



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

April 1, 2005

Contact: Andy Nielsen
515/281-5834

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

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

The County had local tax revenue of \$8,771,258 for the year ended June 30, 2004, which included \$532,476 in tax credits from the state. The County forwarded \$5,029,696 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,741,562 of the local tax revenue to finance County operations. Other revenues included charges for service of \$512,708, operating grants, contributions and restricted interest of \$2,562,622, capital grants, contributions and restricted interest of \$4,704,220, unrestricted investment earnings of \$54,836 and other general revenues of \$98,693.

Expenses for County operations totaled \$6,093,803. Expenses included \$2,745,679 for roads and transportation, \$752,504 for mental health and \$747,608 for public safety.

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

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Audubon County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sally R. Alt	Board of Supervisors	Jan 2005
Vernon Venteicher	Board of Supervisors	Jan 2005
LaVerne V. Deist	Board of Supervisors	Jan 2007
Lisa Frederiksen	County Auditor	Jan 2005
Peggy Smalley	County Treasurer	Jan 2007
Mary Lou Johansen	County Recorder	Jan 2007
Todd Johnson	County Sheriff	Jan 2005
Francine O'Brien Andersen	County Attorney	Jan 2007
Eileen Monson	County Assessor	Jan 2010

Audubon County



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Independent Auditor's Report

To the Officials of Audubon County:

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

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

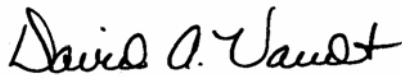
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Audubon County at June 30, 2004, and the respective changes in financial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

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Audubon County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

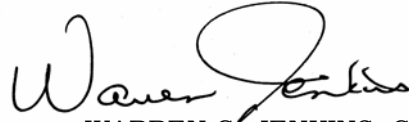
In accordance with Government Auditing Standards, we have also issued our reports dated December 2, 2004 on our consideration of Audubon County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 40 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Audubon County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- Governmental fund revenues increased 10%, or approximately \$634,000, from fiscal 2003 to fiscal 2004. Property and other county tax increased 17%, or approximately \$525,000.
- Governmental fund expenditures decreased 3%, or approximately \$215,000. Roads and transportation expenditures decreased by approximately \$123,000 and capital projects expenditures decreased approximately \$66,000.
- Net assets increased 106%, or approximately \$5,581,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Audubon 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 Audubon 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 Audubon County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets of Governmental Activities (Expressed in Thousands)	
Current and other assets	\$ 8,347
Capital assets	7,165
Total assets	<u>15,512</u>
Long-term liabilities	1,263
Other liabilities	3,400
Total liabilities	<u>4,663</u>
Net assets:	
Invested in capital assets, net of related debt	7,043
Restricted	2,162
Unrestricted	<u>1,644</u>
Total net assets	<u><u>\$ 10,849</u></u>

Net assets of Audubon County's governmental activities increased by \$5,581,000. The majority of this increase (\$4,487,827) was due to capital assets contributed to Audubon County by the Iowa Department of Transportation. The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—were approximately \$1,644,000 at June 30, 2004.

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

Revenues:

Program revenues:

Charges for service	\$	513
Operating grants, contributions and restricted interest		2,563
Capital grants, contributions and restricted interest		4,704

General revenues:

Property tax		3,550
Penalty and interest on property tax		15
State tax credits		191
Unrestricted investment earnings		55
Other general revenues		83
Total revenues		11,674

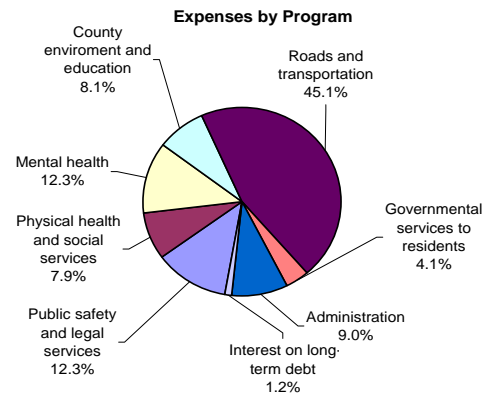
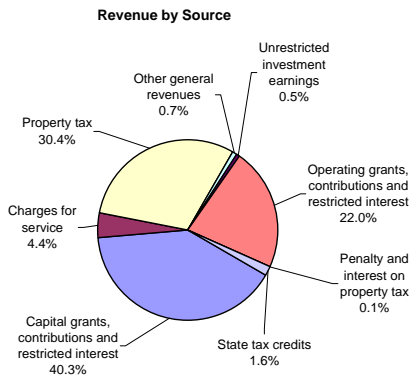
Program expenses:

Public safety and legal services		747
Physical health and social services		484
Mental health		751
County environment and education		496
Roads and transportation		2,746
Governmental services to residents		248
Administration		546
Interest on long-term debt		75
Total expenses		6,093

Increase (decrease) in net assets 5,581

Net assets beginning of year, as restated 5,268

Net assets end of year \$ 10,849



The County increased property tax rates for 2004 by an average of 10.8 percent, due mainly to the levy rate for mental health of \$1.26461 per \$1,000 of taxable valuation. There was no mental health tax levy in FY2003. The overall rate increase along with a slight decrease in valuations raised the County's property tax revenue by approximately \$525,000 in 2004. Based on decreases in the total assessed valuation, property tax revenue is budgeted to decrease by \$759,313 next year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Audubon County completed the year, its governmental funds reported a combined fund balance of \$4.7 million, an increase of more than \$668,000 above last year's total of \$4 million. The increase in fund balance is primarily attributable to levying property tax revenue for the Mental Health Fund, increased local option tax revenue and decreases in road/transportation/capital project expenses. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues remained consistent when compared to the prior year, with expenditures decreasing by approximately \$388,000. The decrease is primarily attributable to moving a portion of uniform patrol services from the General Fund to the Rural Services Fund. The ending fund balance increased \$415,000 over the prior year to \$2,253,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$753,000, a decrease of 4% from the prior year. The Mental Health Fund balance at year ended decreased by approximately \$65,000 from the prior year.
- Rural Services Fund revenues increased by approximately \$200,000 because of grant funds received by the County. Expenditures increased by approximately \$384,000 over the prior year, due principally to law enforcement salaries and benefits charged in fiscal 2004, the rural water project and economic development.
- Secondary Roads Fund expenditures decreased by approximately \$178,000 from the prior year, due principally to less local construction and granular materials expenditures. This decrease in expenditures resulted in an increase in the Secondary Roads Fund ending balance of approximately \$240,000, or 18.4%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Audubon County amended its budget two times. The first amendment was made in July 2003 and resulted in an increase in budgeted disbursements of \$300,000 related to a conservation trail project – Phase II. The second amendment was made on May 17, 2004. This amendment was made to amend various departmental items, with the major items being \$600,000 revenue/expenditures for the rural water project, \$16,498 for bioterrorism expenditures, \$15,151 revenue/expenditures for an Edward Byrne grant and \$51,912 for public health nurse revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Audubon County had approximately \$7.2 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$4,420,000, or 161 percent, over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)	
Land	\$ 959
Construction in progress	286
Buildings and improvements	337
Equipment and vehicles	1,223
Infrastructure, roads	4,360
Total	<u>\$ 7,165</u>

The County had depreciation expense of \$490,883 in FY04 and total accumulated depreciation of \$4,101,981 at June 30, 2004.

During the year ended June 30, 2004, the County received capital assets, primarily infrastructure, roads of \$4.5 million from the Iowa Department of Transportation. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2004, Audubon County had approximately \$1,123,000 in general obligation notes and other debt outstanding compared to approximately \$1,422,880 at June 30, 2003, as shown below.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)	
Refunding notes	\$ 1,000
Capital lease purchase agreements	71
Conservation trail loan agreement	52
Total	<u>\$ 1,123</u>

Debt decreased as a result of continuing to pay off refunding notes for the Audubon County Memorial Hospital expansion. In addition, the County continues to pay for a capital lease purchase agreement to acquire an excavator system.

The County continues to carry a general obligation bond rating of Aaa assigned by national rating agencies to the County's debt since 1995. 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

Audubon County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various County activities. One of those factors is the economy. The County's nonagricultural employment growth has mirrored its population growth during 1999-2004, averaging per year gains of 1.7 percent. Unemployment in the County now stands at 4.3 percent versus 4.0 percent a year ago. This compares with the State's unemployment rate of 4.7 percent and the national rate of 5.2 percent.

Inflation in the State was somewhat higher than the national Consumer Price Index increase. The State's CPI increase was 4.9 percent for fiscal year 2004 compared with the national rate of 3.3 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$6.8 million, a decrease of 1.2 percent from the final 2004 budget. Decreases in assessed valuations are expected to lead this decrease. Audubon County will use tax levy rate increases and other receipts to finance programs we currently offer and offset the effect we expect inflation to have on program costs. Budgeted disbursements are expected to fall by \$84,799. Decreases in allocations/ contributions to other entities represent one of the largest decreases. The County has added no major new programs or initiatives to the 2005 budget.

If these FY2005 estimates are realized, the County's budgetary operating balance is expected to modestly decrease by the close of 2005.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Audubon 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 Audubon County Auditor's Office, 318 Leroy St. #4, Audubon, Iowa 50025.

Audubon County

Basic Financial Statements

Exhibit A

Audubon County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 4,345,511
Receivables:	
Property tax:	
Delinquent	41,692
Succeeding year	3,189,000
Interest and penalty on property tax	20,401
Accounts	245,469
Accrued interest	6,995
Loan	7,500
Due from other governments	241,346
Inventories	226,597
Prepaid insurance	22,689
Capital assets (net of accumulated depreciation)	7,165,455
Total assets	<u>15,512,655</u>
Liabilities	
Accounts payable	94,153
Accrued interest payable	24,407
Salaries and benefits payable	6,185
Due to other governments	86,171
Deferred revenue:	
Succeeding year property tax	3,189,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreement	38,060
Loan agreement	230,000
Notes payable	12,107
Compensated absences	75,445
Portion due or payable after one year:	
Capital lease purchase agreement	32,460
Loan agreement	770,000
Notes payable	40,193
Compensation absences	65,062
Total liabilities	<u>4,663,243</u>
Net Assets	
Invested in capital assets, net of related debt	7,042,635
Restricted for:	
Supplemental levy purposes	500,406
Mental health purposes	79,330
Secondary roads purposes	1,534,338
Other purposes	48,256
Unrestricted	1,644,447
Total net assets	<u>\$ 10,849,412</u>

See notes to financial statements.

Audubon County
Statement of Activities
Year ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions / Programs:					
Governmental activities:					
Public safety and legal services	\$ 747,608	59,609	955	-	(687,044)
Physical health and social services	483,627	224,583	444,750	-	185,706
Mental health	752,504	27,375	-	-	(725,129)
County environment and education	495,711	46,561	324,653	-	(124,497)
Roads and transportation	2,745,679	-	1,792,085	4,487,827	3,534,233
Governmental services to residents	248,062	142,228	179	-	(105,655)
Administration	545,847	3,928	-	-	(541,919)
Non-program	208	8,424	-	216,393	224,609
Interest on long-term debt	74,557	-	-	-	(74,557)
Total	\$ 6,093,803	512,708	2,562,622	4,704,220	1,685,747
General Revenues:					
Property and other county tax levied for:					
General purposes					3,550,486
Debt service					275
Penalty and interest on property tax					15,467
State tax credits					190,801
Unrestricted investment earnings					54,836
Gain on disposal of capital assets					18,550
Miscellaneous					64,676
Total general revenues					3,895,091
Change in net assets					5,580,838
Net assets beginning of year, as restated					5,268,574
Net assets end of year					\$ 10,849,412

See notes to financial statements.

Audubon County
Balance Sheet
Governmental Funds

June 30, 2004

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
Assets				
Cash and pooled investments	\$ 2,219,388	172,020	695,648	1,173,136
Receivables:				
Property tax:				
Delinquent	19,922	4,172	14,461	-
Succeeding year	1,526,000	394,000	1,031,000	-
Interest and penalty on property tax	20,401	-	-	-
Accounts	38,120	-	119,562	82,198
Accrued interest	6,828	-	-	-
Loan	7,500	-	-	-
Due from other funds	-	-	-	33
Due from other governments	26,652	-	42,922	171,772
Inventories	-	-	4,775	221,822
Prepaid insurance	20,333	-	2,356	-
Total assets	\$ 3,885,144	570,192	1,910,724	1,648,961
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 29,662	28,134	1,679	34,611
Salaries and benefits payable	5,186	-	266	733
Due to other funds	33	-	-	-
Due to other governments	15,459	68,728	38	1,946
Deferred revenue:				
Succeeding year property tax	1,526,000	394,000	1,031,000	-
Other	55,941	4,164	134,023	66,927
Total liabilities	1,632,281	495,026	1,167,006	104,217
Fund balances:				
Reserved for:				
Supplemental levy purposes	522,024	-	-	-
Debt service	-	-	-	-
Unreserved, designated for:				
Park improvements	13,079	-	-	-
Court house improvements	60,000	-	-	-
Election equipment	10,000	-	-	-
Unreserved, undesignated, reported in:				
General fund	1,647,760	-	-	-
Special revenue funds	-	75,166	743,718	1,544,744
Total fund balances	2,252,863	75,166	743,718	1,544,744
Total liabilities and fund balances	\$ 3,885,144	570,192	1,910,724	1,648,961

See notes to financial statements.

Nonmajor Governmental	Total
85,319	4,345,511
3,137	41,692
238,000	3,189,000
-	20,401
5,589	245,469
167	6,995
-	7,500
-	33
-	241,346
-	226,597
-	22,689
<u>332,212</u>	<u>8,347,233</u>

67	94,153
-	6,185
-	33
-	86,171
238,000	3,189,000
3,133	264,188
<u>241,200</u>	<u>3,639,730</u>

-	522,024
42,756	42,756
-	13,079
-	60,000
-	10,000
-	1,647,760
48,256	2,411,884
<u>91,012</u>	<u>4,707,503</u>
<u>332,212</u>	<u>8,347,233</u>

Audubon County

Audubon County

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

June 30, 2004

Total governmental fund balances (page 19) \$ 4,707,503

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 \$11,267,436 and the accumulated depreciation is \$4,101,981. 7,165,455

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 264,188

Long-term liabilities, including capital lease purchase agreement payable, loan agreement payable, notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,287,734)

Net assets of governmental activities (page 16) \$ 10,849,412

See notes to financial statements.

Audubon County

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

Year ended June 30, 2004

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 1,681,961	347,165	1,045,408	196,492
Interest and penalty on property tax	-	-	-	-
Intergovernmental	687,782	340,752	248,540	1,725,158
Licenses and permits	6,081	-	-	495
Charges for service	187,786	-	-	148
Use of money and property	68,261	-	-	-
Fines, forfeitures and defaults	-	-	-	-
Miscellaneous	57,634	-	-	42,249
Total revenues	<u>2,689,505</u>	<u>687,917</u>	<u>1,293,948</u>	<u>1,964,542</u>
Expenditures:				
Operating:				
Public safety and legal services	555,557	-	198,287	-
Physical health and social services	479,342	-	-	-
Mental health	-	752,504	-	-
County environment and education	146,214	-	312,801	-
Roads and transportation	86,958	-	222,381	2,212,158
Governmental services to residents	227,027	-	570	-
Administration	532,445	-	-	-
Non-program	208	-	-	-
Debt service	-	-	-	-
Capital projects	299,174	-	1,752	39,710
Total expenditures	<u>2,326,925</u>	<u>752,504</u>	<u>735,791</u>	<u>2,251,868</u>
Excess (deficiency) of revenues over (under) expenditures	<u>362,580</u>	<u>(64,587)</u>	<u>558,157</u>	<u>(287,326)</u>
Other financing sources (uses):				
Sale of capital assets	-	-	-	16,766
Operating transfers in	388	-	-	510,220
Operating transfers out	-	-	(510,220)	-
Loan proceeds	52,300	-	-	-
Total other financing sources (uses)	<u>52,688</u>	<u>-</u>	<u>(510,220)</u>	<u>526,986</u>
Net change in fund balances	415,268	(64,587)	47,937	239,660
Fund balances beginning of year, as restated	<u>1,837,595</u>	<u>139,753</u>	<u>695,781</u>	<u>1,305,084</u>
Fund balances end of year	<u>\$ 2,252,863</u>	<u>75,166</u>	<u>743,718</u>	<u>1,544,744</u>

See notes to financial statements.

Nonmajor Governmental	Total
263,595	3,534,621
845	845
16,109	3,018,341
-	6,576
34,829	222,763
1,182	69,443
7,765	7,765
317	100,200
<u>324,642</u>	<u>6,960,554</u>

2,183	756,027
-	479,342
-	752,504
85	459,100
-	2,521,497
4,427	232,024
2,708	535,153
-	208
280,990	280,990
4,018	344,654
<u>294,411</u>	<u>6,361,499</u>

<u>30,231</u>	<u>599,055</u>
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-	16,766
-	510,608
(388)	(510,608)
-	52,300
<u>(388)</u>	<u>69,066</u>

29,843	668,121
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<u>61,169</u>	<u>4,039,382</u>
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<u>91,012</u>	<u>4,707,503</u>
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Audubon 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) \$ 668,121

**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	\$ 421,499	
Capital assets contributed by the Iowa Department of Transportation	4,487,827	
Depreciation expense	(490,833)	4,418,493

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.

1,784

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	5,542	
Other	202,168	207,710

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

Issued	(52,300)	
Repaid	352,360	300,060

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	1,631	
Interest on long-term debt	(16,961)	(15,330)

Change in net assets of governmental activities (page 17) \$ 5,580,838

See notes to financial statements.

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

Assets

Cash and pooled investments:	
County Treasurer	\$ 560,435
Other County officials	11,651
Receivables:	
Property tax	
Delinquent	50,025
Succeeding year	4,713,000
Accounts	10,393
Due from other governments	11,009
Total assets	<u>5,356,513</u>

Liabilities

Accounts payable	1,293
Due to other governments	5,325,979
Trusts payable	22,165
Compensated absences	7,076
Total liabilities	<u>5,356,513</u>

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

Audubon County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

Jointly Governed Organizations - The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, County Emergency Management Commission, County Public Safety Commission and 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.

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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

Additionally, the County reports the following funds:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost 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, roads	\$ 1,500
Land, buildings and improvements	1,500
Equipment and vehicles	1,500

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	20 - 50
Building improvements	20 - 50
Infrastructure, roads	30 - 65
Equipment	3 - 20
Vehicles	5 - 10

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the functions. However, disbursements in certain departments exceeded the amounts appropriated.

(2) Cash and Pooled Investments

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

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

In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$557,565 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Due From and Due to Other Funds

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

Receivable Fund	Payable Fund	Amount
Special Revenue: Secondary Roads	General	\$ 33

This balance results 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: Tax Increment Financing	\$ 388
Special Revenue: Secondary Roads	Special Revenue: Rural Services	510,220
Total		\$ 510,608

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:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>			<u>End</u>
	<u>of Year,</u>			<u>of Year</u>
	<u>as restated</u>	<u>Increases</u>	<u>Decreases</u>	
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 958,930	-	-	958,930
Construction in progress	-	4,785,076	(4,499,219)	285,857
Total capital assets not being depreciated	<u>958,930</u>	<u>4,785,076</u>	<u>(4,499,219)</u>	<u>1,244,787</u>
Capital assets being depreciated:				
Buildings	719,641	-	-	719,641
Building improvements	268,379	-	-	268,379
Equipment and vehicles	4,593,456	136,525	(194,571)	4,535,410
Infrastructure, roads	-	4,499,219	-	4,499,219
Total capital assets being depreciated	<u>5,581,476</u>	<u>4,635,744</u>	<u>(194,571)</u>	<u>10,022,649</u>
Less accumulated depreciation for:				
Buildings	410,911	21,036	-	431,947
Building improvements	207,432	12,022	-	219,454
Equipment and vehicles	3,176,885	318,894	(184,080)	3,311,699
Infrastructure, roads	-	138,881	-	138,881
Total accumulated depreciation	<u>3,795,228</u>	<u>490,833</u>	<u>(184,080)</u>	<u>4,101,981</u>
Total capital assets being depreciated, net	<u>1,786,248</u>	<u>4,144,911</u>	<u>(10,491)</u>	<u>5,920,668</u>
Governmental activities capital assets, net	<u>\$ 2,745,178</u>	<u>8,929,987</u>	<u>(4,509,710)</u>	<u>7,165,455</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 43,598
Physical health and social services	2,131
County environment and education	33,845
Roads and transportation	369,593
Governmental services to residents	12,297
Administration	<u>29,369</u>
Total depreciation expense - governmental activities	<u>\$ 490,833</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	\$ 15,459
Special Revenue:		
Mental Health	Services	68,728
Rural Services	Services	38
Secondary Roads	Services	1,946
		<u>70,712</u>
Total for governmental funds		<u>\$ 86,171</u>
Agency:		
County Offices	Collections	\$ 3,410
Agriculture Extension Education		57,754
County Assessor		180,747
County Hospital		400,443
Schools		3,114,741
Community Colleges		135,348
Corporations		906,825
Townships		88,586
Auto License and Use Tax		125,280
All other		312,845
Total for agency funds		<u>\$ 5,325,979</u>

(7) Changes in Long-Term Debt

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

	Capital Lease Purchase Agreements	Refunding Notes Payable	Loan Agreement	Compen-sated Absences	Total
Balance beginning of year, as restated	\$ 202,880	1,220,000	-	142,138	1,565,018
Increases	-	-	52,300	96,962	149,262
Decreases	132,360	220,000	-	98,593	450,953
Balance end of year	<u>\$ 70,520</u>	<u>1,000,000</u>	<u>52,300</u>	<u>140,507</u>	<u>1,263,327</u>
Due within one year	<u>\$ 38,060</u>	<u>230,000</u>	<u>12,107</u>	<u>75,445</u>	<u>355,612</u>

Capital Lease Purchase Agreements

The County entered into capital lease purchase agreements to purchase an excavator and two motor graders. Interest rates range from 5.25% to 5.75% per annum. The agreement for the motor graders was paid in full during the year. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2004.

<u>Year ending June 30,</u>	<u>Excavator</u>
2005	\$ 38,060
2006	38,060
Total minimum lease payments	<u>76,120</u>
Less amount representing interest	<u>5,601</u>
Present value of net minimum lease payments	<u>\$ 81,721</u>

Payments under capital lease purchase agreements during the year ended June 30, 2004 totaled \$132,360.

Refunding Notes Payable and Defeased Debt

In a prior year, the County defeased 1995 general obligation hospital bonds totaling \$2,400,000 with a call date of June 1, 2005, by placing the proceeds of refunding notes into an irrevocable escrow agreement with Bankers Trust Company to provide for all future debt service payments on the bonds. Accordingly, the assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2004, the defeased debt totaled \$1,000,000.

Details of the refunding notes payable outstanding at June 30, 2004 are as follows:

<u>Payment Due Date</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 1, 2004	4.80%	\$ -	25,215	25,215
June 1, 2005	4.90	230,000	25,215	255,215
December 1, 2005	4.90	-	19,580	19,580
June 1, 2006	5.00	245,000	19,580	264,580
December 1, 2006	5.10	-	13,455	13,455
June 1, 2007	5.10	255,000	13,455	268,455
December 1, 2007	4.80	-	6,953	6,953
June 1, 2008	4.80	270,000	6,953	276,953
Total		<u>\$ 1,000,000</u>	<u>130,406</u>	<u>1,130,406</u>

During the year ended June 30, 2004, the County retired \$220,000 of notes.

Loan Agreement

On June 28, 2004, the County entered into a loan agreement to pay for a shortfall of funds received for the bike trail. The loan is for four years with interest at 5.00% per annum and requires quarterly payments of \$3,628.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$109,624, \$111,565 and \$108,808, respectively, equal to the required contributions for each year.

(9) Risk Management

Audubon 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 \$93,463.

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

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

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, property, crime and boiler and machinery. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Loan Receivable

The County has a loan receivable totaling \$7,500 as of June 30, 2004 due from the City of Brayton. The loan, for the purchase of a fire truck, is to be paid at a minimum rate of \$2,500 annually. The loan is interest free unless a payment is not made timely, in which case a rate of 9% per annum will be assessed.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

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

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The AAE Task Force Fund was reclassified from an Agency Fund to a Special Revenue Fund.

	<u>Amount</u>
Net assets June 30, 2003, as previously reported	\$ 4,008,237
GASB Interpretation 6 adjustments	21,382
Reclassification of AAE Task Force Fund	<u>9,763</u>
Net assets July 1, 2003, as restated for governmental funds	4,039,382
Correction of June 30, 2003 compensated absences liability	(43,142)
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$3,795,228	2,745,178
Long-term liabilities	(1,529,322)
Deferral of long-term assets	<u>56,478</u>
Net assets July 1, 2003, as restated	<u>\$ 5,268,574</u>

Required Supplementary Information

Audubon County

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

Required Supplementary Information

Year ended June 30, 2004

	<u>Actual</u>
Receipts:	
Property and other county tax	\$ 3,497,264
Interest and penalty on property tax	24,037
Intergovernmental	2,974,049
Licenses and permits	7,670
Charges for service	230,366
Use of money and property	68,409
Miscellaneous	87,694
Total receipts	<u>6,889,489</u>
Disbursements:	
Public safety and legal services	739,882
Physical health and social services	489,924
Mental health	781,917
County environment and education	460,765
Roads and transportation	2,508,720
Governmental services to residents	232,458
Administration	542,470
Non-program	208
Debt service	280,990
Capital projects	337,388
Total disbursements	<u>6,374,722</u>
Excess (deficiency) of receipts over (under) disbursements	514,767
Other financing sources, net	<u>69,066</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	583,833
Balance beginning of year, as restated	<u>3,761,678</u>
Balance end of year	<u><u>\$ 4,345,511</u></u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
3,476,837	3,476,837	20,427
-	-	24,037
2,759,382	3,617,030	(642,981)
50	50	7,620
149,110	158,825	71,541
102,630	102,630	(34,221)
45,635	120,335	(32,641)
<u>6,533,644</u>	<u>7,475,707</u>	<u>(586,218)</u>
786,575	801,575	61,693
534,589	566,238	76,314
787,800	787,800	5,883
635,756	1,236,872	776,107
2,702,760	2,781,644	272,924
240,769	247,899	15,441
677,408	600,908	58,438
1,100	1,100	892
281,290	281,290	300
263,000	567,000	229,612
<u>6,911,047</u>	<u>7,872,326</u>	<u>1,497,604</u>
(377,403)	(396,619)	911,386
-	-	69,066
(377,403)	(396,619)	980,452
<u>2,785,830</u>	<u>2,785,830</u>	<u>975,848</u>
<u>2,408,427</u>	<u>2,389,211</u>	<u>1,956,300</u>

Audubon 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	\$ 6,889,489	71,065	6,960,554
Expenditures	6,374,722	(13,223)	6,361,499
Net	514,767	84,288	599,055
Other financing sources, net	69,066	-	69,066
Beginning fund balances, as restated	3,761,678	277,704	4,039,382
Ending fund balances	\$ 4,345,511	361,992	4,707,503

See accompanying independent auditor's report.

Audubon County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$961,279. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the functions. However, disbursements in certain departments exceeded the amounts appropriated.

Audubon County

Other Supplementary Information

Audubon County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2004

		Resource Enhancement and Protection	Recorder's Records Management	Conservation Land Acquisition	Special Jail Commissary
Assets					
Cash and pooled investments	\$	1,982	4,464	900	1,551
Receivables:					
Property tax:					
Delinquent		-	-	-	-
Succeeding year		-	-	-	-
Accounts		-	-	-	17
Accrued interest		-	-	-	-
Total assets	\$	1,982	4,464	900	1,568
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$	-	-	-	29
Deferred revenue:					
Succeeding year property tax		-	-	-	-
Other		-	-	-	-
Total liabilities		-	-	-	29
Fund equity:					
Fund balances:					
Reserved for debt service		-	-	-	-
Unreserved		1,982	4,464	900	1,539
Total fund equity		1,982	4,464	900	1,539
Total liabilities and fund equity	\$	1,982	4,464	900	1,568

See accompanying independent auditor's report.

Revenue						
Forfeiture Funds	AAE Task Force	Tax Increment Financing	County Recorders Electronic Fees	Debt Service		Total
2,258	8,416	295	22,851	42,602		85,319
-	-	-	-	3,137		3,137
-	-	-	-	238,000		238,000
5,572	-	-	-	-		5,589
-	-	-	17	150		167
7,830	8,416	295	22,868	283,889		332,212
-	38	-	-	-		67
-	-	-	-	238,000		238,000
-	-	-	-	3,133		3,133
-	38	-	-	241,133		241,200
-	-	-	-	42,756		42,756
7,830	8,378	295	22,868	-		48,256
7,830	8,378	295	22,868	42,756		91,012
7,830	8,416	295	22,868	283,889		332,212

Audubon County

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

Year ended June 30, 2004

	Resource Enhancement and Protection	Recorder's Records Management	Conservation Land Acquisition	Special
Revenues:				
Property and other county tax	\$ -	-	-	-
Interest and penalty on property tax	-	-	-	-
Intergovernmental	-	-	-	-
Charges for service	8,452	1,782	-	-
Use of money and property	16	37	-	-
Fines, forfeitures and defaults	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>8,468</u>	<u>1,819</u>	<u>-</u>	<u>-</u>
Expenditures:				
Operating:				
Public safety and legal services	-	-	-	-
County environment and education	85	-	-	-
Governmental services to residents	58	3,167	-	-
Administration	2,708	-	-	-
Debt service	-	-	-	-
Capital projects	4,018	-	-	-
Total expenditures	<u>6,869</u>	<u>3,167</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	1,599	(1,348)	-	-
Other financing uses:				
Operating transfers out	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	1,599	(1,348)	-	-
Fund balances beginning of year	<u>383</u>	<u>5,812</u>	<u>900</u>	<u>-</u>
Fund balances end of year	<u>\$ 1,982</u>	<u>4,464</u>	<u>900</u>	<u>-</u>

See accompanying independent auditor's report.

Revenue							
Jail Commissary	Forfeiture Funds	AAE Task Force	Tax Increment Financing	County Recorders Electronic Fees	Debt Service	Total	
-	-	-	539	-	263,056	263,595	
-	-	-	-	-	845	845	
-	-	-	-	-	16,109	16,109	
1,906	-	-	-	22,689	-	34,829	
-	-	-	-	179	950	1,182	
-	7,765	-	-	-	-	7,765	
-	-	317	-	-	-	317	
1,906	7,765	317	539	22,868	280,960	324,642	
-	481	1,702	-	-	-	2,183	
-	-	-	-	-	-	85	
1,202	-	-	-	-	-	4,427	
-	-	-	-	-	-	2,708	
-	-	-	-	-	280,990	280,990	
-	-	-	-	-	-	4,018	
1,202	481	1,702	-	-	280,990	294,411	
704	7,284	(1,385)	539	22,868	(30)	30,231	
-	-	-	(388)	-	-	(388)	
704	7,284	(1,385)	151	22,868	(30)	29,843	
835	546	9,763	144	-	42,786	61,169	
1,539	7,830	8,378	295	22,868	42,756	91,012	

Audubon County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor
Assets			
Cash and pooled investments:			
County Treasurer	\$ -	965	51,252
Other County officials	11,651	-	-
Receivables:			
Property tax:			
Delinquent	-	789	681
Succeeding year	-	56,000	136,000
Accounts	337	-	-
Due from other governments	-	-	-
Total assets	\$ 11,988	57,754	187,933
Liabilities			
Accounts payable	\$ -	-	110
Due to other governments	3,410	57,754	180,747
Trusts payable	8,578	-	-
Compensated absences	-	-	7,076
Total liabilities	\$ 11,988	57,754	187,933

See accompanying independent auditor's report.

County Hospital	Schools	Community Colleges	Corpor- ations	Townships	Auto License and Use Tax	Other	Total
5,745	49,295	2,383	18,708	1,270	125,280	305,537	560,435
-	-	-	-	-	-	-	11,651
4,698	38,446	1,965	2,117	1,316	-	13	50,025
390,000	3,027,000	131,000	886,000	86,000	-	1,000	4,713,000
-	-	-	-	-	-	10,056	10,393
-	-	-	-	-	-	11,009	11,009
400,443	3,114,741	135,348	906,825	88,586	125,280	327,615	5,356,513
-	-	-	-	-	-	1,183	1,293
400,443	3,114,741	135,348	906,825	88,586	125,280	312,845	5,325,979
-	-	-	-	-	-	13,587	22,165
-	-	-	-	-	-	-	7,076
400,443	3,114,741	135,348	906,825	88,586	125,280	327,615	5,356,513

Audubon County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	County Hospital	Schools
Assets and Liabilities					
Balances beginning of year, as restated	\$ 23,527	67,631	178,140	404,406	3,425,709
Additions:					
Property and other county tax	-	55,749	135,682	390,423	3,028,149
E911 surcharge	-	-	-	-	-
State tax credits	-	4,021	3,467	23,942	208,659
Drivers license fees	-	-	-	-	-
Office fees and collections	147,097	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	46,410	-	-	-	-
Miscellaneous	-	-	584	-	-
Total additions	193,507	59,770	139,733	414,365	3,236,808
Deductions:					
Agency remittances:					
To other funds	94,095	-	-	-	-
To other governments	67,408	69,647	129,940	418,328	3,547,776
Trusts paid out	43,543	-	-	-	-
Total deductions	205,046	69,647	129,940	418,328	3,547,776
Balances end of year	\$ 11,988	57,754	187,933	400,443	3,114,741

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
166,932	863,493	90,410	-	115,959	285,001	5,621,208
130,922	858,040	88,314	-	-	742	4,688,021
-	-	-	-	-	44,774	44,774
10,014	86,831	4,674	-	-	67	341,675
-	-	-	-	33,942	-	33,942
-	-	-	-	-	8,896	155,993
-	-	-	-	1,564,625	-	1,564,625
-	-	-	-	-	6,110	6,110
-	-	-	-	-	96,148	142,558
-	-	-	-	-	72,720	73,304
140,936	944,871	92,988	-	1,598,567	229,457	7,051,002
-	-	-	-	60,559	-	154,654
172,520	901,539	94,812	-	1,528,687	134,768	7,065,425
-	-	-	-	-	52,075	95,618
172,520	901,539	94,812	-	1,589,246	186,843	7,315,697
135,348	906,825	88,586	-	125,280	327,615	5,356,513

Schedule 5

Audubon County

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property and other county tax	\$ 3,534,621	3,010,046	2,811,885	2,581,094
Interest and penalty on property tax	845	20,980	22,157	19,822
Intergovernmental	3,018,341	2,930,548	2,919,289	2,793,354
Licenses and permits	6,576	7,476	7,848	8,016
Charges for service	222,763	185,468	152,826	137,629
Use of money and property	69,443	86,529	124,347	238,013
Fines, forfeitures and defaults	7,765	628	-	-
Miscellaneous	100,200	84,765	130,736	171,418
Total	\$ 6,960,554	6,326,440	6,169,088	5,949,346
Expenditures:				
Operating:				
Public safety and legal services	\$ 756,027	762,680	699,282	638,479
Physical health and social services	479,342	457,745	435,150	429,974
Mental health	752,504	783,792	787,913	712,072
County environment and education	459,100	322,272	340,393	630,831
Roads and transportation	2,521,497	2,644,847	2,493,707	3,120,572
Governmental services to residents	232,024	239,967	237,673	201,179
Administration	535,153	673,327	602,338	587,952
Non-program	208	-	7,568	15,402
Debt service	280,990	281,310	274,980	273,305
Capital projects	344,654	410,712	44,018	68,092
Total	\$ 6,361,499	6,576,652	5,923,022	6,677,858

See accompanying independent auditor's report.

Audubon County

Schedule 6

Audubon County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-E-C005(39)--8V-05	<u>\$ 188,960</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	02-WS-068	<u>167,783</u>
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Public Assistance Grants	97.036		<u>140,509</u>
Homeland Security Grant Program	97.067	2004-GE-T4-0046	<u>2,000</u>
U. S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for			
Food Stamp Program	10.561		<u>3,698</u>
Temporary Assistance for Needy Families	93.558		<u>4,798</u>
Refugee and Entrant Assistance - State Administered Programs	93.566		<u>17</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		<u>882</u>
Foster Care - Title IV-E	93.658		<u>2,210</u>
Adoption Assistance	93.659		<u>585</u>
Social Services Block Grant	93.667		<u>30,529</u>
Medical Assistance Program	93.778		<u>4,838</u>

Audubon County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U. S. Department of Health and Human Services:			
Iowa Dept. of Public Health:			
Elderbridge Agency on Aging:			
National Family Caregiver Support	93.052		<u>4,000</u>
Visiting Nurse Association of Pottawattamie County:			
Centers for Disease Control and Prevention			
Investigations and Technical Assistance	93.283		<u>14,357</u>
Immunization Grants	93.268	58831407 & 58841407	<u>4,455</u>
U.S. Department of Justice:			
Governor's Office of Drug Control Policy:			
Edward Byrne Memorial State and Local Law			
Enforcement Assistance Discretionary Grants			
Program	16.580	03B-1158	<u>10,740</u>
Total			<u><u>\$ 580,361</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Audubon County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Audubon County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Audubon County:

We have audited the financial statements of Audubon County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 2, 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 Audubon 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item IV-B-04.

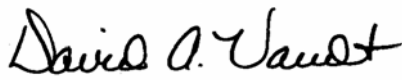
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Audubon 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 Audubon 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 Part II of the accompanying Schedule of Findings and Questioned Costs.

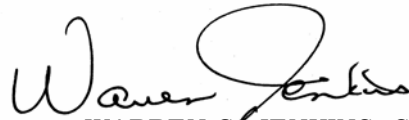
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Audubon County and other parties to whom Audubon 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 Audubon 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 2, 2004

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Audubon County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Officials of Audubon County:

Compliance

We have audited the compliance of Audubon County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Audubon County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of Audubon County's management. Our responsibility is to express an opinion on Audubon County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Audubon County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Audubon County's compliance with those requirements.

In our opinion, Audubon County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

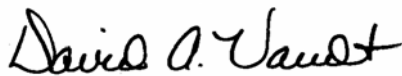
The management of Audubon County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Audubon County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

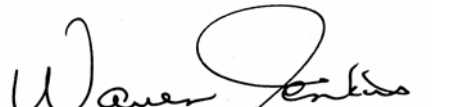
We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Audubon County's ability to administer a

major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Audubon County and other parties to whom Audubon County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 2, 2004

Audubon County
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants and 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Audubon County did not qualify as a low-risk auditee.

Audubon County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

II-A-04 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine if incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. One or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

- (1) County Recorder – The duties of opening and listing mail receipts, collecting, depositing, posting and daily reconciling are not segregated. Bank reconciliations are not reviewed periodically by an independent person for propriety.
- (2) Sheriff – The duties of opening mail, collecting, depositing, posting and daily reconciling are not segregated. A daily list of cash and checks received is not prepared. Bank reconciliations are not reviewed periodically by an independent person for propriety.
- (3) Treasurer – Bank accounts are not reconciled monthly by an individual who does not handle cash. One individual in the County Treasurer's office has custody of receipts and performs all investment record-keeping and reconciling functions for the office, including those related to all federal programs.

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.

Recorder's Response – I will periodically have an independent review of bank reconciliation.

Sheriff's Response – We are in planning stages of getting a ledger to keep record of checks coming in through the mail. We have implemented a system for bank reconciliations. The Sheriff reviews the bank statements and initials the back of statement.

Audubon County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Treasurer's Response – Bank accounts are being reconciled monthly in a timely manner. Bank accounts will be randomly selected by an independent person and checked. Will take investment records to the County Auditor for review.

Conclusion – Responses accepted, except for the Treasurer's response which is acknowledged. Someone other than the person receiving should perform daily reconciliation and evidence of independent review should be documented.

- II-B-04 Disposal of Capital Assets – Detailed capital assets records are maintained. However, disposals of capital assets are not always supported by written documentation.

Recommendation – A system to provide written documentation for the disposal of capital assets should be developed. Information should include appropriate details to ensure the assets are properly deleted from the capital assets records.

Response – We have reviewed the capital asset policy dated October 13, 2003. We will include a provision in the deletion statement to require a written documentation be sent to the Supervisors before disposal of assets.

Conclusion – Response accepted.

- II-C-04 Insurance Check Not Deposited with County Treasurer – Proceeds from an insurance check for damage to a Secondary Roads Department vehicle were not receipted into the financial records. The insurance check for \$13,966 was signed over to a vendor as a partial payment on a replacement vehicle. Funds should be deposited with the County Treasurer and expenditures should be presented to the Board of Supervisors for approval and charged against the budget.

Recommendation – All checks received should be recorded as a receipt by the County Treasurer. Collections and subsequent disbursements should be reflected in the County's accounting system and should be included in the County's annual budget and financial report.

Response – It is acknowledged that proper procedures were not followed. Proper procedures will be followed in the future.

Conclusion – Response accepted.

- II-D-04 Capital Assets – The County Engineer entered into an agreement to purchase a vehicle prior to approval by the Board of Supervisors.

Recommendation – Capital asset purchases for the Secondary Roads Department should be approved by the Board of Supervisors before the purchase is made.

Audubon County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Response – It is acknowledged that proper procedures were not followed. Proper procedures will be followed in the future.

Conclusion – Response accepted.

- II-E-04 Compensation Paid Outside of Payroll System – During the year ended June 30, 2004, two Audubon County personnel received compensation from federal funds for grant work performed outside of normal work hours. This compensation was not run through the County's regular payroll system. As such, federal and state income taxes, Social Security and IPERS were not withheld and the compensation was not reported to the individuals on either Internal Revenue Service form W-2 or form 1099.

Recommendation – The Board of Supervisors should consult the Internal Revenue Service, Iowa Department of Revenue and IPERS regarding the disposition of this matter.

Response – Each County employee will be sent a 1099 for tax purposes. In the future employees will go to their board for approval on payments.

Conclusion – Response acknowledged. The Board of Supervisors should consult the Internal Revenue Service, Iowa Department of Revenue and IPERS regarding the disposition of this matter.

- II-F-04 Accounts Receivable Reconciliation – The County Public Health Office accounts receivable control account was not reconciled to the monthly billings and receipts.

Recommendation – The County Public Health Office should reconcile accounts receivable, billings and receipts each month.

Response – Will make every effort to reconcile the accounts receivable, billings and receipts monthly.

Conclusion – Response accepted.

Audubon County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

**CFDA Number 14.228: Community Development Block Grant/State's Program
Federal Award Year: 2004
United States Housing and Urban Development
Passed through the Iowa Department of Economic Development**

**CFDA Number 20.205: Highway Planning and Construction
Federal Award Year: 2004
United States Housing and Urban Development
Passed through the Iowa Department of Transportation**

III-A-04 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

One or two individuals in the Treasurer's Office may have control over the following areas for which no compensating controls exist. The same person who opens the mail and makes an initial listing also does daily collecting, depositing, posting and daily reconciliation. In addition, the same person also handles and records cash and prepares bank reconciliations. These individuals also prepare source documents, data entry, review and approval of reports.

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.

Corrective Action Plan to be Taken – Will immediately have staff work with reports, financial transactions and reconciliations to become more familiar with the procedures.

Conclusion – Response acknowledged. Someone other than the person receipting should perform daily reconciliations and evidence of independent review should be documented.

Audubon County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 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.

IV-B-04 Certified Budget – During the year ended June 30, 2004, disbursements in certain departments exceeded the amounts appropriated.

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

Response – I will continue to monitor my budget this coming year to ensure departmental appropriations are not exceeded.

Conclusion – Response accepted.

IV-C-04 Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-D-04 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-04 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Les Larsen, E911 Director, owner of Steve’s Sign Shop	Parts and installation	\$ 1,184
Les Larsen, E911 Director, owner of Larsen Glass	Materials and labor	143
Carolyn Bruun, Employee, husband owns Countryside Motors, Inc.	Parts and installation	3,604

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Steve’s Sign Shop and Larsen Glass do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The Countryside Motors, Inc. transactions may represent a conflict of interest.

Audubon County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

Response – Will forward this on to the County Attorney’s Office and ask for her opinion.

Conclusion – Response accepted.

IV-F-04 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.

IV-I-04 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).

IV-J-04 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.

IV-K-04 Budget Hearing Public Notice – The notice of budget hearing for the E911 Commission was not published at least 10 days before the public hearing as required by Chapter 24.9 of the Code of Iowa.

Recommendation – The notice of budget hearing should be published at least 10 days before the hearing as required.

Response – We will attend the next E911 meeting and remind the Commission of their duties to publish their notice of budget hearing 10 to 20 days before a hearing.

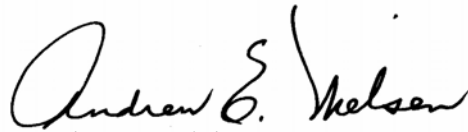
Conclusion – Response accepted.

Audubon County

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
Timothy D. Houlette, CPA, Senior Auditor
Marc D. Johnson, Staff Auditor
Karen L. Kibbe, 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