



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ March 19, 2007

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

The County had local tax revenue of \$7,557,552 for the year ended June 30, 2006, which included \$569,951 in tax credits from the state. The County forwarded \$5,571,522 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$1,986,030 of the local tax revenue to finance County operations, an 8% increase over the prior year. Other revenues included charges for service of \$1,000,975, operating grants, contributions and restricted interest of \$3,142,332, capital grants, contributions and restricted interest of \$2,984,467, local option sales tax of \$181,061, unrestricted investment earnings of \$92,268 and other general revenues of \$203,582.

Expenses for County operations totaled \$6,784,974, a 21.5% increase over the prior year. Expenses included \$2,818,926 for roads and transportation, \$1,051,024 for mental health and \$881,566 for physical health and social services. The significant increase in expenses is associated with the county providing nursing services which it was not responsible for in the prior year and the purchase of secondary roads equipment.

A copy of the report is available for review in the County Auditor's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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DECATUR COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

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Decatur County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Eastin	Board of Supervisors	Jan 2007
J. R. Cornett	Board of Supervisors	Jan 2009
Gary Coffelt	Board of Supervisors	Jan 2009
Bill Greenwood	County Auditor	Jan 2009
Mary Andrew	County Treasurer	Jan 2007
Gale Norman	County Recorder	Jan 2007
Herbert Muir	County Sheriff	Jan 2009
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, 2006, 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.

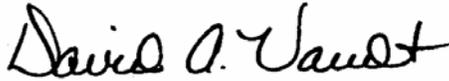
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2007 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 42 through 45 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 conducted 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 five years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 18, 2007

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, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- The County's governmental activities revenues increased 66.6%, or approximately \$3,834,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$128,000, operating grants and contributions increased approximately \$235,000 and capital grants and contributions increased approximately \$2,984,000.
- The County's governmental activities expenses increased 21.5%, or approximately \$1,201,000, from fiscal 2005 to fiscal 2006.
- The County's net assets increased 29.0%, or approximately \$2,806,000, from June 30, 2005 to June 30, 2006.
- During the course of the year, the County issued general obligation debt of \$100,391. Proceeds from this issuance were used to finance the purchase of a patrol vehicle for the County Sheriff's department, upgrade the county data processing system and purchase voting equipment mandated by the Help America Vote Act.
- Several new services were added or expanded during the course of the year. Expenditures in the physical health and social services function increased dramatically as a result of expanding Veteran Administration services, adding a new decategorization project known as Out of Home Placement Prevention and the return of the Public Health and Home Care Agency from the County Hospital.

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 revenues, expenses and changes in fund net assets and a statement of cash flows. A statement of net assets is not presented by the County at June 30, 2006 because the County's only Internal Service Fund was closed out in June 2006.

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 emergency management services and the County Assessor, to name a couple.

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

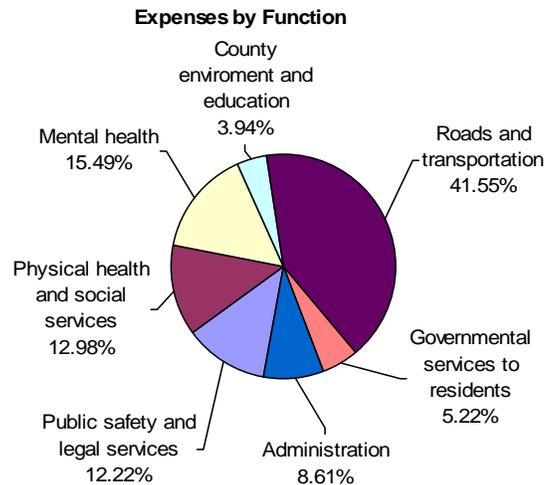
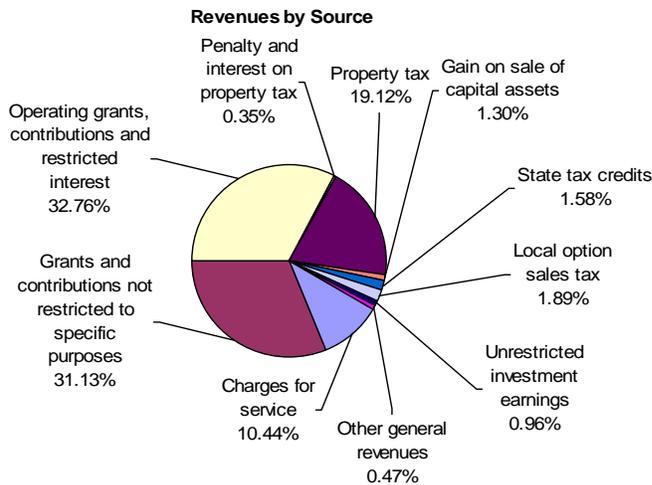
As noted earlier, net assets may serve over time as a useful indicator of financial position. Decatur County's combined net assets increased from \$9,685,569 to \$12,491,310. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities		
(Expressed in Thousands)		
	June 30,	
	2006	2005
Current and other assets	\$ 4,409	4,646
Capital assets	10,298	7,244
Total assets	<u>14,707</u>	<u>11,890</u>
Long-term liabilities	111	101
Other liabilities	2,105	2,103
Total liabilities	<u>2,216</u>	<u>2,204</u>
Net assets:		
Invested in capital assets, net of related debt	10,268	7,244
Restricted	1,265	1,467
Unrestricted	958	975
Total net assets	<u>\$ 12,491</u>	<u>9,686</u>

Net assets of Decatur County's governmental activities increased by 29.0% (\$12.49 million compared to \$9.69 million). The largest portion of the County's net assets is invested in capital assets (land, infrastructure, buildings and equipment). Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements—decreased from \$975,254 at June 30, 2005 to \$958,521 at the end of this year, a decrease of about 1.7%.

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

	Year ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 1,001	436
Operating grants, contributions and restricted interest	3,142	2,907
Capital grants, contributions and restricted interest	2,984	-
General revenues:		
Property tax	1,834	1,706
Penalty and interest on property tax	34	43
State tax credits	152	134
Local option sales tax	181	198
Grants and contributions not restricted to specific purposes	-	55
Unrestricted investment earnings	92	61
Gain on sale of capital assets	125	14
Other general revenues	45	202
Total revenues	9,590	5,756
Program expenses:		
Public safety and legal services	829	799
Physical health and social services	881	265
Mental health	1,051	1,000
County environment and education	267	315
Roads and transportation	2,819	2,448
Governmental services to residents	354	206
Administration	584	550
Interest on long-term debt	-	1
Total expenses	6,785	5,584
Increase in net assets	2,805	172
Net assets beginning of year	9,686	9,514
Net assets end of year	\$ 12,491	9,686



For the fiscal year ended June 30, 2006, the revenues from governmental activities totaled \$9,590,715, an increase of 66.6% from the prior year, primarily due to the inclusion of infrastructure additions. Property tax revenues account for 19.1% of the governmental activities revenues.

In fiscal 2006, the urban tax rate was \$7.96605 per \$1,000 of taxable valuation compared to the fiscal 2005 rate of \$7.17136 per \$1,000 of taxable valuation. The rural tax rate in fiscal 2006 was \$10.53794 per \$1,000 of taxable valuation compared to the fiscal 2005 tax rate of \$9.73946 per \$1,000 of taxable valuation.

The cost of all governmental activities this year was \$6.8 million compared to \$5.6 million last year. Much of this increase can be attributed to the expansion of programs/services and compliance with mandates. Specifically, costs increased due to the return of the Public Health and Home Care Agency and the creation of an Out of Home Placement Prevention Program. The County also incurred additional expenses as a result of compliance with the Help America Vote Act.

INDIVIDUAL MAJOR FUND ANALYSIS

As Decatur County completed the year, its governmental funds reported a combined fund balance of \$2,264,210, a decrease of \$252,546 from last year's total of \$2,516,756. The decrease in fund balance is primarily attributable to increased spending in the roads and transportation and physical health and social services functions. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues were \$2,615,733 while General Fund expenditures were \$2,646,450. The ending fund balance increased \$113,573 to \$781,469. The program/service additions brought additional funds into the treasury and provided funds that would allow our investment earnings to increase.
- Mental Health Fund expenditures increased from \$984,180 in fiscal 2005 to \$1,036,031 in fiscal 2006. In February 2006, the County made a one-time payment of \$50,000 to the Iowa Department of Human Services to settle a dispute involving Medicaid Home and Community Based Services Mental Retardation and Brain Injury Program funds.
- The Rural Services Fund balance decreased by \$65,151. For the past few years, the County has opted to use existing fund balance to support operations rather than increase tax askings.
- Secondary Roads Fund expenditures increased from \$2,413,129 in fiscal 2005 to \$2,804,295 in fiscal 2006. Much of this increase is attributed to equipment purchases. During the year, the County purchased two motorgraders, a new backhoe and a pickup truck.

BUDGETARY HIGHLIGHTS

Over the course of the year, Decatur County amended its budget three times. The first amendment was made in September 2005 and resulted in an increase in budgeted disbursements of \$465,978. The primary reason for this amendment was to incorporate the return of the Public Health and Home Care Agency and to begin a new decategorization program known as Out of Home Placement Prevention. At the time the original budget was certified, the addition of these programs was unknown to the County.

The second amendment was made in March 2006. The majority of this amendment, \$140,000, was for the Depot restoration project. The Depot currently houses the County Engineer and administrative staff of the Secondary Road Department. While the budget was amended for the project, a delay occurred and there were no disbursements for the project in the fiscal year. The capital projects function was also amended by \$35,000 to allow for possible capital expenditures in the Secondary Road system. The total amendment, after allowing for various departmental requests, increased budgeted disbursements by \$208,733.

The third amendment was made in May 2006. This amendment was technically a “clean up” amendment to cover unanticipated disbursements in various departments. Specifically amended were overtime and vehicle fuel disbursements in the County Sheriff’s Department, Public Health and Home Care Agency wages and benefits and Medical Examiner autopsy fees. Disbursements in each of these areas exceeded the original expectation. The amendment also allowed for the pay-off of a bank loan for automobiles for the Juvenile Tracking and Monitoring Program and for real estate and equipment disbursements in the Secondary Road system. Budgeted disbursements were increased by \$168,851.

The County’s receipts were \$56,567 less than budgeted, a variance of less than 1%. The total disbursements were \$441,823 less than the amended budget. Actual disbursements for the capital projects function were \$202,725 less than budgeted. This was primarily due to capital projects not completed as anticipated. Factors affecting these projects included workforce availability, environmental conditions and prioritization of other secondary road functions.

The County exceeded the budgeted amounts in the debt service for the year ended June 30, 2006 as a result of receiving resources that exceeded the amount budgeted. Therefore, the County paid down obligations so as to reduce the interest accruing on the obligation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, Decatur County had \$10,298,021 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 \$3,054,465, or 42.2%, above last year. The increase is due primarily to projects financed with farm-to-market funds.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2006	2005
Land	\$ 2,612	2,612
Buildings and improvements	1,268	1,291
Equipment and vehicles	1,815	1,644
Infrastructure	4,603	1,697
Total	\$ 10,298	7,244

The County had depreciation expense of \$471,871 in fiscal 2006 and total accumulated depreciation of \$3,001,665 at June 30, 2006. More detailed information about the County’s capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2006, Decatur County had approximately \$30,000 in general obligation loans and other debt outstanding.

Debt increased as a result of issuing a general obligation loan to finance the purchase of a patrol vehicle for the County Sheriff, upgrade the County’s data processing system and purchase voting equipment mandated by the Help America Vote Act and a bank loan for the purchase of three vehicles for the Juvenile Tracking and Monitoring program. In addition, the County entered into a capital lease purchase agreement to provide a mower for the County Conservation Department.

The amount of debt decreased during the year as a result of using debt service funds to pay-down the general obligation loan and the availability of funds to retire the bank loan well in advance of its maturity.

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. Using January 1, 2005 valuations, Decatur County's constitutional debt limit is \$15,017,611. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Decatur County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and the fees charged for various County activities. Each year the decisions are impacted by our limited taxable valuation. While the County has seen minimal growth in valuations, the effect of rollbacks and equalization orders makes it difficult to provide additional services above and beyond the basic services mandated by the Code of Iowa.

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, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 1,971,694
Receivables:	
Property tax:	
Delinquent	10,164
Succeeding year	1,795,000
Interest and penalty on property tax	25,138
Accounts	2,499
Accrued interest	6,807
Due from other governments	347,373
Inventories	249,911
Capital assets - nondepreciable	2,611,644
Capital assets - depreciable (net)	7,686,377
Total assets	<u>14,706,607</u>
Liabilities	
Accounts payable	65,405
Salaries and benefits payable	110,261
Due to other governments	133,808
Deferred revenue:	
Succeeding year property tax	1,795,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreement	1,835
General obligation loan	24,244
Compensated absences	73,980
Portion due or payable after one year:	
Capital lease purchase agreement	4,196
Compensated absences	6,568
Total liabilities	<u>2,215,297</u>
Net Assets	
Invested in capital assets, net of related debt	10,267,746
Restricted for:	
Supplemental levy purposes	159,506
Mental health purposes	101,272
Secondary roads purposes	948,407
Debt service	4,216
Other purposes	51,642
Unrestricted	958,521
Total net assets	<u>\$ 12,491,310</u>

See notes to financial statements.

Decatur County
Statement of Activities
Year ended June 30, 2006

	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	\$ 828,902	48,136	42,975	-	(737,791)
Physical health and social services	881,566	456,682	441,108	-	16,224
Mental health	1,051,024	174,196	437,737	-	(439,091)
County environment and education	266,801	43,345	20,735	-	(202,721)
Roads and transportation	2,818,926	93,428	2,105,286	2,984,467	2,364,255
Governmental services to residents	353,901	164,119	94,491	-	(95,291)
Administration	583,676	21,069	-	-	(562,607)
Interest on long-term debt	178	-	-	-	(178)
Total	\$ 6,784,974	1,000,975	3,142,332	2,984,467	342,800
General Revenues:					
Property and other county tax levied for:					
General purposes					1,764,850
Debt service					69,512
Penalty and interest on property tax					33,699
State tax credits					151,668
Local option sales tax					181,061
Grants and contributions not restricted to specific purpose					313
Unrestricted investment earnings					92,268
Gain on sale of capital assets					124,907
Miscellaneous					44,663
Total general revenues					2,462,941
Change in net assets					2,805,741
Net assets beginning of year					9,685,569
Net assets end of year					\$ 12,491,310

See notes to financial statements.

Decatur County
Balance Sheet
Governmental Funds

June 30, 2006

	General	Mental Health
Assets		
Cash and pooled investments	\$ 752,275	212,833
Receivables:		
Property tax:		
Delinquent	6,815	1,790
Succeeding year	1,131,000	286,000
Interest and penalty on property tax	25,138	-
Accounts	2,090	390
Accrued interest	6,485	-
Due from other funds	564	-
Due from other governments	133,158	16,379
Inventories	-	-
	\$ 2,057,525	517,392
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 39,759	4,807
Salaries and benefits payable	52,867	5,562
Due to other funds	938	772
Due to other governments	14,826	115,948
Deferred revenue:		
Succeeding year property tax	1,131,000	286,000
Other	36,666	1,749
Total liabilities	1,276,056	414,838
Fund balances:		
Reserved for:		
Supplemental levy purposes	159,799	-
Debt service	-	-
Unreserved, reported in:		
General fund	621,670	-
Special revenue funds	-	102,554
Total fund balances	781,469	102,554
	\$ 2,057,525	517,392

See notes to financial statements.

Special Revenue			
Rural Services	Secondary Roads	Nonmajor	Total
294,698	653,731	58,157	1,971,694
1,144	-	415	10,164
309,000	-	69,000	1,795,000
-	-	-	25,138
9	10	-	2,499
-	82	240	6,807
-	1,863	-	2,427
30,827	163,020	3,989	347,373
-	249,911	-	249,911
635,678	1,068,617	131,801	4,411,013
1,302	17,411	2,126	65,405
3,904	46,053	1,875	110,261
717	-	-	2,427
-	92	2,942	133,808
309,000	-	69,000	1,795,000
1,082	-	405	39,902
316,005	63,556	76,348	2,146,803
-	-	-	159,799
-	-	3,811	3,811
-	-	-	621,670
319,673	1,005,061	51,642	1,478,930
319,673	1,005,061	55,453	2,264,210
635,678	1,068,617	131,801	4,411,013

Decatur County

Decatur County

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

June 30, 2006

Total governmental fund balances (page 19) \$ 2,264,210

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 \$13,299,686 and the accumulated depreciation is \$3,001,665. 10,298,021

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 39,902

Long-term liabilities, including capital lease purchase agreement payable, general obligation loan payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (110,823)

Net assets of governmental activities (page 16) \$ 12,491,310

See notes to financial statements.

Decatur County

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

Year ended June 30, 2006

	General	Mental Health
Revenues:		
Property and other county tax	\$ 1,128,647	296,416
Interest and penalty on property tax	32,839	-
Intergovernmental	1,071,452	631,191
Licenses and permits	1,952	-
Charges for service	250,907	-
Use of money and property	89,783	5,473
Miscellaneous	40,153	10,206
Total revenues	<u>2,615,733</u>	<u>943,286</u>
Expenditures:		
Operating:		
Public safety and legal services	679,312	-
Physical health and social services	941,256	-
Mental health	-	1,036,031
County environment and education	116,053	-
Roads and transportation	-	-
Governmental services to residents	337,975	-
Administration	571,854	-
Debt service	-	-
Capital projects	-	-
Total expenditures	<u>2,646,450</u>	<u>1,036,031</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(30,717)</u>	<u>(92,745)</u>
Other financing sources (uses):		
Sale of capital assets	-	-
Proceeds of long-term debt	135,679	-
Capital lease purchase agreement	7,710	-
Operating transfers in	901	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>144,290</u>	<u>-</u>
Net change in fund balances	113,573	(92,745)
Fund balances beginning of year	667,896	195,299
Fund balances end of year	<u>\$ 781,469</u>	<u>102,554</u>

See notes to financial statements.

Special Revenue			
Rural Services	Secondary Roads	Nonmajor	Total
504,179	-	70,542	1,999,784
-	-	-	32,839
34,979	2,120,286	29,823	3,887,731
-	230	-	2,182
-	5	40,161	291,073
-	659	1,810	97,725
1,004	90,973	11,948	154,284
540,162	2,212,153	154,284	6,465,618
119,784	-	1,008	800,104
-	-	5,831	947,087
-	-	-	1,036,031
73,723	-	57,217	246,993
34,924	2,674,105	-	2,709,029
2,574	-	15,458	356,007
-	-	108	571,962
-	-	76,325	76,325
-	130,190	-	130,190
231,005	2,804,295	155,947	6,873,728
309,157	(592,142)	(1,663)	(408,110)
550	11,625	-	12,175
-	-	-	135,679
-	-	-	7,710
1,802	376,660	-	379,363
(376,660)	-	(2,703)	(379,363)
(374,308)	388,285	(2,703)	155,564
(65,151)	(203,857)	(4,366)	(252,546)
384,824	1,208,918	59,819	2,516,756
319,673	1,005,061	55,453	2,264,210

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, 2006

Net change in fund balances - Total governmental funds (page 23) \$ (252,546)

**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	\$ 429,137	
Capital assets contributed by the Iowa Department of Transportation	2,984,467	
Depreciation expense	(471,871)	2,941,733

In the Statement of Activities, the gain on the sale of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. 112,732

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, as follows:

Property tax	10,750	
Other	4,957	15,707

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

Issued	(143,389)	
Repaid	113,114	(30,275)

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 the governmental funds. 20,921

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. (2,531)

Change in net assets of governmental activities (page 17) \$ 2,805,741

See notes to financial statements.

Decatur County

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

Year ended June 30, 2006

	<u>Internal Service - Medical Co-Payment</u>
Operating revenues:	
Insurance reimbursements	\$ 12,780
Operating expenses:	
Medical claims	(15,327)
Operating loss	<u>(2,547)</u>
Non-operating revenues:	
Interest income	16
Net loss	<u>(2,531)</u>
Net assets beginning of year	<u>2,531</u>
Net assets end of year	<u>\$ -</u>

See notes to financial statements.

Decatur County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2006

	<u>Internal Service - Medical Co-Payment</u>
Cash flows from operating activities:	
Cash received from insurance reimbursements	\$ 12,780
Cash paid to suppliers for services	(17,010)
Net cash used by operating activities	<u>(4,230)</u>
Cash flows from investing activities:	
Interest on investments	34
Net decrease in cash and cash equivalents	(4,196)
Cash and cash equivalents beginning of year	<u>4,196</u>
Cash and cash equivalents end of year	<u><u>\$ -</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (2,547)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Decrease in accounts payable	(1,683)
Net cash used by operating activities	<u><u>\$ (4,230)</u></u>

See notes to financial statements.

Decatur County
Statement of Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2006

Assets

Cash and pooled investments:

County Treasurer	\$ 443,945
Other County officials	2,695

Receivables:

Property tax:	
Delinquent	32,192
Succeeding year	4,935,000
Accounts	11,653
Accrued interest	183

Total assets	5,425,668
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Liabilities

Accounts payable	95
Salaries and benefits payable	4,483
Due to other governments	5,416,730
Trusts payable	4,360

Total liabilities	5,425,668
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Net assets	\$ -
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See notes to financial statements.

Decatur County

Notes to Financial Statements

June 30, 2006

(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. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations for which the County is not financially accountable or 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 included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following jointly governed organizations: 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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest 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.

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund was 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. The County closed the Internal Service Fund during the year ended June 30, 2006.

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-reimbursement 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

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, 2006, 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 acquired after July 1, 2003 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), 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, 2006. 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,488,893 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the County.

Credit risk. The investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk. The County places no limit on the amount that may be invested in any one issuer.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue: Mental Health	\$ 564
Special Revenue: Secondary Roads	General Special Revenue: Rural Services Mental Health	938 717 208
Total		<u>\$ 2,427</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, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Special Law Enforcement Proceeds	\$ 901
Special Revenue: Rural Services	Special Revenue: Special Law Enforcement Proceeds	1,802
Secondary Roads	Rural Services	376,660
Total		<u>\$ 379,363</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, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,611,644	-	-	2,611,644
Construction in progress	-	2,950,124	2,950,124	-
Total capital assets not being depreciated	<u>2,611,644</u>	<u>2,950,124</u>	<u>2,950,124</u>	<u>2,611,644</u>
Capital assets being depreciated:				
Buildings	1,238,267	-	-	1,238,267
Improvements other than buildings	340,182	13,215	-	353,397
Equipment and vehicles	4,207,699	544,672	402,010	4,350,361
Infrastructure, road network	1,761,550	2,984,467	-	4,746,017
Total capital assets being depreciated	<u>7,547,698</u>	<u>3,542,354</u>	<u>402,010</u>	<u>10,688,042</u>
Less accumulated depreciation for:				
Buildings	246,585	27,763	-	274,348
Improvements other than buildings	41,475	7,470	-	48,945
Equipment and vehicles	2,563,530	357,762	385,992	2,535,300
Infrastructure, road network	64,196	78,876	-	143,072
Total accumulated depreciation	<u>2,915,786</u>	<u>471,871</u>	<u>385,992</u>	<u>3,001,665</u>
Total capital assets being depreciated, net	<u>4,631,912</u>	<u>3,070,483</u>	<u>16,018</u>	<u>7,686,377</u>
Governmental activities capital assets, net	<u>\$ 7,243,556</u>	<u>6,020,607</u>	<u>2,966,142</u>	<u>10,298,021</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 41,506
Physical health and social services	5,939
Mental health	14,895
County environment and education	21,571
Roads and transportation	366,468
Administration	<u>21,492</u>
Total depreciation expense - governmental activities	<u>\$ 471,871</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	\$ 14,826
Special Revenue:		
Mental Health	Services	115,948
Secondary Roads		92
Emergency Medical Systems		2,942
		<u>118,982</u>
Total for governmental funds		<u>\$ 133,808</u>
Agency:		
County Assessor	Collections	\$ 211,144
Schools		3,119,398
Community Colleges		122,517
Corporations		1,079,575
Townships		108,055
Auto License and Use Tax		124,556
All other		651,485
Total for agency funds		<u>\$ 5,416,730</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Capital Lease Purchase Agreement	General Obligation Loan	Bank Loan	Compen- sated Absences	Total
Balance beginning of year	\$ -	-	-	101,469	101,469
Increases	7,710	100,391	35,288	102,922	246,311
Decreases	1,679	76,147	35,288	123,843	236,957
Balance end of year	<u>\$ 6,031</u>	<u>24,244</u>	<u>-</u>	<u>80,548</u>	<u>110,823</u>
Due within one year	<u>\$ 1,835</u>	<u>24,244</u>	<u>-</u>	<u>73,980</u>	<u>100,059</u>

Capital Lease Purchase Agreement

The County entered into capital lease purchase agreement to lease a John Deere Mower for the Conservation Department. The following is a schedule of future minimum lease payments, including interest at 8.90% per annum:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>John Deere</u> <u>Mower</u>
2007	\$ 2,394
2008	2,394
2009	2,394
Total minimum lease payments	<u>7,182</u>
Less amount representing interest	<u>(1,151)</u>
Present value of net minimum lease payments	<u>\$ 6,031</u>

During the year ended June 30, 2006, the County made principal and interest payments of \$1,679 and \$715, respectively.

General Obligation Loan

In February 2006, the County entered into a general obligation loan agreement, not to exceed \$225,000, with a June 30, 2007 initial maturity date and interest of 4.25% per annum, for the acquisition of patrol cars, voting equipment and computer equipment for County Offices.

During the year ended June 30, 2006, the County borrowed \$100,391 and made principal and interest payments of \$76,147 and \$178, respectively. The County makes payments on the loan as funds are available in the Debt Service Fund.

Bank Loan

The County into a loan agreement for \$35,288 for the purchase of vehicles and completely repaid the loan by June 30, 2006.

(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 were 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 Auditor.

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 reimbursed eligible employees for a portion of the deductible.

As of June 30, 2006, the County closed out the Medical Co-Payment Plan fund.

(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.

Most plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$144,401, \$119,065 and \$135,023, respectively, equal to the required contributions for each year.

(10) Risk Management

Decatur County is a member in the Heartland Insurance Risk Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Heartland Insurance Risk Pool (Pool) is a local government risk-sharing pool whose membership includes ten counties throughout the State of Iowa. The Pool was formed in July 1987 to provide workers' compensation and property/casualty insurance for its members. The risk pool was created for the purposes of providing and maintaining self-insurance benefits on a group basis substantially at cost.

Each member County is responsible for the payment of member contributions to the risk pool on an annual basis. Member contributions to the risk pool are recorded as expenditures from the operating funds at the time of payment to the risk pool. In the event of payment of any loss by the risk pool, the risk pool is subrogated to the extent of such payment to all the rights of the member County against any person or other entity legally responsible for damages for said loss, and in such event, the member County is responsible for rendering all reasonable assistance, other than pecuniary assistance, to affect recovery. The risk pool is responsible for paying the reinsurance premiums on the insurance policies when due, to pay claims in accordance with the various coverages and to make other payments as required by applicable law, to establish and accumulate a reserve or reserves in amounts which are deemed advisable or required by law to carry out the purposes of the risk pool, and to pay all reasonable and necessary expenses for administering the risk pool and fund.

Initial risk of loss for the self-insured coverages is retained by the risk pool. The risk pool obtained a reinsurance policy for the year ended June 30, 2006, which covers exposures of specific losses in excess of \$350,000 per occurrence for workers' compensation and in excess of \$250,000 per occurrence, up to a maximum of \$5,000,000 per occurrence, including the retention of the pool, for general and automobile liability. The risk pool records a liability for unpaid claims based on estimates of reported and incurred but not reported claims and related loss adjustments expenses. At June 30, 2006, 2005 and 2004, the risk pool reported a surplus of assets over liabilities.

Member Counties retain the risk of claims, if any, exceeding maximum reinsurance coverages and the amount of surplus maintained in the risk pool by means of an assessment that would be charged to the member County in addition to the premium contributions. At June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since commencement of the risk pool.

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, 2006 were \$198,608.

Initial membership into the risk pool is for a mandatory three year period. Subsequent to the initial term, a member County may withdraw at the end of any given fiscal year. The initial membership period for Decatur commenced July 1, 1987, and is subject to renewal every three years. The County also carries commercial insurance purchased by the risk pool from other insurers for coverages associated with the employee blanket bond. 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) Medicaid Settlement

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. The County settled the lawsuit for \$50,000 in February 2006.

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, 2006

	<u>Actual</u>
Receipts:	
Property and other county tax	\$ 2,028,120
Interest and penalty on property tax	-
Intergovernmental	3,836,024
Licenses and permits	2,271
Charges for service	288,665
Use of money and property	100,627
Miscellaneous	151,479
Total receipts	<u>6,407,186</u>
Disbursements:	
Public safety and legal services	801,492
Physical health and social services	939,355
Mental health	1,088,284
County environment and education	244,123
Roads and transportation	2,759,029
Governmental services to residents	338,910
Administration	580,020
Debt service	76,325
Capital projects	129,275
Total disbursements	<u>6,956,813</u>
Deficiency of receipts under disbursements	(549,627)
Other financing sources, net	147,854
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(401,773)
Balance beginning of year	<u>2,373,467</u>
Balance end of year	<u>\$ 1,971,694</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
2,002,033	2,019,213	8,907
35,500	35,500	(35,500)
3,279,142	3,968,611	(132,587)
1,363	1,363	908
187,791	261,221	27,444
59,130	89,130	11,497
55,615	88,715	62,764
5,620,574	6,463,753	(56,567)
771,069	810,121	8,629
449,029	1,011,645	72,290
1,095,794	1,095,794	7,510
244,845	251,303	7,180
2,703,591	2,885,691	126,662
350,655	355,929	17,019
568,091	581,153	1,133
75,000	75,000	(1,325)
297,000	332,000	202,725
6,555,074	7,398,636	441,823
(934,500)	(934,883)	385,256
120,000	165,787	(17,933)
(814,500)	(769,096)	367,323
2,139,638	2,360,903	12,564
1,325,138	1,591,807	379,887

Decatur County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 6,407,186	58,432	6,465,618
Expenditures	6,956,813	(83,085)	6,873,728
Net	(549,627)	141,517	(408,110)
Other financing sources, net	147,854	7,710	155,564
Beginning fund balances	2,373,467	143,289	2,516,756
Ending fund balances	\$ 1,971,694	292,516	2,264,210

See accompanying independent auditor's report.

Decatur County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds 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, three budget amendments increased budgeted disbursements by \$843,562. 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, 2006, disbursements exceeded the amount budgeted in the debt service function.

Decatur County

Other Supplementary Information

Decatur County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment and Protection	Special Little River Lake Improvement
Assets				
Cash and pooled investments	\$ 4,371	-	7,029	29,355
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Accrued interest	13	-	34	-
Due from other governments	-	-	-	-
Total assets	\$ 4,384	-	7,063	29,355
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	-	-	1,279
Salaries and benefits payable	-	-	-	1,875
Due to other governments	-	-	-	-
Deferred revenue:				
Succeeding year property tax	-	-	-	-
Other	-	-	-	-
Total liabilities	-	-	-	3,154
Fund equity:				
Fund balances:				
Reserved for debt service	-	-	-	-
Unreserved	4,384	-	7,063	26,201
Total fund equity	4,384	-	7,063	26,201
Total liabilities and fund equity	\$ 4,384	-	7,063	29,355

See accompanying independent auditor's report.

Revenue							
Structure Operation and Main- tenance	Emergency Medical Systems	Special Law Enforcement Proceeds	TIF # 1	Courthouse Repair	Debt Service	Total	
5,085	1,270	3,457	-	3,967	3,623	58,157	
-	-	-	-	-	415	415	
-	-	-	2,000	-	67,000	69,000	
-	-	-	-	15	178	240	
-	3,789	200	-	-	-	3,989	
5,085	5,059	3,657	2,000	3,982	71,216	131,801	
-	847	-	-	-	-	2,126	
-	-	-	-	-	-	1,875	
-	2,942	-	-	-	-	2,942	
-	-	-	2,000	-	67,000	69,000	
-	-	-	-	-	405	405	
-	3,789	-	2,000	-	67,405	76,348	
-	-	-	-	-	3,811	3,811	
5,085	1,270	3,657	-	3,982	-	51,642	
5,085	1,270	3,657	-	3,982	3,811	55,453	
5,085	5,059	3,657	2,000	3,982	71,216	131,801	

Decatur County

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

Year ended June 30, 2006

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Resource Enhance- ment and Protection	Little River Lake Improvement
Revenues:				
Property and other county tax	\$ -	-	-	-
Intergovernmental	-	-	4,366	12,659
Charges for service	2,066	-	-	38,095
Use of money and property	149	-	273	-
Miscellaneous	-	-	-	7,221
Total revenues	2,215	-	4,639	57,975
Expenditures:				
Operating:				
Public safety and legal services	-	-	-	-
Physical health and social services	-	-	-	-
County environment and education	-	-	4,187	47,590
Governmental services to residents Administration	4,684	10,774	-	-
Debt service	-	-	-	-
Total expenditures	4,684	10,774	4,187	47,590
Excess (deficiency) of revenues over (under) expenditures	(2,469)	(10,774)	452	10,385
Other financing uses:				
Operating transfers out	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(2,469)	(10,774)	452	10,385
Fund balances beginning of year	6,853	10,774	6,611	15,816
Fund balances end of year	\$ 4,384	-	7,063	26,201

See accompanying independent auditor's report.

Special Revenue						
Structure Operation and Main- tenance	Emergency Medical Systems	Special Law Enforcement Proceeds	TIF # 1	Courthouse Repair	Debt Service	Total
-	-	-	1,435	-	69,107	70,542
-	5,862	1,119	-	-	5,817	29,823
-	-	-	-	-	-	40,161
-	-	-	-	145	1,243	1,810
-	288	4,439	-	-	-	11,948
-	6,150	5,558	1,435	145	76,167	154,284
-	-	1,008	-	-	-	1,008
-	5,831	-	-	-	-	5,831
4,005	-	-	1,435	-	-	57,217
-	-	-	-	-	-	15,458
-	-	-	-	108	-	108
-	-	-	-	-	76,325	76,325
4,005	5,831	1,008	1,435	108	76,325	155,947
(4,005)	319	4,550	-	37	(158)	(1,663)
-	-	(2,703)	-	-	-	(2,703)
(4,005)	319	1,847	-	37	(158)	(4,366)
9,090	951	1,810	-	3,945	3,969	59,819
5,085	1,270	3,657	-	3,982	3,811	55,453

Decatur County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,179	112,857	92,151
Other County officials	2,695	-	-	-
Receivables:				
Property tax:				
Delinquent	-	229	770	18,247
Succeeding year	-	37,000	102,000	3,009,000
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Total assets	\$ 2,695	38,408	215,627	3,119,398
Liabilities				
Accounts payable	\$ -	-	-	-
Salaries and benefits payable	-	-	4,483	-
Due to other governments	580	38,408	211,144	3,119,398
Trusts payable	2,115	-	-	-
Total liabilities	\$ 2,695	38,408	215,627	3,119,398

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
3,783	29,012	3,660	124,556	76,747	443,945
-	-	-	-	-	2,695
734	8,563	395	-	3,254	32,192
118,000	1,042,000	104,000	-	523,000	4,935,000
-	-	-	-	11,653	11,653
-	-	-	-	183	183
122,517	1,079,575	108,055	124,556	614,837	5,425,668
-	-	-	-	95	95
-	-	-	-	-	4,483
122,517	1,079,575	108,055	124,556	612,497	5,416,730
-	-	-	-	2,245	4,360
122,517	1,079,575	108,055	124,556	614,837	5,425,668

Decatur County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2006

	Agricultural			
	County Offices	Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 5,042	37,248	214,658	2,946,006
Additions:				
Property and other county tax	-	39,007	107,593	3,144,256
State tax credits	-	3,216	10,800	255,514
Drivers license fees	-	-	-	-
Office fees and collections	242,006	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Trusts	81,561	-	-	-
Miscellaneous	-	-	1,027	-
Total additions	<u>323,567</u>	<u>42,223</u>	<u>119,420</u>	<u>3,399,770</u>
Deductions:				
Agency remittances:				
To other funds	158,268	-	-	-
To other governments	85,491	41,063	118,451	3,226,378
Trusts paid out	82,155	-	-	-
Total deductions	<u>325,914</u>	<u>41,063</u>	<u>118,451</u>	<u>3,226,378</u>
Balances end of year	<u>\$ 2,695</u>	<u>38,408</u>	<u>215,627</u>	<u>3,119,398</u>

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
119,996	1,043,069	102,877	127,941	593,488	5,190,325
123,780	1,081,525	109,750	-	547,328	5,153,239
10,295	84,074	8,750	-	45,634	418,283
-	-	-	-	24,349	24,349
-	-	-	-	-	242,006
-	-	-	1,526,889	-	1,526,889
-	-	-	-	-	81,561
-	1,836	-	-	444,701	447,564
134,075	1,167,435	118,500	1,526,889	1,062,012	7,893,891
-	-	-	68,726	-	226,994
131,554	1,130,929	113,322	1,461,548	1,040,663	7,349,399
-	-	-	-	-	82,155
131,554	1,130,929	113,322	1,530,274	1,040,663	7,658,548
122,517	1,079,575	108,055	124,556	614,837	5,425,668

Schedule 5

Decatur County

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

For the Last Five Years

	Modified Accrual Basis					
	2006	2005	2004	2003	2002	2001
Revenues:						
Property and other county tax	\$ 1,999,784	1,877,163	1,876,026	1,799,344	1,792,627	1,661,809
Interest and penalty on property tax	32,839	34,739	35,514	35,918	41,588	34,660
Intergovernmental	3,887,731	3,443,926	3,692,694	3,642,197	3,487,548	3,457,653
Licenses and permits	2,182	1,423	1,928	1,088	1,258	2,138
Charges for service	291,073	201,075	215,488	171,324	148,214	128,807
Use of money and property	97,725	71,165	47,470	52,372	93,532	164,907
Miscellaneous	154,284	121,849	145,044	168,066	171,776	98,268
Total	\$ 6,465,618	5,751,340	6,014,164	5,870,309	5,736,543	5,548,242
Expenditures:						
Operating:						
Public safety and legal services	\$ 800,104	750,691	729,783	713,309	762,979	600,532
Physical health and social services	947,087	262,646	241,225	222,525	282,426	287,817
Mental health	1,036,031	984,180	1,401,743	1,569,514	1,393,662	876,500
County environment and education	246,993	294,236	271,347	242,942	226,864	296,113
Roads and transportation	2,709,029	2,333,815	2,863,419	2,408,685	2,166,778	2,225,251
Governmental services to residents	356,007	231,351	203,776	192,437	190,211	169,997
Administration	571,962	485,066	503,373	471,991	487,619	445,162
Debt service	76,325	73,226	74,972	75,000	75,138	75,000
Capital projects	130,190	116,314	100,150	88,127	95,925	330,855
Total	\$ 6,873,728	5,531,525	6,389,788	5,984,530	5,681,602	5,307,227

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated January 18, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 opinions on the financial statements and not to provide an opinion 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 of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2006 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.

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 18, 2007

Decatur County

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

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:
- (1) Treasurer – The duties of opening and listing mail receipts, collecting, depositing, posting, daily reconciling and custodian of change fund are not segregated. Bank accounts are not reconciled monthly by an individual who does not handle cash and are not reviewed periodically by an independent person for propriety. Also, a list of checks received in the mail should be periodically completed and compared with receipts listed. A change fund for the Treasurer's Office is shared among employees.
 - (2) Recorder – The duties of opening and listing mail receipts, collecting, depositing, posting and daily reconciling are not segregated. Bank reconciliations are not reviewed periodically by an independent person for propriety. A list of receipts received in the mail should be prepared by the person opening the mail. Also, the person who signs checks is not independent of the person approving disbursements, handling cash, recording cash receipts and preparing checks
 - (3) Sheriff – The duties of opening and listing mail receipts, collecting, depositing, posting, daily reconciling and custodian of change fund are not segregated. Bank accounts are reconciled monthly, but no evidence of review exists to identify an independent person has reviewed the reconciliation for propriety. Also, a list of checks received in the mail is periodically completed, but is not reviewed by an independent individual.
 - (4) Secondary Roads – The duties of collecting, depositing, posting and daily reconciling are not segregated. A restrictive endorsement is not placed on checks immediately upon receipt. There is a lack of segregation of duties between purchasing recording, reconciling and custody of assets.
 - (5) Conservation – The duties of collecting and listing receipts for camping fees are not segregated, an initial listing is not completed and used to reconcile the amount collected to the cash receipt recorded and a restrictive endorsement was not placed on checks immediately upon receipt.

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, 2006

Responses –

Treasurer – We will list mail more frequently and follow through with tracking the funds received from receipt to deposit. The financial manager in the County Auditor’s Office will review the monthly bank reconciliation and initial. We will continue to share the cash drawers which are balanced at the end of the day and counted back into the drawer each morning. Everyone shares in the end of day balancing.

Recorder – One person writes checks and the other employee signs them. We take turns doing 18 column entries and making deposits. We take turns opening the mail. We each write receipts for checks and documents we record. Bank statements are shared between both employees. Due to the fact there are only two employees in the office, we share the responsibilities. We share responsibility of monthly and quarterly reports.

Sheriff – Duties of opening and listing mail are performed by the dispatcher on duty during the 8 – 4 shift, Monday through Saturday. Depositing, posting, and reconciling of incoming funds are done by 2 different employees. Bank accounts are reconciled monthly by an employee who is independent of depositing and recording of transactions. The Sheriff reviews and will initial and date the reconciliation in the future. The mail opener will now review the list of incoming receipts and compare to individual checking randomly to full circle and will initial and date when done.

Secondary Roads – Secondary Roads in Decatur County is a one-deep operation. There is no independent person. However, we are open to any discussion to improve segregation of duties. With respect to asset management, County Engineer can perform or have performed periodic (annual) review of assets as discussed with auditors. Stamping check payments for miscellaneous material sales as “deposit only” is a good idea and we will start doing so as soon as we obtain a stamp.

Conservation – We will start stamping all checks “For Deposit Only.” As soon as we get a second employee, we will start having that employee verify all receipts.

Conclusions –

Treasurer – Response acknowledged. Official should review the operating procedures to obtain the maximum internal control possible under the circumstances.

Recorder – Response acknowledged. Official should review the operating procedures to obtain the maximum internal control possible under the circumstances.

Sheriff – Response accepted.

Decatur County

Schedule of Findings

Year ended June 30, 2006

Secondary Roads – Response acknowledged. Official should review the operating procedures to obtain the maximum internal control possible under the circumstances.

Conservation – Response accepted.

- (B) Capital Assets Inventory – The capital assets listing was not reviewed periodically during the year ended June 30, 2006 to verify whether assets on the listing existed or all assets were included on the capital asset list.

Recommendation – A person who does not have responsibility for capital assets or maintenance of the capital asset listing should periodically verify assets on the list to ensure they exist and all capital assets are included on the list.

Response – We will plan to monitor our current policy on capital assets more closely and periodically verify:

1. Assets are being included on the capital assets list.
2. Additions and deletions are being reported.
3. All capital assets can be accounted for.

Conclusion – Response accepted.

- (C) 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.
- ownership of in-house developed software and data

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

Decatur County

Schedule of Findings

Year ended June 30, 2006

written disaster recovery plan should also be developed, including confirmation from suppliers the County's system could be replaced in a timely manner.

Response – While our County does not have written policies, offices and departments do exercise password privacy and confidentiality practices and change login passwords periodically, using unique identifications.

We will plan to develop policies on those weaknesses set forth above as well as a policy signed off on by our computer/software equipment supplier for a disaster recovery plan and/or system replacement in a timely manner as per your recommendation.

Conclusion – Response accepted.

- (D) County Sheriff Fuel Card Purchases – A reconciliation of use of fuel card purchases was not performed. Officers call dispatch, who logs the following when refueling occurs: gallons purchased and place fueling occurred. A billing invoice is received identifying the amount purchased and date.

Recommendation – A reconciliation of the fuel purchased and invoice should be performed.

Response – Sheriff's Office will randomly reconcile use of fuel with billings and will initial listing when done.

Conclusion – Response accepted.

- (E) County Sheriff – Book balances were not being reconciled to the trust account listings.

Recommendation – Book balances should be reconciled at the end of each month and reconciled to a list of trusts on hand.

Response – Book balances will be reconciled at the end of each month and reconciled to a list of trusts on hand.

Conclusion – Response accepted

- (F) Proper Documentation – Certain expenditures by the Conservation Department were not accompanied by proper itemization and support of the expenditures.

Recommendation – Expenditures should be scrutinized to ensure adequate support accompanies the disbursement prior to the approval of the expenditure.

Response – We will get invoices or statements for all expenditures.

Conclusion – Response accepted.

Decatur County

Schedule of Findings

Year ended June 30, 2006

- (G) Cancellation of Invoices at Conservation Department – Certain Conservation Department invoices were not cancelled to prevent reuse.

Recommendation – Invoices should be cancelled to prevent reuse to avoid duplication of expenditures.

Response – We will start stamping all invoices “PAID.”

Conclusion – Response accepted.

- (H) Summary of Receipts and Disbursements – The County Recorder’s and County Sheriff’s Offices do not prepare a summary worksheet of receipts and disbursements to ensure completeness of financial records.

Recommendation – The County Recorder’s and Sherriff’s Offices should summarize receipts and disbursements at the end of each month.

Responses –

Recorder – We will do an excel spreadsheet for the fiscal year end and try to comply with auditor’s recommendations.

Sheriff – The County Sheriff’s Office does prepare a monthly worksheet of receipts and disbursements and in the future will summarize these monthly worksheets at year end.

Conclusion – Response accepted.

- (I) Monthly Accounts Receivable Reconciliation – The County Public Health Office accounts receivable control account was not reconciled to the monthly billings and receipts.

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

Response – I will work with the Decatur County Auditor’s Office to make sure we get in compliance with the accounts receivable reconciliation

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Decatur County
 Schedule of Findings
 Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the debt service function.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will plan to avoid exceeding our budgeted amount this fiscal year to meet Code of Iowa requirements.

Conclusion – Response accepted.

- (2) 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.

- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Steven Fulkerson, employed by Secondary Road Dept., owner of M & M Welding	steel/repair steel and welding supplies	\$ 1,817
Mary Andrew, County Treasurer, owner of Video Adventure	freight/shipping charges	406

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Video Adventure do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year. The transaction with M & M Welding may represent a conflict of interest.

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

Response – We will attempt to monitor transactions with employee owned businesses more closely so as to be in compliance with Code of Iowa Section 331.342.

Decatur County

Schedule of Findings

Year ended June 30, 2006

We are certain it is not the intent of those Secondary Roads Dept. employees who make purchases to flagrantly violate the Code of Iowa, but was merely an unintended oversight. We are equally certain that at any time Mr. Fulkerson did not pressure fellow employees to make purchases from his business. Regardless, we (Board of Supervisors) will ask our County Attorney for an opinion and/or recommendation for disposition of the matter.

Conclusion – Response accepted.

- (5) 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.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) 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).
- (9) County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

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

Response – We will plan to carry out the requirements set forth in the Code of Iowa Section (331.302(9) regarding compilation of county ordinances for the current fiscal year.

Conclusion – Response accepted.

- (10) County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.

Decatur County

Schedule of Findings

Year ended June 30, 2006

- (11) County Extension Office Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a standpoint, are not performed by the same employee. This segregation of duties help to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. Generally, one or two individuals in the County Extension Office may have control over collecting, depositing and reconciling receipts. Bank reconciliations are not prepared by an independent person. Also, reconciliations are not reviewed periodically by an independent person for propriety.

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

Response – Due to the limited number of personnel, in the office, segregations of duties is difficult to achieve, but we will attempt to have Extension Council Officers review reconciliations periodically and initial for the record.

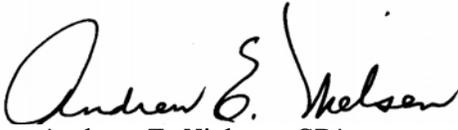
Conclusion – Response accepted.

Decatur County

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
Timothy D. Houlette, CPA, Senior Auditor II
Donald J. Lewis, CPA, Staff Auditor
James R. Wittenwyler, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State