknowledged. The policy should also address who controls the credit cards and should require an itemized vendor receipt to support each charge.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (D) Disbursements – The County Board of Supervisors did not approve health insurance premium claims.

Recommendation – All claims should be approved by the Board prior to payment.

Response – We will include insurance claims on the list of bills approved and published.

Conclusion – Response accepted.

- (E) Warrants Held – Three warrants were issued in June 2004 and held because the work had not been completed.

Recommendation - Warrants should not be written and held prior to receiving goods and services since this can weaken the control the Board has over disbursements.

Response – In the future, we will wait until work is completed before writing the warrant.

Conclusion – Response accepted.

- (F) Timesheets – Department head and Secondary Road department timesheets are not signed by the employee's supervisor.

The County Auditor's Office records vacation and sick leave usage from summary sheets prepared by each department rather than directly from employee timesheets. The County Auditor's Office does not verify the accuracy of the summary sheets by comparing them to the employee timesheets.

Recommendation – Department head and Secondary Road department timesheets should be reviewed and signed by the employee's immediate supervisor to document approval.

Vacation and sick leave would more appropriately be recorded directly from authorized timesheets. If use of the summary sheets is continued, the summary sheets should be compared to the employee timesheets by the County Auditor's Office.

County Engineer Response – Secondary road timesheets and timecards are reviewed by the foreman, office manager and engineer. In the future, we will further document with signature of office manager.

County Auditor Response – Summary sheets will be compared to timesheets to properly verify vacation and sick leave.

Conclusion – Responses accepted.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (G) Capital Asset Disposals – The County does not have a written policy regarding the disposal of capital assets, including a formalized process for approving asset disposals. Deletions were not recorded timely in the capital asset records.

Recommendation – The Board of Supervisors should adopt written policies and procedures for the disposition of all capital assets, whether by trade, sale or other method. The policy should require written and timely approval of all disposals, identify the individuals with the authority to approve disposals and outline the procedures to be followed in disposing of capital assets. The capital asset record should be updated in a timely manner.

Response – Department heads will present sheets to the County with approval of all disposals in a timely fashion.

Conclusion – Response acknowledged. The County should adopt written policies and procedures for the disposition of all capital assets and the capital asset record should be updated timely.

- (H) County Treasurer – Receipts were not deposited intact. Bank reconciliations were not performed in a timely manner and variances were not adequately resolved.

Recommendation – All receipts should be deposited intact. Bank reconciliations should be performed on a monthly basis and variances should be investigated and resolved timely.

Response – The Treasurer’s Office has been making efforts to deposit receipts intact. We will continue to do so and try to improve on this. We will continue to investigate and resolve any variances in the reconciliations and make an effort to have the corrections done in a timely manner.

Conclusion – Response accepted.

- (I) County Recorder – Receipts are not deposited intact.

Recommendation – Receipts should be deposited intact.

Response – The Recorder’s Office current system of receipts and deposits adequately explains the current day sales to the next days deposit. A checks and balance sheet is completed internally daily and must zero out to our cash and checks taken in to our sales. This is reviewed by all office staff on a daily basis.

Conclusion – Response acknowledged. However, all collections should be deposited intact and not be retained as part of a change fund.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (J) County Sheriff Receipts – During the year ended June 30, 2004, two state warrants were not deposited in the Special Response Team Account in a timely manner. In addition, a listing of checks received in the mail is prepared, but receipts are not issued for the collections and deposits are not made in a timely manner.

Recommendation – Receipts should be issued and deposits made in a timely manner.

Response – We have implemented the auditor’s recommendation.

Conclusion – Response accepted.

- (K) County Sheriff Jail Commissary, DARE, Special Response Team and Forfeiture Accounts – Jail commissary profits have been accumulating in the bank account and have not been remitted to the County Treasurer. In addition, separate bank accounts are maintained for Forfeitures, Special Response Team and the DARE program. The revenue and expenditures in these accounts are not reflected in the County’s accounting system and have not been included in the County’s annual budget or financial reports. After June 30, 2004, the Forfeiture and Special Response Team bank accounts were closed and the balances remitted to the County Treasurer for deposit to a Special Revenue Fund created for each account.

Items such as supplies and equipment for the jail were purchased out of the jail commissary profits. The Special Response Team account included expenditures to deputies for work related to marijuana eradication. The payments to deputies did not include withholdings for federal and state income taxes, social security and IPERS. In addition, the compensation was not reported on Internal Revenue Service Form W-2.

Recommendation – Commissary profits and DARE program collections should be remitted to the County Treasurer for deposit into Special Revenue Funds to ensure the revenue and related expenditures are properly budgeted and reflected in the County’s accounting system.

The County should pay all compensation through the County’s payroll process in order to comply with all withholding and reporting requirements.

Response – We have implemented or are currently working to implement the auditor’s recommendations.

Conclusion – Response accepted.

- (L) Inmate Money – Cash received from inmates is not deposited in the bank. The funds are placed in a commissary cash envelope if designated for the commissary by the inmate. Otherwise, the cash remains in the inmate’s booking envelope.

Recommendation – All cash received from inmates should be deposited in the commissary bank account. Cash spent by inmates on commissary items should continue to be recorded on sales reports and would remain in the account until the profits are remitted to the County. Refunds due inmates upon their release should be made by check.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

Response – We have implemented the auditor’s recommendations.

Conclusion – Response accepted.

- (M) Sheriff’s Office Vacation – The Sheriff’s Department union agreement states employees are not allowed to carry over vacation to the next year unless approved in writing by the Sheriff. The Department allows union employees to carry over five days of vacation without the written approval of the Sheriff.

Recommendation – The Sheriff’s Department should comply with union agreement provisions for vacation carryover.

Response – We will implement the auditor’s recommendation.

Conclusion – Response accepted.

- (N) Sheriff’s Evidence Room – A logbook is not maintained for property located in the evidence room.

Recommendation – To properly account for all property received, a logbook should be maintained for items placed in the evidence room.

Response – We will implement the auditor’s recommendation.

Conclusion – Response accepted.

- (O) Inmate Room and Board Fees – The Sheriff’s Office does not maintain a ledger of the amounts due from inmates for room and board fees. The County does not have written policies or procedures for billing and collecting room and board fees.

Recommendation – A ledger should be maintained for each inmate detailing billings, collections and balances. The County should develop policies and procedures for billing and collecting room and board fees.

Response – We have implemented or are currently working to implement the auditor’s recommendations.

Conclusion – Response accepted.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (P) Vehicle Usage – The County adopted a written policy for the use of County vehicles, including the identification of certain County employees who are allowed to use County vehicles for commuting. However, the policy does not address the possible taxable income to the employees under Internal Revenue Service (IRS) regulations since some vehicles may not meet the IRS definition of a qualified personal use vehicle.

Recommendation – The County should ensure compliance with Internal Revenue Service regulations regarding taxability of vehicles used for commuting.

Response – We will consult the County Attorney to see what our vehicles qualify under.

Conclusion – Response accepted.

- (Q) Recorder's Electronic Transaction Fee – A state warrant of \$7,035 was recorded in the Agency Fund rather than the Special Revenue Fund. The County's financial statements have not been corrected for the error.

Recommendation – The County should make a correcting entry to record the revenue in the correct fund.

Response – We will make an entry in the county system to show revenue in the correct fund.

Conclusion – Response accepted.

- (R) Landfill Receipts - Void receipts are not reviewed by an independent person for propriety.

Recommendation – Void receipts should be reviewed by an independent person.

Response – Void receipts will be reviewed by an independent person and new computer software will have the ability to print all receipts, including all void receipts.

Conclusion – Response accepted.

- (S) Treasurer's Miscellaneous Receipts – Void miscellaneous receipts are not reviewed by an independent person for propriety.

Recommendation – Void receipts should be reviewed by an independent person.

Response – Voided receipts will be reviewed by an independent person and we have been in contact with our county software provider to see if a voided receipt report can be printed.

Conclusion – Response accepted.

- (T) Secondary Road Budget – The budgeted amount for several revenue line items is zero in the Secondary Roads Fund. The actual revenue for the line items totaled \$164,043 for the year ended June 30, 2004.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

Recommendation – The County should include budget amounts for all anticipated revenue line items in order to more accurately project County revenue and ending balances.

Response – We will review with the County Auditor’s Office and will comply with the request.

Conclusion – Response accepted.

- (U) Payee Accounts – The Central Point of Coordination Office maintains two payee bank accounts for clients. Supporting documentation for disbursements was not always retained.

Recommendation – Supporting documentation should be retained for all disbursements.

Response – Effective January 3, 2005 staff in the CPC office will copy all bills made on payee accounts and will track check numbers corresponding these bills.

Conclusion – Response accepted.

- (V) County Extension Office 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 Extension Office’s financial records. Generally, one individual in the County Extension Office may have control over the following areas for which no compensating controls exist.

(1) All incoming mail is not opened by an employee who is not authorized to make entries to the accounting records. An initial listing of cash and checks received is not prepared. Receipt collecting, recording and depositing duties are not segregated.

(2) Bank accounts are not reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the County Agricultural Extension Council should review the operating procedures of its office to obtain the maximum internal control possible under the circumstances. The Council 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 – Discussion will be held with staff to address this process for the future. Council Treasurer will be more involved as well as the Council Chairman.

Conclusion – Response accepted.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted. However, the budget amendments and appropriation amendments were done by motion instead of by resolution as required by Chapters 331.434(5)(6) and 331.435 of the Code of Iowa.

Recommendation – Budget and appropriation amendments should be adopted by resolution as required.

Response – We will adopt budget and appropriation amendments by resolution instead of motion in the future.

Conclusion – Response accepted.

- (3) Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (4) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Description	Amount
Norma Ruhnke, Auditor’s Office, sons are owners of Ruhnke Brothers	Fuel and repairs	\$ 3,412

In accordance with Chapter 331.342(4) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since the Auditor’s Office employee’s remuneration of employment is not directly affected as a result of the contract and the duties of employment do not directly involve procurement or preparation of any part of the contract.

- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to insure the coverage is adequate for current operations.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments – Except as noted below, 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.

Interest was not credited to the County Recorder's Electronic Transaction Fee Special Revenue and Agency Funds as required by Chapter 331.605C of the Code of Iowa.

Recommendation – The County should credit interest to the County Recorder's Electronic Transaction Fee Funds as required.

Response – The County will credit interest to the County Recorder's Electronic Transaction Fees Fund as required.

Conclusion – Response accepted.

- (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) Solid Waste Fees Retained – During the year ended June 30, 2004, the County used or retained the solid waste fees in accordance with Chapters 455B.310(3) and (4) of the Code of Iowa.
- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the County to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The County Treasurer and Central Point of Coordination Office retain cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

Recommendation – The County should obtain and retain an image of both the front and back of each cancelled check as required.

County Treasurer Response – We will contact the banks that we receive imaged cancelled checks from and request a copy of both sides.

Central Point of Coordination Response – We will contact the bank and obtain front and back of images.

Conclusion – Responses accepted.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (12) Outstanding Warrants – The County Auditor did not cancel warrants outstanding more than one year as required by Chapter 331.554(7) of the Code of Iowa.

Recommendation – County warrants outstanding more than one year should be canceled as required.

Response – We will implement a designated date to do this every year.

Conclusion – Response accepted.

- (13) Installment Purchase Agreement – The County entered into an installment purchase agreement for the purchase of a compactor for the landfill. A public hearing was not held prior to the authorization of the agreement as required by Chapters 331.301(10)(f) and 331.464 of the Code of Iowa.

Recommendation - In the future, the County should hold a public hearing prior to the authorization of an installment purchase agreement in accordance with the Code of Iowa.

Response – In the future, we will hold a public hearing upon a lease item before it comes before the Board.

Conclusion – Response accepted.

- (14) Health Insurance – The County provides employees health insurance through a partially self-insured benefit plan. Chapter 509A.15 of the Code of Iowa requires the County to obtain an actuarial opinion issued by a fellow of the Society of Actuaries which attests to the adequacy of reserves, rates and the financial condition of the plan.

Recommendation – The County should obtain an actuarial opinion issued by a fellow of the Society of Actuaries, as required.

Response – We will obtain an actuarial opinion by someone who is with the Society of Actuaries, as required.

Conclusion – Response accepted.

- (15) County Contribution to Extension Office – During the year ended June 30, 2004, the County contributed \$25,000 to the County Extension Office. This contribution appears to violate the Extension Council's levy limitation of \$75,000 per year as established by Chapter 176A.10(1)(a) of the Code of Iowa.

Recommendation - The County should consult legal counsel to determine the disposition of this matter, including whether the County Extension Office should repay the General Fund for current and prior year payments.

Response – We will consult with the County Attorney.

Conclusion – Response accepted.

Kossuth County

Schedule of Findings

Year ended June 30, 2004

- (16) Financial Assurance – The Kossuth County Landfill has demonstrated financial assurance for closure and postclosure care costs through the local government financial test mechanism as provided in Chapter 111.6(6) of the Iowa Administrative Code. The Landfill has adequately demonstrated proof of financial assurance compliance.
- (17) 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.

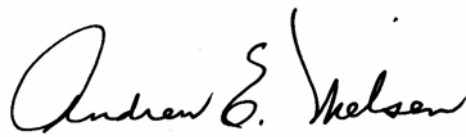
Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

Kossuth County

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
M. Crystal A. Berg, CPA, Staff Auditor
Trevor L. Theulen, Assistant Auditor
Stephanie A. Bernard, 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