



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 6, 2005

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Auditor of State David A. Vaudt today released an audit report on Decatur 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 \$7,194,018 for the year ended June 30, 2004, which included \$769,061 in tax credits from the state. The County forwarded \$5,305,370 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$1,888,648 of the local tax revenue to finance County operations. Other revenues included charges for service of \$671,349, operating grants, contributions and restricted interest of \$2,523,633, capital grants, contributions and restricted interest of \$519,719, local option sales tax of \$141,449, unrestricted investment earnings of \$59,212 and other general revenues of \$184,323.

Expenses for County operations totaled \$4,520,314. Expenses included \$1,403,542 for mental health, \$1,110,954 for roads and transportation and \$751,082 for public safety and legal services.

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

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

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Decatur County

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------|----------------------|---------------------|
| Gary Stripe | Board of Supervisors | Jan 2005 |
| J. R. Cornett | Board of Supervisors | Jan 2005 |
| Larry Eastin | Board of Supervisors | Jan 2007 |
| Bill Greenwood | County Auditor | Jan 2005 |
| Mary Andrew | County Treasurer | Jan 2007 |
| Gale Norman | County Recorder | Jan 2007 |
| Herbert Muir | County Sheriff | Jan 2005 |
| Carol Clark | County Attorney | Jan 2007 |
| James Fleming | County Assessor | Jan 2010 |

Decatur County



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Independent Auditor's Report

To the Officials of Decatur County:

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

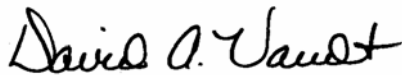
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Decatur County at June 30, 2004, and the respective changes in financial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

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Decatur County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

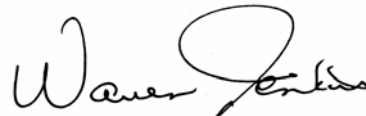
In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2005 on our consideration of Decatur County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 44 through 47 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 required 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 Decatur County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed qualified opinions on those financial statements for the effects of the omission of the general fixed assets account group. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2004 FINANCIAL HIGHLIGHTS

- The County's governmental fund revenues increased 2.5%, or approximately \$144,000, from fiscal 2003 to fiscal 2004. Property and other county tax increased approximately \$77,000.
- The County's governmental fund expenditures increased 6.8%, or approximately \$405,000, from fiscal 2003 to fiscal 2004. Roads and transportation expenditures increased approximately \$455,000.
- The County's net assets increased 18.2%, or approximately \$1,468,000, from June 30, 2003 to June 30, 2004.
- During fiscal 2004, the County was able to retire a capital lease purchase agreement four years in advance of its original maturity and retire a bank loan three years in advance of its original maturity.
- On August 4, 2003, bids were awarded for Phase I of the Restoration of the Leon Depot Building, which serves as the County Engineer's office. The projected cost of this restoration is approximately \$240,000.

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 Decatur 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 Decatur 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 Decatur County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 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) Proprietary funds account for the County's Internal Service, Medical Co-Payment Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Decatur County's combined net assets increased from \$8,046,336 to \$9,514,355. The analysis that follows focuses on the changes in the net assets for governmental activities.

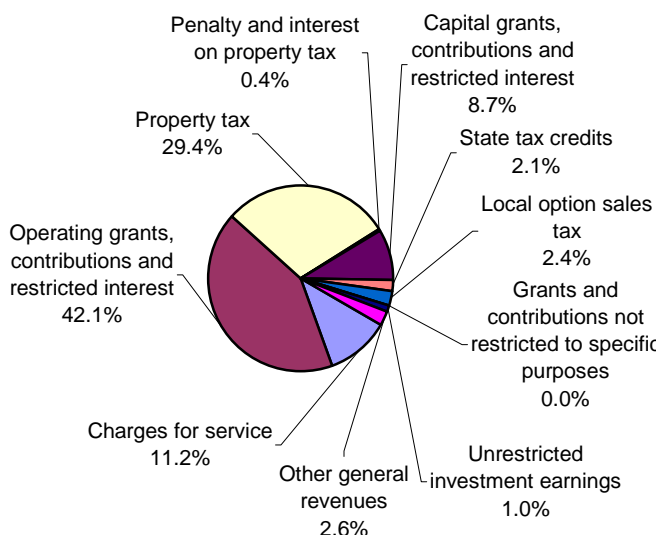
| Net Assets of Governmental Activities | |
|---|---------------------|
| | June 30, 2004 |
| Current and other assets | \$ 4,459,168 |
| Capital assets | 7,315,017 |
| Total assets | <u>11,774,185</u> |
| Long-term liabilities | 142,366 |
| Other liabilities | 2,117,464 |
| Total liabilities | <u>2,259,830</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 7,243,683 |
| Restricted | 1,237,271 |
| Unrestricted | <u>1,033,401</u> |
| Total net assets | <u>\$ 9,514,355</u> |

The largest portion of the County's net assets is the invested in capital assets (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—is \$1,033,401.

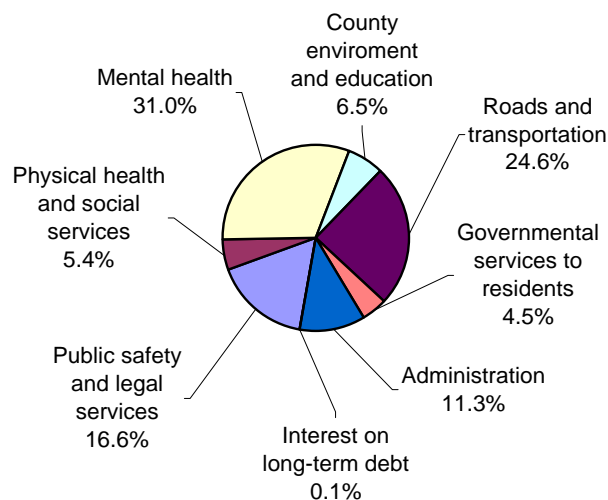
Changes in Net Assets of Governmental Activities

| | Year ended June 30, 2004 |
|--|-----------------------------|
| Revenues: | |
| Program revenues: | |
| Charges for service | \$ 671,349 |
| Operating grants, contributions and restricted interest | 2,523,633 |
| Capital grants, contributions and restricted interest | 519,719 |
| General revenues: | |
| Property tax | 1,763,927 |
| Penalty and interest on property tax | 26,127 |
| State tax credits | 124,721 |
| Local option sales tax | 141,449 |
| Grants and contributions not restricted to specific purposes | 1,593 |
| Unrestricted investment earnings | 59,212 |
| Other general revenues | 156,603 |
| Total revenues | 5,988,333 |
| Program expenses: | |
| Public safety and legal services | 751,082 |
| Physical health and social services | 242,080 |
| Mental health | 1,403,542 |
| County environment and education | 292,948 |
| Roads and transportation | 1,110,954 |
| Governmental services to residents | 203,776 |
| Administration | 510,598 |
| Interest on long-term debt | 5,334 |
| Total expenses | 4,520,314 |
| Increase in net assets | 1,468,019 |
| Net assets beginning of year, as restated | 8,046,336 |
| Net assets end of year | \$ 9,514,355 |

Revenues by Source



Expenses by Function



For the fiscal year ended June 30, 2004, governmental activities revenues totaled \$5,988,333. Property tax revenues accounted for 29.45% of the governmental activities revenues.

In fiscal 2004, the urban tax rate was \$6.88037 per \$1,000 of taxable valuation compared to the fiscal 2003 rate of \$6.06332 per \$1,000 of taxable valuation. The rural tax rate in fiscal 2004 was \$9.14207 per \$1,000 of taxable valuation compared to the fiscal 2003 tax rate of \$8.86103 per \$1,000 of taxable valuation.

INDIVIDUAL MAJOR FUND ANALYSIS

As Decatur County completed the year, its governmental funds reported a combined fund balance of \$2,292,515, a decrease of \$373,054 from last year's total of \$2,665,569. The decrease in fund balance is primarily attributable to equipment purchases in the Secondary Roads Department and an increased reliance on existing fund balances due to state funding cuts. During fiscal 2004, the state eliminated Chapter 405A replacements and reduced the reimbursements to governments for tax credits. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues were \$1,662,093 while General Fund expenditures were \$1,714,399. Other financing sources totaled \$10,687. The ending fund balance decreased \$41,619, resulting in an ending balance of \$748,245.
- Mental health expenditures decreased from \$1,569,514 in fiscal 2003 to \$1,401,743 in fiscal 2004. This decrease is attributable to the construction of a new mental health administration building with the bulk of the expense being paid in fiscal 2003.
- The Rural Services Fund balance decreased by \$95,879. During fiscal 2004 operating transfers to the Secondary Roads Fund from the Rural Services Fund were \$426,789, compared to \$373,485 in FY03. The County also began contributing a larger amount to the local economic development corporation for economic development in Decatur County.
- Secondary Roads Fund expenditures increased from \$2,459,812 in fiscal 2003 to \$2,926,569 in fiscal 2004. Equipment purchases accounted for much of this increase. Phase I of the depot renovation (County Engineer's office) also began in fiscal 2004.
- The Little River Lake Improvement Fund ending balance decreased \$12,526. During fiscal 2004, the County Conservation Board constructed two cabins for recreational use at the Little River Lake. It is anticipated this addition to the recreational area will provide added revenue to the local economy.

BUDGETARY HIGHLIGHTS

Over the course of the year, Decatur County amended its budget two times. The first amendment was made in October 2003 and resulted in an increase in budgeted disbursements of \$69,809, with the biggest portion, \$58,359, relating to funding for human services decategorization programs. The second amendment was made in January 2004. Budgeted disbursements increased \$217,977, with increases primarily for roads and transportation, capital projects, governmental services to residents and administration.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Decatur County had \$7,315,017 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 \$1,756,562, or 31.6%, over last year. This year's major addition was the inclusion of the infrastructure road network.

| Capital Assets of Governmental Activities at Year End | |
|--|----------------------|
| | June 30, 2004 |
| Land | \$ 2,611,644 |
| Construction in progress | 100,150 |
| Buildings and improvements | 1,177,312 |
| Equipment and vehicles | 1,709,452 |
| Infrastructure | 1,716,459 |
| Total | \$ 7,315,017 |

The County had depreciation expense of \$398,355 in fiscal 2004 and total accumulated depreciation of \$2,713,080 at June 30, 2004. Additional information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2004, Decatur County had \$71,334 in general obligation loan notes outstanding compared to \$140,947 at June 30, 2003.

The amount of debt decreased due to the ordinary retirement of the general obligation loan note. In addition, two other obligations, a capital lease purchase agreement and a bank loan were retired in advance of their maturity date. There were no new issues during fiscal 2004.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Decatur County's outstanding general obligation debt is significantly below its constitutional debt limit of \$13,672,379. 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

Decatur County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various County activities. One of those factors is the economy. According to a 2004 Annual County Profile for Decatur County, the 2003 average weekly wage for all industries was \$398. This ranked 99th among all of Iowa's 99 counties. With this in mind, officials have to try to balance the level of services that can and should be provided and the level of taxation the taxpayers can afford.

This balancing act is also very challenging due to the fact that Decatur County is a low tax base county. In fiscal 2004, a tax rate of \$3.50 per \$1,000 of taxable valuation could raise approximately \$773,035 in Decatur County while a neighboring county to our north, with a comparable population, could raise approximately \$1,086,138. This illustrates that Decatur

County either has to reduce services to the level afforded by the tax rate or increase taxes to fund the level of services that some neighboring counties provide. In fiscal 2004, Decatur County's taxable valuation ranked 96th out of the 99 counties. For fiscal 2005, the County was dealt a 16.27 percent decrease in agricultural land value, thus reducing the tax base even more.

Other economic factors taken into consideration by the County included the very low returns received on investments. Fiscal 2004 earnings were considerably less than prior year's returns.

In spite of these challenges, Decatur County was able to reduce the fiscal 2005 tax asking by \$61,443 when compared to the fiscal 2004 tax asking. This was accomplished by using existing fund balances in the General Fund.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Decatur 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 Decatur County Auditor's Office, 207 N. Main Street, Leon, Iowa 50144.

Decatur County

Basic Financial Statements

Exhibit A

Decatur County
Statement of Net Assets
June 30, 2004

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and pooled investments | \$ 2,325,425 |
| Receivables: | |
| Property tax: | |
| Delinquent | 14,859 |
| Succeeding year | 1,589,000 |
| Interest and penalty on property tax | 16,495 |
| Accounts | 4,207 |
| Accrued interest | 2,533 |
| Due from other governments | 337,897 |
| Inventories | 168,752 |
| Capital assets (net of accumulated depreciation) | <u>7,315,017</u> |
| Total assets | <u>11,774,185</u> |
| Liabilities | |
| Accounts payable | 303,298 |
| Salaries and benefits payable | 81,291 |
| Due to other governments | 143,875 |
| Deferred revenue: | |
| Succeeding year property tax | 1,589,000 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| General obligation loan | 71,334 |
| Compensated absences | 53,773 |
| Portion due or payable after one year: | |
| Compensated absences | <u>17,259</u> |
| Total liabilities | <u>2,259,830</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 7,243,683 |
| Restricted for: | |
| Supplemental levy purposes | 260,891 |
| Mental health purposes | 156,752 |
| Secondary roads purposes | 819,063 |
| Debt service | 565 |
| Unrestricted | <u>1,033,401</u> |
| Total net assets | <u>\$ 9,514,355</u> |

See notes to financial statements.

Decatur 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 | \$ 751,082 | 90,801 | 44,921 | - | (615,360) |
| Physical health and social services | 242,080 | 222,830 | 56,878 | - | 37,628 |
| Mental health | 1,403,542 | 62,228 | 824,694 | - | (516,620) |
| County environment and education | 292,948 | 22,344 | 31,586 | - | (239,018) |
| Roads and transportation | 1,110,954 | 83,892 | 1,552,946 | 519,719 | 1,045,603 |
| Governmental services to residents | 203,776 | 189,049 | 12,608 | - | (2,119) |
| Administration | 510,598 | 205 | - | - | (510,393) |
| Interest on long-term debt | 5,334 | - | - | - | (5,334) |
| Total | \$ 4,520,314 | 671,349 | 2,523,633 | 519,719 | (805,613) |
| General Revenues: | | | | | |
| Property and other county tax levied for: | | | | | |
| General purposes | | | | | 1,694,690 |
| Debt service | | | | | 69,237 |
| Penalty and interest on property tax | | | | | 26,127 |
| State tax credits | | | | | 124,721 |
| Local option sales tax | | | | | 141,449 |
| Grants and contributions not restricted to specific purpose | | | | | 1,593 |
| Unrestricted investment earnings | | | | | 59,212 |
| Miscellaneous | | | | | 156,603 |
| Total general revenues | | | | | 2,273,632 |
| Change in net assets | | | | | 1,468,019 |
| Net assets beginning of year, as restated | | | | | 8,046,336 |
| Net assets end of year | | | | | \$ 9,514,355 |

See notes to financial statements.

Decatur County
Balance Sheet
Governmental Funds

June 30, 2004

| | General | Mental Health |
|--------------------------------------|--------------|------------------|
| Assets | | |
| Cash and pooled investments | \$ 743,072 | 256,277 |
| Receivables: | | |
| Property tax: | | |
| Delinquent | 9,281 | 2,660 |
| Succeeding year | 935,000 | 273,000 |
| Interest and penalty on property tax | 16,495 | - |
| Accounts | 1,437 | 2,390 |
| Accrued interest | 2,510 | - |
| Due from other funds | 6,068 | 26 |
| Due from other governments | 56,368 | 46,146 |
| Inventories | - | - |
| | \$ 1,770,231 | 580,499 |
| Liabilities and Fund Balances | | |
| Liabilities: | | |
| Accounts payable | \$ 16,840 | 8,834 |
| Salaries and benefits payable | 27,465 | 14,349 |
| Due to other funds | 513 | 6,300 |
| Due to other governments | 17,693 | 115,868 |
| Deferred revenue: | | |
| Succeeding year property tax | 935,000 | 273,000 |
| Other | 24,475 | 2,430 |
| Total liabilities | 1,021,986 | 420,781 |
| Fund balances: | | |
| Reserved for: | | |
| Supplemental levy purposes | 262,998 | - |
| Debt service | - | - |
| Unreserved, reported in: | | |
| General fund | 485,247 | - |
| Special revenue funds | - | 159,718 |
| Total fund balances | 748,245 | 159,718 |
| | \$ 1,770,231 | 580,499 |

See notes to financial statements.

| Special Revenue | | | | | |
|-----------------|------------------|-------------------------------|-----------------------|--|------------------|
| Rural Services | Secondary Roads | Little River Lake Improvement | Nonmajor Governmental | | Total |
| 421,686 | 810,007 | 21,990 | 49,442 | | 2,302,474 |
| 2,300 | - | - | 618 | | 14,859 |
| 315,000 | - | - | 66,000 | | 1,589,000 |
| - | - | - | - | | 16,495 |
| 16 | 364 | - | - | | 4,207 |
| - | - | - | 8 | | 2,518 |
| - | 1,083 | - | - | | 7,177 |
| 21,075 | 184,511 | 478 | 29,319 | | 337,897 |
| - | 168,752 | - | - | | 168,752 |
| 760,077 | 1,164,717 | 22,468 | 145,387 | | 4,443,379 |
| 526 | 259,619 | 8,370 | 5,761 | | 299,950 |
| 2,169 | 36,911 | 397 | - | | 81,291 |
| 364 | - | - | - | | 7,177 |
| - | 122 | - | 10,192 | | 143,875 |
| 315,000 | - | - | 66,000 | | 1,589,000 |
| 2,101 | - | - | 565 | | 29,571 |
| 320,160 | 296,652 | 8,767 | 82,518 | | 2,150,864 |
| - | - | - | - | | 262,998 |
| - | - | - | 1,898 | | 1,898 |
| - | - | - | - | | 485,247 |
| 439,917 | 868,065 | 13,701 | 60,971 | | 1,542,372 |
| 439,917 | 868,065 | 13,701 | 62,869 | | 2,292,515 |
| 760,077 | 1,164,717 | 22,468 | 145,387 | | 4,443,379 |

Decatur County

Decatur County

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

June 30, 2004

Total governmental fund balances (page 19) \$ 2,292,515

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 \$10,028,097 and the accumulated depreciation is \$2,713,080. 7,315,017

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 29,571

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 19,618

Long-term liabilities, including general obligation loans payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (142,366)

Net assets of governmental activities (page 16) \$ 9,514,355

See notes to financial statements.

Decatur County

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

Year ended June 30, 2004

| | General | Mental Health |
|---|-------------------|------------------|
| Revenues: | | |
| Property and other county tax | \$ 1,039,680 | 297,984 |
| Interest and penalty on property tax | 35,514 | - |
| Intergovernmental | 382,262 | 1,130,960 |
| Licenses and permits | 1,663 | - |
| Charges for service | 143,626 | 293 |
| Use of money and property | 43,330 | 1,039 |
| Miscellaneous | 16,018 | 36,065 |
| Total revenues | <u>1,662,093</u> | <u>1,466,341</u> |
| Expenditures: | | |
| Operating: | | |
| Public safety and legal services | 674,077 | - |
| Physical health and social services | 226,139 | - |
| Mental health | - | 1,401,743 |
| County environment and education | 110,505 | - |
| Roads and transportation | - | - |
| Governmental services to residents | 201,049 | - |
| Administration | 502,629 | - |
| Debt service | - | - |
| Capital projects | - | - |
| Total expenditures | <u>1,714,399</u> | <u>1,401,743</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(52,306)</u> | <u>64,598</u> |
| Other financing sources (uses): | | |
| Sale of capital assets | - | - |
| Operating transfers in | 10,687 | - |
| Operating transfers out | - | - |
| Total other financing sources (uses) | <u>10,687</u> | <u>-</u> |
| Net change in fund balances | (41,619) | 64,598 |
| Fund balances beginning of year, as restated | <u>789,864</u> | <u>95,120</u> |
| Fund balances end of year | <u>\$ 748,245</u> | <u>159,718</u> |

See notes to financial statements.

| Special Revenue | | | | |
|-----------------|-----------------|-------------------------------|-----------------------|-----------|
| Rural Services | Secondary Roads | Little River Lake Improvement | Nonmajor Governmental | Total |
| 468,901 | - | - | 69,461 | 1,876,026 |
| - | - | - | - | 35,514 |
| 26,884 | 2,102,496 | - | 50,092 | 3,692,694 |
| - | 265 | - | - | 1,928 |
| - | 58 | 32,513 | 38,998 | 215,488 |
| - | 3,000 | - | 101 | 47,470 |
| 210 | 83,891 | 8,860 | - | 145,044 |
| 495,995 | 2,189,710 | 41,373 | 158,652 | 6,014,164 |
| 54,746 | - | - | 960 | 729,783 |
| - | - | - | 15,086 | 241,225 |
| - | - | - | - | 1,401,743 |
| 70,612 | - | 53,899 | 36,331 | 271,347 |
| 37,000 | 2,826,419 | - | - | 2,863,419 |
| 2,727 | - | - | - | 203,776 |
| - | - | - | 744 | 503,373 |
| - | - | - | 74,972 | 74,972 |
| - | 100,150 | - | - | 100,150 |
| 165,085 | 2,926,569 | 53,899 | 128,093 | 6,389,788 |
| 330,910 | (736,859) | (12,526) | 30,559 | (375,624) |
| - | 2,570 | - | - | 2,570 |
| - | 426,789 | - | - | 437,476 |
| (426,789) | - | - | (10,687) | (437,476) |
| (426,789) | 429,359 | - | (10,687) | 2,570 |
| (95,879) | (307,500) | (12,526) | 19,872 | (373,054) |
| 535,796 | 1,175,565 | 26,227 | 42,997 | 2,665,569 |
| 439,917 | 868,065 | 13,701 | 62,869 | 2,292,515 |

Decatur 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) \$ (373,054)**Amounts reported for governmental activities in the Statement of
Activities are different because:**

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

| | | |
|---|------------------|-----------|
| Expenditures for capital assets | \$ 1,637,768 | |
| Capital assets contributed by the Iowa Department of Transportation | 519,719 | |
| Depreciation expense | <u>(398,355)</u> | 1,759,132 |

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

(2,570)

Because some property tax 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.

(26,011)

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

134,809

Compensated absences 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.

(5,512)

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

(18,775)

Change in net assets of governmental activities (page 17) \$ 1,468,019

See notes to financial statements.

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

| | <u>Internal Service - Medical Co-Payment</u> |
|-----------------------------|--|
| Assets | |
| Cash and cash equivalents | \$ 22,951 |
| Accrued interest receivable | <u>15</u> |
| Total assets | 22,966 |
| Liabilities | |
| Accounts payable | <u>3,348</u> |
| Net Assets | |
| Unrestricted | <u><u>\$ 19,618</u></u> |

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2004

| | <u>Internal Service - Medical Co-Payment</u> |
|------------------------------|--|
| Operating revenues: | |
| Insurance reimbursements | \$ 980 |
| Operating expenses: | |
| Medical claims | (19,960) |
| Operating loss | <u>(18,980)</u> |
| Non-operating revenues: | |
| Interest income | 205 |
| Net loss | <u>(18,775)</u> |
| Net assets beginning of year | <u>38,393</u> |
| Net assets end of year | <u><u>\$ 19,618</u></u> |

See notes to financial statements.

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

| | Internal Service - Medical Co-Payment |
|---|--|
| Cash flows from operating activities: | |
| Cash received from insurance reimbursements | \$ 980 |
| Cash paid to suppliers for services | (18,990) |
| Net cash used by operating activities | (18,010) |
| Cash flows from investing activities: | |
| Interest on investments | 215 |
| Net decrease in cash and cash equivalents | (17,795) |
| Cash and cash equivalents beginning of year | 40,746 |
| Cash and cash equivalents end of year | \$ 22,951 |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (18,980) |
| Adjustment to reconcile operating loss to net cash used by operating activities: | |
| Increase in accounts payable | 970 |
| Net cash used by operating activities | \$ (18,010) |

See notes to financial statements.

Decatur County

Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2004

Assets

Cash and pooled investments:

| | |
|------------------------|------------|
| County Treasurer | \$ 354,311 |
| Other County officials | 3,007 |

Receivables:

Property tax:

| | |
|-----------------|-----------|
| Delinquent | 48,170 |
| Succeeding year | 4,668,000 |

| | |
|----------|--------|
| Accounts | 13,194 |
|----------|--------|

| | |
|------------------|----|
| Accrued interest | 14 |
|------------------|----|

| | |
|----------------------------|--------|
| Due from other governments | 17,246 |
|----------------------------|--------|

| | |
|---------------------|------------------|
| Total assets | <u>5,103,942</u> |
|---------------------|------------------|

Liabilities

| | |
|-------------------------------|-------|
| Salaries and benefits payable | 3,685 |
|-------------------------------|-------|

| | |
|--------------------------|-----------|
| Due to other governments | 5,081,717 |
|--------------------------|-----------|

| | |
|----------------|--------|
| Trusts payable | 14,469 |
|----------------|--------|

| | |
|----------------------|-------|
| Compensated absences | 4,071 |
|----------------------|-------|

| | |
|--------------------------|------------------|
| Total liabilities | <u>5,103,942</u> |
|--------------------------|------------------|

| | |
|-------------------|-------------|
| Net assets | <u>\$ -</u> |
|-------------------|-------------|

See notes to financial statements.

Decatur County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

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

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

Five drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Decatur County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Decatur County Auditor's Office.

Jointly Governed Organizations – The County participates in several jointly governed organizations for which the County is not financially accountable or that the nature and significance of the relationship with the County are such that exclusion does not cause the County’s financial statements to be misleading or incomplete. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Decatur County Assessor’s Conference Board, Decatur County Joint E911 Service Board and Decatur County Emergency Management Commission. Financial transactions of these organizations are also included in the County’s financial statements only to the extent of the County’s fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following additional jointly governed organizations: 5B Judicial District Youth Services, the Wayne, Ringgold and Decatur County Solid Waste Management Commission, Southern Iowa Resource Conservation and Development Area, Inc., and Southern Iowa Council of Governments.

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

The Little River Lake Improvement Fund is used to account for conservation operations at the Little River Lake.

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

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

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

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

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

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

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

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

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

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

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

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

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, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who 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 and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

Unrestricted Net Assets – The unrestricted net assets of the Medical Co-Payment Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the county environment and education function and disbursements in certain departments exceeded the amounts appropriated.

(2) Cash and Pooled Investments

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

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

The County's investments are categorized to give an indication of the level of risk assumed by the County at year end. The County's investments are all Category 1, which means the investments are insured or registered or the securities are held by the County or its agent in the County's name.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$521,473 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Due From and Due to Other Funds

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

| Receivable Fund | Payable Fund | Amount |
|-----------------------------------|------------------------------------|-----------------|
| General | Special Revenue: Mental Health | \$ 6,068 |
| Special Revenue: Mental Health | General | 487 |
| Secondary Roads | General | 26 |
| | Special Revenue: Rural Services | 364 |
| | Mental Health | 232 |
| Total | | <u>\$ 7,177</u> |

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

(4) Interfund Transfers

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

| Transfer to | Transfer from | Amount |
|-------------------------------------|--|-------------------|
| General | Special Revenue: Drainage Districts | \$ 10,687 |
| Special Revenue: Secondary Roads | Special Revenue: Rural Services | 426,789 |
| Total | | <u>\$ 437,476</u> |

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

(5) Capital Assets

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

| | Balance Beginning of Year, as restated | Increases | Decreases | Balance End of Year |
|---|---|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,611,644 | - | - | 2,611,644 |
| Construction in progress | - | 100,150 | - | 100,150 |
| Total capital assets not being depreciated | 2,611,644 | 100,150 | - | 2,711,794 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,045,915 | 50,000 | - | 1,095,915 |
| Improvements other than buildings | 340,182 | - | - | 340,182 |
| Equipment and vehicles | 3,918,500 | 243,217 | (43,061) | 4,118,656 |
| Infrastructure, road network | - | 1,761,550 | - | 1,761,550 |
| Total capital assets being depreciated | 5,304,597 | 2,054,767 | (43,061) | 7,316,303 |
| Less accumulated depreciation for: | | | | |
| Buildings | 202,447 | 22,069 | - | 224,516 |
| Improvements other than buildings | 27,063 | 7,206 | - | 34,269 |
| Equipment and vehicles | 2,128,276 | 323,989 | (43,061) | 2,409,204 |
| Infrastructure, road network | - | 45,091 | - | 45,091 |
| Total accumulated depreciation | 2,357,786 | 398,355 | (43,061) | 2,713,080 |
| Total capital assets being depreciated, net | 2,946,811 | 1,656,412 | - | 4,603,223 |
| Governmental activities capital assets, net | \$ 5,558,455 | 1,756,562 | - | 7,315,017 |

Depreciation expense was charged to the following functions:

| | |
|--|-------------------|
| Governmental activities: | |
| Public safety and legal services | \$ 38,566 |
| Physical health and social services | 855 |
| Mental health | 16,338 |
| County environment and education | 21,602 |
| Roads and transportation | 299,359 |
| Administration | 21,635 |
| Total depreciation expense - governmental activities | <u>\$ 398,355</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 | \$ 17,693 |
| Special Revenue: | | |
| Mental Health | Services | 115,868 |
| Secondary Roads | | 122 |
| Emergency Medical Systems | | 2,192 |
| Community Development Block Grant | | 8,000 |
| | | <u>126,182</u> |
| Total for governmental funds | | <u>\$ 143,875</u> |
| Agency: | | |
| County Assessor | Collections | \$ 186,503 |
| Schools | | 2,953,077 |
| Community Colleges | | 120,702 |
| Corporations | | 980,791 |
| Townships | | 99,119 |
| Auto License and Use Tax | | 115,415 |
| County Hospital | | 533,287 |
| All other | | 92,823 |
| Total for agency funds | | <u>\$ 5,081,717</u> |

(7) Changes in Long-Term Liabilities

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

| | Capital Lease Purchase Agreement | General Obligation Loan | Bank Loans | Compensated Absences | Total |
|--|----------------------------------|-------------------------|------------|----------------------|----------------|
| Balance beginning of year, as restated | \$ 29,503 | 140,947 | 35,693 | 65,520 | 271,663 |
| Increase | - | - | - | 106,345 | 106,345 |
| Decreases | 29,503 | 69,613 | 35,693 | 100,833 | 235,642 |
| Balance end of year | <u>\$ -</u> | <u>71,334</u> | <u>-</u> | <u>71,032</u> | <u>142,366</u> |
| Due within one year | <u>\$ -</u> | <u>71,334</u> | <u>-</u> | <u>53,773</u> | <u>125,107</u> |

Capital Lease Purchase Agreement and Bank Loans

During the year ended June 30, 2004, the County retired a capital lease purchase agreement four years in advance of the original maturity and retired bank loans three years in advance of the original maturities.

General Obligation Loan

In July 1999, the County entered into a general obligation loan agreement, not to exceed \$275,000, with a June 30, 2000 initial maturity date and interest of 4.85% per annum, for the acquisition and installation of an elevator in the courthouse. The loan agreement is renewable annually and the interest rate is adjusted at the time of renewal. The loan was renewed to a June 30, 2005 maturity date with interest at 4.75% per annum. The outstanding balance of this loan was \$71,334 at June 30, 2004.

During the year ended June 30, 2004, the County made principal and interest payments of \$69,613 and \$5,359, respectively. The County makes payments on the loans as funds are available in the Debt Service Fund.

(8) Medical Co-Payment Plan

The Medical Co-Payment Plan was established to account for the partial self funding of the County's health insurance benefit plan. Monthly plan contributions are recorded as expenditures in the operating funds at the time of payment from the operating funds to the Internal Service, Medical Co-Payment Fund administered by the County Attorney.

The County's plan is a partial self-funded health plan. The County sponsors a group insurance policy which provides comprehensive hospital and medical coverage for eligible employees and, if elected, their spouses and dependents. Under the partial self-funded plan, the County reimburses eligible employees for a portion of the deductible.

The County did not contribute to the fund during the year ended June 30, 2004.

(9) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$135,023, \$128,617 and \$121,757, respectively, equal to the required contributions for each year.

(10) Risk Management

Decatur 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 \$145,104.

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

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

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

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

(11) Construction Commitment

The County has entered into a contract for \$130,676, net of change orders, to restore the secondary roads depot. At June 30, 2004, payments of \$111,555 had been made against the contract. The balance remaining at June 30, 2004 of \$19,121 will be paid as work on the project progresses.

(12) Contingent Liability

On December 2, 2003, the County was requested by the Iowa Department of Human Services to repay \$423,035 of Medicaid Home and Community Based Services (HCBS) Mental Retardation (MR) and Brain Injury (BI) Waiver Program funds. The repayment request results from alleged incorrect billings between July 1, 2001 and June 30, 2003 due to the lack of required documentation to support service delivery and the payment of claims. Although there is a reasonable possibility a loss will be incurred, the amount of the loss, if any, can not be reasonably estimated.

(13) Accounting Change and Restatements

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

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

| | <u>Amount</u> |
|--|---------------------|
| Net assets June 30, 2003, as previously reported | \$ 2,642,890 |
| GASB Interpretation 6 adjustments | <u>22,679</u> |
| Net assets July 1, 2003, as restated for governmental funds | 2,665,569 |
| GASB 34 adjustments: | |
| Capital assets, net of accumulated depreciation of \$2,357,786 | 5,558,455 |
| Internal Service Fund | 38,393 |
| Long-term liabilities | (271,663) |
| Deferral of long-term assets | <u>55,582</u> |
| Net assets July 1, 2003, as restated | <u>\$ 8,046,336</u> |

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2004

| | Actual |
|---|--------------|
| Receipts: | |
| Property and other County tax | \$ 1,900,980 |
| Interest and penalty on property tax | 35,069 |
| Intergovernmental | 3,677,429 |
| Licenses and permits | 2,028 |
| Charges for service | 211,476 |
| Use of money and property | 41,906 |
| Miscellaneous | 153,544 |
| Total receipts | 6,022,432 |
| Disbursements: | |
| Public safety and legal services | 720,110 |
| Physical health and social services | 245,194 |
| Mental health | 1,391,145 |
| County environment and education | 252,248 |
| Roads and transportation | 2,733,969 |
| Governmental services to residents | 201,063 |
| Administration | 501,009 |
| Debt service | 74,972 |
| Capital projects | 100,150 |
| Total disbursements | 6,219,860 |
| Deficiency of receipts under disbursements | (197,428) |
| Other financing sources, net | 2,570 |
| Deficiency of receipts and other financing sources under disbursements and other financing uses | (194,858) |
| Balance beginning of year | 2,497,332 |
| Balance end of year | \$ 2,302,474 |

See accompanying independent auditor's report.

| Less Funds not Required to be Budgeted | Net | Budgeted Amounts | | Final to Net Variance |
|---|-----------|------------------|-----------|-----------------------------|
| | | Original | Final | |
| - | 1,900,980 | 1,812,548 | 1,874,048 | 26,932 |
| - | 35,069 | 35,000 | 35,000 | 69 |
| - | 3,677,429 | 3,454,947 | 3,699,691 | (22,262) |
| - | 2,028 | 863 | 863 | 1,165 |
| - | 211,476 | 134,345 | 134,345 | 77,131 |
| - | 41,906 | 60,060 | 60,060 | (18,154) |
| - | 153,544 | 105,470 | 106,970 | 46,574 |
| - | 6,022,432 | 5,603,233 | 5,910,977 | 111,455 |
| - | 720,110 | 761,496 | 765,546 | 45,436 |
| - | 245,194 | 244,552 | 302,911 | 57,717 |
| - | 1,391,145 | 1,448,196 | 1,448,196 | 57,051 |
| - | 252,248 | 239,426 | 242,626 | (9,622) |
| - | 2,733,969 | 2,602,600 | 2,739,500 | 5,531 |
| - | 201,063 | 204,641 | 208,697 | 7,634 |
| - | 501,009 | 536,089 | 552,310 | 51,301 |
| - | 74,972 | 75,000 | 75,000 | 28 |
| - | 100,150 | 170,000 | 235,000 | 134,850 |
| - | 6,219,860 | 6,282,000 | 6,569,786 | 349,926 |
| - | (197,428) | (678,767) | (658,809) | 461,381 |
| (10,687) | 13,257 | - | - | 13,257 |
| (10,687) | (184,171) | (678,767) | (658,809) | 474,638 |
| 10,687 | 2,486,645 | 2,063,095 | 2,063,095 | 423,550 |
| - | 2,302,474 | 1,384,328 | 1,404,286 | 898,188 |

Decatur 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 | \$ 6,022,432 | (8,268) | 6,014,164 |
| Expenditures | 6,219,860 | 169,928 | 6,389,788 |
| Net | (197,428) | (178,196) | (375,624) |
| Other financing sources, net | 2,570 | - | 2,570 |
| Beginning fund balances, as restated | 2,497,332 | 168,237 | 2,665,569 |
| Ending fund balances | \$ 2,302,474 | (9,959) | 2,292,515 |

See accompanying independent auditor's report.

Decatur County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds 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 \$287,786. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the county environment and education function and disbursements in certain departments exceeded the amounts appropriated

Decatur County

Other Supplementary Information

Decatur County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2004

| | County Recorder's Records Management | County Recorder's Electronic Transaction Fee | Resource Enhance- ment and Protection |
|--|---|---|--|
| Assets | | | |
| Cash and pooled investments | \$ 6,203 | 22,689 | 1,779 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | - | - |
| Succeeding year | - | - | - |
| Accrued interest | 3 | - | 1 |
| Due from other governments | - | 14,196 | 126 |
| Total assets | \$ 6,206 | 36,885 | 1,906 |
| Liabilities and Fund Equity | | | |
| Liabilities: | | | |
| Accounts payable | \$ 1,606 | - | - |
| Due to other governments | - | - | - |
| Deferred revenue: | | | |
| Succeeding year property tax | - | - | - |
| Other | - | - | - |
| Total liabilities | 1,606 | - | - |
| Fund equity: | | | |
| Fund balances: | | | |
| Reserved for debt service | - | - | - |
| Unreserved | 4,600 | 36,885 | 1,906 |
| Total fund equity | 4,600 | 36,885 | 1,906 |
| Total liabilities and fund equity | \$ 6,206 | 36,885 | 1,906 |

See accompanying independent auditor's report.

| Special Revenue | | | | | | | |
|--|---------------------------------|-------|--|----------------------|-----------------|---------|--|
| Structure Operation and Main- tenance | Emergency Medical Systems | DARE | Community Development Block Grant | Courthouse Repair | Debt Service | Total | |
| 9,390 | 851 | 1,310 | 1,500 | 3,877 | 1,843 | 49,442 | |
| - | - | - | - | - | 618 | 618 | |
| - | - | - | - | - | 66,000 | 66,000 | |
| - | - | - | - | 2 | 2 | 8 | |
| - | 6,347 | 650 | 8,000 | - | - | 29,319 | |
| 9,390 | 7,198 | 1,960 | 9,500 | 3,879 | 68,463 | 145,387 | |
| - | 4,155 | - | - | - | - | 5,761 | |
| - | 2,192 | - | 8,000 | - | - | 10,192 | |
| - | - | - | - | - | 66,000 | 66,000 | |
| - | - | - | - | - | 565 | 565 | |
| - | 6,347 | - | 8,000 | - | 66,565 | 82,518 | |
| - | - | - | - | - | 1,898 | 1,898 | |
| 9,390 | 851 | 1,960 | 1,500 | 3,879 | - | 60,971 | |
| 9,390 | 851 | 1,960 | 1,500 | 3,879 | 1,898 | 62,869 | |
| 9,390 | 7,198 | 1,960 | 9,500 | 3,879 | 68,463 | 145,387 | |

Decatur County

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

Year ended June 30, 2004

| | County Recorder's Records Management | County Recorder's Electronic Transaction Fee | Resource Enhance- ment and Protection |
|---|---|---|--|
| Revenues: | | | |
| Property and other County tax | \$ - | - | - |
| Intergovernmental | - | - | 9,017 |
| Charges for service | 2,113 | 36,885 | - |
| Use of money and property | 28 | - | 5 |
| Total revenues | <u>2,141</u> | <u>36,885</u> | <u>9,022</u> |
| Expenditures: | | | |
| Operating: | | | |
| Public safety and legal services | - | - | - |
| Physical health and social services | - | - | - |
| County environment and education | 1,606 | - | 7,556 |
| Administration | - | - | - |
| Debt service | - | - | - |
| Total expenditures | <u>1,606</u> | <u>-</u> | <u>7,556</u> |
| Excess (deficiency) of revenues over (under) expenditures | 535 | 36,885 | 1,466 |
| Other financing uses: | | | |
| Operating transfers out | - | - | - |
| Excess (deficiency) of revenues over (under) expenditures and other financing uses | 535 | 36,885 | 1,466 |
| Fund balances beginning of year | <u>4,065</u> | <u>-</u> | <u>440</u> |
| Fund balances end of year | <u>\$ 4,600</u> | <u>36,885</u> | <u>1,906</u> |

See accompanying independent auditor's report.

| Special Revenue | | | | | | | | |
|--|---------------------------------|-------|--|----------------------|-----------------------|-----------------|----------|--|
| Structure Operation and Main- tenance | Emergency Medical Systems | DARE | Community Development Block Grant | Courthouse Repair | Drainage Districts | Debt Service | Total | |
| - | - | - | - | - | - | 69,461 | 69,461 | |
| - | 11,874 | 650 | 23,369 | - | - | 5,182 | 50,092 | |
| - | - | - | - | - | - | - | 38,998 | |
| - | - | - | - | 13 | - | 55 | 101 | |
| - | 11,874 | 650 | 23,369 | 13 | - | 74,698 | 158,652 | |
| - | - | 960 | - | - | - | - | 960 | |
| - | 15,086 | - | - | - | - | - | 15,086 | |
| 600 | - | - | 26,569 | - | - | - | 36,331 | |
| - | - | - | - | 744 | - | - | 744 | |
| - | - | - | - | - | - | 74,972 | 74,972 | |
| 600 | 15,086 | 960 | 26,569 | 744 | - | 74,972 | 128,093 | |
| (600) | (3,212) | (310) | (3,200) | (731) | - | (274) | 30,559 | |
| - | - | - | - | - | (10,687) | - | (10,687) | |
| (600) | (3,212) | (310) | (3,200) | (731) | (10,687) | (274) | 19,872 | |
| 9,990 | 4,063 | 2,270 | 4,700 | 4,610 | 10,687 | 2,172 | 42,997 | |
| 9,390 | 851 | 1,960 | 1,500 | 3,879 | - | 1,898 | 62,869 | |

Decatur County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2004

| | County Recorder | County Sheriff | Agricultural Extension Education | County Assessor | Schools | Community Colleges | Corpor- ations | Townships |
|-------------------------------|--------------------|-------------------|--|--------------------|------------------|-----------------------|-------------------|---------------|
| Assets | | | | | | | | |
| Cash and pooled investments: | | | | | | | | |
| County Treasurer | \$ - | - | 1,102 | 60,710 | 87,851 | 3,521 | 32,967 | 2,433 |
| Other County officials | 792 | 2,215 | - | - | - | - | - | - |
| Receivables: | | | | | | | | |
| Property tax: | | | | | | | | |
| Delinquent | - | - | 369 | 1,033 | 29,226 | 1,181 | 10,824 | 686 |
| Succeeding year | - | - | 36,000 | 132,000 | 2,836,000 | 116,000 | 937,000 | 96,000 |
| Accounts | 781 | - | - | - | - | - | - | - |
| Accrued interest | - | - | - | - | - | - | - | - |
| Due from other governments | - | - | - | - | - | - | - | - |
| Total assets | \$ 1,573 | 2,215 | 37,471 | 193,743 | 2,953,077 | 120,702 | 980,791 | 99,119 |
| Liabilities | | | | | | | | |
| Salaries and benefits payable | \$ - | - | - | 3,169 | - | - | - | - |
| Due to other governments | 1,573 | 88 | 37,471 | 186,503 | 2,953,077 | 120,702 | 980,791 | 99,119 |
| Trusts payable | - | 2,127 | - | - | - | - | - | - |
| Compensated absences | - | - | - | 4,071 | - | - | - | - |
| Total liabilities | \$ 1,573 | 2,215 | 37,471 | 193,743 | 2,953,077 | 120,702 | 980,791 | 99,119 |

See accompanying independent auditor's report.

| Auto License and Use Tax | Brucellosis and Tuberculosis Eradication | Emergency Management Services | Emergency Medical Services | County Hospital | Tax Sale Redemption | Drivers License | E911 Service Board | Local Empowerment Board | Total |
|--------------------------|--|-------------------------------|----------------------------|-----------------|---------------------|-----------------|--------------------|-------------------------|-----------|
| 115,415 | 22 | 20 | 851 | 14,443 | 12,342 | 1,050 | 19,799 | 1,785 | 354,311 |
| - | - | - | - | - | - | - | - | - | 3,007 |
| - | 7 | - | - | 4,844 | - | - | - | - | 48,170 |
| - | 1,000 | - | - | 514,000 | - | - | - | - | 4,668,000 |
| - | - | - | - | - | - | - | 12,413 | - | 13,194 |
| - | - | - | - | - | - | - | 14 | - | 14 |
| - | - | 11,000 | 6,246 | - | - | - | - | - | 17,246 |
| 115,415 | 1,029 | 11,020 | 7,097 | 533,287 | 12,342 | 1,050 | 32,226 | 1,785 | 5,103,942 |
| - | - | 516 | - | - | - | - | - | - | 3,685 |
| 115,415 | 1,029 | 10,504 | 7,097 | 533,287 | - | 1,050 | 32,226 | 1,785 | 5,081,717 |
| - | - | - | - | - | 12,342 | - | - | - | 14,469 |
| - | - | - | - | - | - | - | - | - | 4,071 |
| 115,415 | 1,029 | 11,020 | 7,097 | 533,287 | 12,342 | 1,050 | 32,226 | 1,785 | 5,103,942 |

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

Year ended June 30, 2004

| | County Recorder | County Sheriff | Agricultural Extension Education | County Assessor | Schools | Community Colleges | Corpora- tions | Townships |
|------------------------------------|--------------------|-------------------|--|--------------------|-----------|-----------------------|-------------------|-----------|
| Assets and Liabilities | | | | | | | | |
| Balances beginning of year | \$ 8,906 | 4,256 | 40,742 | 175,916 | 3,264,737 | 131,545 | 964,275 | 96,026 |
| Additions: | | | | | | | | |
| Property and other county tax | - | - | 36,343 | 131,884 | 2,838,746 | 116,087 | 926,282 | 96,273 |
| State tax credits | - | - | 5,033 | 14,063 | 403,796 | 16,100 | 128,427 | 10,847 |
| Office fees and collections | 156,869 | 24,420 | - | - | - | - | - | - |
| Auto licenses, use tax and postage | - | - | - | - | - | - | - | - |
| Trusts | 92 | 122,008 | - | - | - | - | - | - |
| Miscellaneous | - | - | - | 1,388 | - | - | 6,425 | - |
| Total additions | 156,961 | 146,428 | 41,376 | 147,335 | 3,242,542 | 132,187 | 1,061,134 | 107,120 |
| Deductions: | | | | | | | | |
| Agency remittances: | | | | | | | | |
| To other funds | 78,003 | 25,011 | - | - | - | - | - | - |
| To other governments | 86,199 | 571 | 44,647 | 129,508 | 3,554,202 | 143,030 | 1,044,618 | 104,027 |
| Trusts paid out | 92 | 122,887 | - | - | - | - | - | - |
| Total deductions | 164,294 | 148,469 | 44,647 | 129,508 | 3,554,202 | 143,030 | 1,044,618 | 104,027 |
| Balances end of year | \$ 1,573 | 2,215 | 37,471 | 193,743 | 2,953,077 | 120,702 | 980,791 | 99,119 |

See accompanying independent auditor's report.

| Auto License and Use Tax | Brucellosis and Tuberculosis Eradication | Emergency Management Services | Emergency Medical Services | County Hospital | Tax Sale Redemption | Drivers License | E911 Service Board | Local Empowerment Board | Total |
|--------------------------|--|-------------------------------|----------------------------|-----------------|---------------------|-----------------|--------------------|-------------------------|-----------|
| 130,131 | 1,431 | 13,665 | 4,150 | 537,946 | 7,370 | 889 | 106,028 | - | 5,488,013 |
| - | 777 | - | - | 514,638 | - | - | - | - | 4,661,030 |
| - | 99 | - | - | 65,975 | - | - | - | - | 644,340 |
| - | - | - | - | - | - | - | - | - | 181,289 |
| 1,458,366 | - | - | - | - | - | 52,763 | - | - | 1,511,129 |
| - | - | - | - | - | 234,191 | - | - | - | 356,291 |
| - | - | 29,145 | 11,774 | - | - | 161 | 94,060 | 186,651 | 329,604 |
| 1,458,366 | 876 | 29,145 | 11,774 | 580,613 | 234,191 | 52,924 | 94,060 | 186,651 | 7,683,683 |
| 44,952 | - | - | - | - | - | - | - | - | 147,966 |
| 1,428,130 | 1,278 | 31,790 | 8,827 | 585,272 | - | 52,763 | 167,862 | 184,866 | 7,567,590 |
| - | - | - | - | - | 229,219 | - | - | - | 352,198 |
| 1,473,082 | 1,278 | 31,790 | 8,827 | 585,272 | 229,219 | 52,763 | 167,862 | 184,866 | 8,067,754 |
| 115,415 | 1,029 | 11,020 | 7,097 | 533,287 | 12,342 | 1,050 | 32,226 | 1,785 | 5,103,942 |

Schedule 5

Decatur 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 | \$ 1,876,026 | 1,799,344 | 1,792,627 | 1,661,809 |
| Interest and penalty on property tax | 35,514 | 35,918 | 41,588 | 34,660 |
| Intergovernmental | 3,692,694 | 3,642,197 | 3,487,548 | 3,457,653 |
| Licenses and permits | 1,928 | 1,088 | 1,258 | 2,138 |
| Charges for service | 215,488 | 171,324 | 148,214 | 128,807 |
| Use of money and property | 47,470 | 52,372 | 93,532 | 164,907 |
| Miscellaneous | 145,044 | 168,066 | 171,776 | 98,268 |
| Total | \$ 6,014,164 | 5,870,309 | 5,736,543 | 5,548,242 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | \$ 729,783 | 713,309 | 762,979 | 600,532 |
| Physical health and social services | 241,225 | 222,525 | 282,426 | 287,817 |
| Mental health | 1,401,743 | 1,569,514 | 1,393,662 | 876,500 |
| County environment and education | 271,347 | 242,942 | 226,864 | 296,113 |
| Roads and transportation | 2,863,419 | 2,408,685 | 2,166,778 | 2,225,251 |
| Governmental services to residents | 203,776 | 192,437 | 190,211 | 169,997 |
| Administration | 503,373 | 471,991 | 487,619 | 445,162 |
| Debt service | 74,972 | 75,000 | 75,138 | 75,000 |
| Capital projects | 100,150 | 88,127 | 95,925 | 330,855 |
| Total | \$ 6,389,788 | 5,984,530 | 5,681,602 | 5,307,227 |

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Officials of Decatur County:

We have audited the financial statements of Decatur County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 31, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (1), (10) and (11).

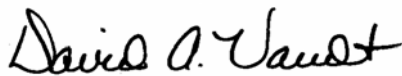
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Decatur 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 Decatur County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

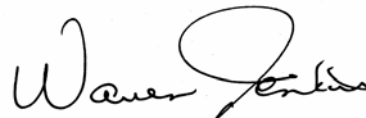
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Decatur County and other parties to whom Decatur 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 Decatur County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 31, 2005

Decatur County
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – During our review of internal control, the existing control activities 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 offices identified may have control over the following areas for which no compensating controls exist:

| | <hr/> Applicable Offices <hr/> |
|---|------------------------------------|
| (1) Receipts - opening and listing mail receipts, collecting, depositing, posting and daily reconciling. | Treasurer, Recorder and Sheriff |
| (2) Disbursements - check writing, signing, posting, reconciling and final approval. | Recorder |
| (3) Bank reconciliations are not prepared by an independent person. Also, reconciliations are not reviewed periodically by an independent person for propriety. | Recorder and Sheriff |
| (4) Investments - custody and recordkeeping. | Treasurer |

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

Decatur County
Schedule of Findings
Year ended June 30, 2004

Responses –

County Treasurer – We will make every attempt to perform the recommended procedures.

County Recorder

- (1) We will trade duties so the same person is not doing the same thing every day.
- (2) One person will write the checks and one person will sign the checks.
- (3) One person will reconcile and another will verify.

County Sheriff – We will have an independent person open the mail and prepare a receipt. Deposits will be done by another individual. Sheriff Muir will initial bank reconciliations and Shirley will also initial bank reconciliations.

Conclusion – Responses accepted.

- (B) Information Systems – The following weaknesses in the County’s computer based systems were noted:

The County does not have written policies for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring unique user login identifications.
- ensuring only software licensed to the County is installed on computers.
- usage of the internet.
- personal use of computer equipment and software.

Also, the County does not have a written disaster recovery plan or have written confirmation that suppliers could replace hardware fast enough for continued operations.

Recommendation – The County should develop written policies addressing the above items in order to improve the County’s control over computer based systems. A written disaster recovery plan should also be developed, including confirmation from suppliers that the County’s system could be replaced in a timely manner.

Response – We will follow the recommendations and develop written policies regarding control of computer based systems and disaster recovery plan.

Conclusion – Response accepted.

Decatur County

Schedule of Findings

Year ended June 30, 2004

- (C) County Sheriff Inmate Phone Card Sales – A reconciliation of phone card sales and phone card receipts was not always performed. Receipts were not issued sequentially. Occasionally, phone cards are issued to inmates at no cost.

Recommendation – A reconciliation of phone card sales and receipts should be performed. One receipt book should be completed before starting a new book. This will make it easier to account for the numeric sequence of receipts. The County should develop a written policy regarding the issuance of free phone cards to inmates.

Response – A written policy regarding issuance of free cards to inmates is in the process of being written. Receipts of cards have a card number on the receipt and a reconciliation of phone card sales is being performed.

Conclusion – Response accepted.

- (D) County Board of Supervisors –The Executive Director of the Conservation Board works full-time for the Conservation Board and part-time for the E-911 and Emergency Management Boards. The timesheets for the Executive Director routinely report 60 or more hours each week. Total hours worked on six timesheets did not correspond to the actual start and stop times noted. Total hours worked for the pay period on two timesheets did not add from the daily hours worked, resulting in incorrect accrual and use of compensatory time, and in three instances, the times worked for the different boards overlapped. The timesheets are signed by the Executive Director and submitted to the County Auditor's office for payroll processing. However, there is no evidence the timesheets are reviewed and approved by the respective boards.

Recommendation – Timesheets should be reviewed and signed by an official of each Board prior to submission to the County Auditor. This will help ensure timesheets are accurate and complete. Evidence of review and approval should be documented on each timesheet. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days.

Response – Timesheets will be reviewed and signed by the chairman of the Emergency Management Board or his designee and the chairman of the Board of Supervisors before being submitted to the Auditor of payment. He is no longer affiliated with E-911.

Conclusion – Response accepted.

- (E) County Board of Supervisors – The Board has adopted a resolution permitting the County Attorney to employ one full-time secretary (restricted to 40 hours per week) and one part-time secretary (no restrictions). The full-time secretary works primarily at the County Attorney's private law office and the part-time secretary works at the County courthouse. The part-time secretary worked anywhere from 32 to 80 hours per bi-weekly pay period, including three instances of 80 hours.

Decatur County

Schedule of Findings

Year ended June 30, 2004

Recommendation – The Board should review the existing resolution and revise the resolution as necessary. The Board should consider whether it is appropriate to pay for a full-time secretary who works at a private law office and clearly define or limit the number of hours worked by the part-time secretary.

Response – The Board is in the process of reviewing the situation and will have it resolved by the end of the current fiscal year. The Board has hired outside counsel to review the Resolution of June 9, 2003, in conjunction with the County Attorney. A meeting between the Board, its separately retained outside counsel and the County Attorney is currently scheduled for March 28, 2005. It is the Board's intention to seek from the County Attorney an accounting of the time spent by the County Attorney's full-time legal secretary between official county business and the County Attorney's private business so that a fair apportionment can be made of the salary of that full-time legal secretary. It is further the intention of the Board to prescribe limitations on the maximum hours which can be worked by the County Attorney's other part-time legal secretary currently working in the Courthouse. It is expected that a Resolution amending the June 9, 2003 Resolution reflecting these proofs and negotiations will be entered.

Conclusion – Response accepted.

Decatur County
 Schedule of Findings
 Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004, except as follows:

| Office | Depository | Maximum Authorized Deposit |
|------------------|--------------------|----------------------------|
| County Treasurer | Great Western Bank | \$4,000,000 |
| County Recorder | Great Western Bank | 25,000 |
| County Sheriff | Great Western Bank | 25,000 |

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response – We will adopt a new resolution to raise the maximum authorized deposit amount to adequately cover deposits.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the county environment and education function. Disbursements in certain departments for the year ended June 30, 2004 exceeded the appropriations.

Recommendation – The budget should have been amended in sufficient amount in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget. The notice of the budget amendment hearing should be published not less than 10 days or more than 20 days prior to the hearing date.

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 – Decatur County will adhere to and follow the recommendation as set forth above and thus comply with the requirements established by the Code of Iowa.

Conclusion – Response accepted.

Decatur County

Schedule of Findings

Year ended June 30, 2004

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

| Name, Title and Business Connection | Transaction Description | Amount |
|---|-----------------------------------|----------|
| Larry Eastin, County Supervisor, brother-in-law is owner of Boyd Construction | Construction of building, per bid | \$ 6,847 |

The transaction with Boyd Construction does not represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa since it was entered into through competitive bidding and Supervisor Eastin abstained from voting on the approval of the contract.

- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments – Except as noted above, 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 investments policy were noted.
- (9) Resource Enhancement and Protection (REAP) Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (10) Medical Co-Payment Plan – The County provides employees health insurance and other benefits through a partially self-insured benefit plan. Chapter 509A.15 of the Code of Iowa requires the County to obtain an actuarial opinion issued by a member of the American Academy of Actuaries which attests to the adequacy of reserves, rates and the financial condition of the plan and to file an annual financial report with the Insurance Commissioner.

Decatur County

Schedule of Findings

Year ended June 30, 2004

Recommendation – The County should obtain an actuarial opinion, issued by a member of the American Academy of Actuaries, as required. The County should also file an annual financial report with the Insurance Commissioner as required.

Response – The County Insurance Program will soon be depleted of funds and the program will cease to exist.

Conclusion – Response acknowledged.

- (11) County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

Recommendation – This compilation of County ordinances should be prepared and published as required by Section 331.302(9) of the Code of Iowa.

Response – The Board will commence work on this requirement.

Conclusion – Response accepted.

- (12) 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.

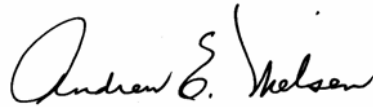
Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

Decatur County

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
Daniel L. Durbin, CPA, Staff Auditor
Shawn Limback, CPA, Staff Auditor
Amanda S. Guthrie, Assistant Auditor
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Andrew E. Nielsen, CPA
Deputy Auditor of State