



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE February 27, 2004

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

The County had local tax revenue of \$13,206,310 for the year ended June 30, 2003, which included \$828,127 in tax credits from the state. The County forwarded \$8,705,992 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,500,318 of the local tax revenue to finance County operations, a thirteen percent increase from the prior year. Other revenues included \$3,257,267 from other governments, including indirect federal funding, \$226,407 in local option sales tax, \$742,796 from the Iowa Department of Transportation for transfer of road jurisdiction and \$94,865 in interest on investments. Revenue increased primarily because of an increase in Federal Emergency Management Agency grant funds.

Expenditures for County operations totaled \$8,531,222, a one percent decrease from the prior year. Expenditures included \$2,616,612 for roads and transportation, \$1,380,912 for mental health and \$1,103,475 for public safety and legal services.

The report contains recommendations to the Board of Supervisors and other County officials. For example, the County should segregate duties within individual offices to obtain the maximum internal control possible under the circumstances. The County's responses are included in the audit report.

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

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PALO ALTO COUNTY

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

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Palo Alto County

Officials

Name	Title	Term Expires
(Before January 2003)		
Mary J. Greene	Board of Supervisors	Jan 2003
Lannie Miller	Board of Supervisors	Jan 2003
Steven Nelson	Board of Supervisors	Jan 2003
Leo Goeders	Board of Supervisors	Jan 2005
Ronald Graettinger	Board of Supervisors	Jan 2005
Gary Leonard	County Auditor	Jan 2005
Kathleen Thompson	County Treasurer	Jan 2003
Lori Kliegl	County Recorder	Jan 2003
Russell B. Jergens	County Sheriff	Jan 2005
Peter C. Hart	County Attorney	Jan 2003
Ross Simmelink	County Assessor	Jan 2004
(After January 2003)		
Leo Goeders	Board of Supervisors	Jan 2005
Ronald Graettinger	Board of Supervisors	Jan 2005
Philip Currans	Board of Supervisors	Jan 2007
Lannie Miller	Board of Supervisors	Jan 2007
Steven Nelson	Board of Supervisors	Jan 2007
Gary Leonard	County Auditor	Jan 2005
Kathleen Thompson	County Treasurer	Jan 2007
Lori Kliegl	County Recorder	Jan 2007
Russell B. Jergens	County Sheriff	Jan 2005
Peter C. Hart	County Attorney	Jan 2007
Ross Simmelink	County Assessor	Jan 2004

Palo Alto County



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Independent Auditor's Report

To the Officials of Palo Alto County:

We have audited the accompanying general purpose financial statements, listed as exhibits in the table of contents of this report, of Palo Alto County, Iowa, as of and for the year ended June 30, 2003. These general purpose financial statements are the responsibility of Palo Alto County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

The general purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with U.S. generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known. Also, the County has not included materials and supplies inventories, pertaining primarily to the Special Revenue Funds, although required by U.S. generally accepted accounting principles. The amounts of such inventories are not determinable.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Palo Alto County at June 30, 2003, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles. Also, the Comparison of Receipts, Disbursements and Changes in Balances - Actual to Budget (Cash Basis) presents fairly, in all material respects, the cash transactions and the legally adopted budget of the governmental fund types and expendable trust fund of Palo Alto County for the year ended June 30, 2003.

As discussed in Note 13 to the financial statements, Palo Alto County intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the County's financial statements and related notes in the year of implementation. The revised requirements include the use of the economic resources measurement focus and full accrual accounting, as well as an analytical overview of the County's financial activities in the Management's Discussion and Analysis introduction to the financial statements.

In accordance with Government Auditing Standards, we have also issued our reports dated January 14, 2004 on our consideration of Palo Alto County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed qualified opinions on those financial statements for the effects of the omission of the general fixed assets account group and the materials and supplies inventories, pertaining primarily to the Special Revenue Funds. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of the omission of materials and supplies inventories, pertaining primarily to the Special Revenue Funds, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 14, 2004

Financial Statements

Palo Alto County
 Combined Balance Sheet
 All Fund Types and Account Group
 June 30, 2003

	Governmental Fund Types	
	General	Special Revenue
Assets and Other Debits		
Cash and pooled investments:		
County Treasurer	\$ 994,737	3,016,372
Other County officials	-	-
Receivables:		
Property tax:		
Delinquent	7,822	835
Succeeding year	2,669,000	1,922,000
Accounts	7,043	66,345
Special assessments	-	-
Accrued interest	2,267	3,796
Economic development loans (note 5)	-	25,481
Drainage assessments:		
Current	-	184,945
Future	-	427,457
Due from other funds (note 3)	34,563	797
Due from other governments	41,742	244,065
Prepaid insurance	51,120	44,755
Amount available for drainage warrants/ drainage improvement certificates	-	-
Amount to be provided for retirement of drainage warrants/drainage improvement certificates	-	-
Amount to be provided for retirement of general long-term debt	-	-
Total assets and other debits	\$ 3,808,294	5,936,848

Fiduciary Fund Type	Account Group	Total
Trust and Agency	General Long-Term Debt	(Memorandum Only)
526,328	-	4,537,437
37,673	-	37,673
8,050	-	16,707
8,096,000	-	12,687,000
18,608	-	91,996
88,698	-	88,698
-	-	6,063
-	-	25,481
-	-	184,945
-	-	427,457
-	-	35,360
3,334	-	289,141
-	-	95,875
-	29,650	29,650
-	603,842	603,842
-	155,227	155,227
8,778,691	788,719	19,312,552

Palo Alto County
 Combined Balance Sheet
 All Fund Types and Account Group
 June 30, 2003

	Governmental Fund Types	
	General	Special Revenue
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	\$ 61,095	125,562
Salaries and benefits payable	1,035	63,294
Due to other funds (note 3)	-	-
Due to other governments (note 4)	3,474	89,502
Trusts payable	-	-
Deferred revenue:		
Succeeding year property tax	2,669,000	1,922,000
Other	8,237	684,382
Bonds payable (note 6)	-	-
Drainage warrants payable (note 6)	-	-
Drainage improvement certificates payable (note 6)	-	-
Compensated absences	18,136	17,311
Total liabilities	2,760,977	2,902,051
Fund equity:		
Fund balances:		
Reserved for:		
Supplemental levy purposes	321,097	-
Drainage warrants/drainage improvement certificates	-	29,650
Prepaid insurance	51,120	44,755
Unreserved	675,100	2,960,392
Total fund equity	1,047,317	3,034,797
Total liabilities and fund equity	\$ 3,808,294	5,936,848

See notes to financial statements.

Fiduciary Fund Type	Account Group	Total (Memorandum Only)
Trust and Agency	General Long-Term Debt	
2,945	-	189,602
-	-	64,329
35,360	-	35,360
8,667,068	-	8,760,044
13,073	-	13,073
-	-	4,591,000
-	-	692,619
-	49,161	49,161
-	617,422	617,422
-	16,070	16,070
7,254	106,066	148,767
8,725,700	788,719	15,177,447
-	-	321,097
-	-	29,650
-	-	95,875
52,991	-	3,688,483
52,991	-	4,135,105
8,778,691	788,719	19,312,552

Palo Alto County

Combined Statement of Revenues, Expenditures and Changes in
Fund Balances – All Governmental Fund Types
and Expendable Trust Fund

Year ended June 30, 2003

	Governmental Fund	
	General	Special Revenue
Revenues:		
Property and other County tax	\$ 2,310,701	2,161,633
Interest and penalty on property tax	30,859	-
Intergovernmental	511,023	3,743,431
Licenses and permits	7,631	275
Charges for service	193,086	219,577
Use of money and property	92,863	16,163
Miscellaneous	8,419	243,315
Total revenues	<u>3,154,582</u>	<u>6,384,394</u>
Expenditures:		
Operating:		
Public safety and legal services	1,103,475	-
Physical health and social services	269,280	-
Mental health	-	1,380,912
County environment and education	460,847	484,511
Roads and transportation	-	2,616,612
Governmental services to residents	262,502	3,273
Administration	888,506	-
Non-program	-	647,697
Debt service	-	272,394
Capital projects	24,047	107,012
Total expenditures	<u>3,008,657</u>	<u>5,512,411</u>
Excess (deficiency) of revenues over (under) expenditures	<u>145,925</u>	<u>871,983</u>
Other financing sources (uses):		
Sale of capital assets	3,377	-
Operating transfers in	-	1,017,823
Operating transfers out	-	(1,027,977)
Drainage warrant proceeds	-	225,993
Total other financing sources (uses)	<u>3,377</u>	<u>215,839</u>
Excess of revenues and other financing sources over expenditures and other financing uses	149,302	1,087,822
Fund balances beginning of year	894,851	1,942,611
Increase in reserve for prepaid insurance	3,164	4,364
Fund balances end of year	<u>\$ 1,047,317</u>	<u>3,034,797</u>

See notes to financial statements.

Types	Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Expendable Trust	
-	-	4,472,334
-	-	30,859
-	-	4,254,454
-	-	7,906
-	-	412,663
-	-	109,026
-	4,658	256,392
-	4,658	9,543,634
-	-	1,103,475
-	-	269,280
-	-	1,380,912
-	-	945,358
-	-	2,616,612
-	-	265,775
-	-	888,506
-	-	647,697
10,154	-	282,548
-	-	131,059
10,154	-	8,531,222
(10,154)	4,658	1,012,412
-	-	3,377
10,154	-	1,027,977
-	-	(1,027,977)
-	-	225,993
10,154	-	229,370
-	4,658	1,241,782
-	48,333	2,885,795
-	-	7,528
-	52,991	4,135,105

Palo Alto County

Comparison of Receipts, Disbursements and
Changes in Balances - Actual to Budget (Cash Basis)
All Governmental Fund Types and Expendable Trust Fund

Year ended June 30, 2003

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property and other County tax	\$ 4,483,620	-
Interest and penalty on property tax	30,895	-
Intergovernmental	4,147,328	456,547
Licenses and permits	8,122	-
Charges for service	408,570	-
Use of money and property	115,421	-
Miscellaneous	251,650	228,975
Total receipts	<u>9,445,606</u>	<u>685,522</u>
Disbursements:		
Public safety and legal services	1,100,050	-
Physical health and social services	270,125	-
Mental health	1,391,486	-
County environment and education	947,378	-
Roads and transportation	2,626,327	-
Governmental services to residents	264,931	-
Administration	870,631	-
Non-program	649,735	649,735
Debt service	282,548	272,394
Capital projects	128,568	-
Total disbursements	<u>8,531,779</u>	<u>922,129</u>
Excess (deficiency) of receipts over (under) disbursements	913,827	(236,607)
Other financing sources, net	<u>229,370</u>	<u>225,993</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,143,197	(10,614)
Balance beginning of year	<u>2,920,903</u>	<u>132,086</u>
Balance end of year	<u>\$ 4,064,100</u>	<u>121,472</u>

See notes to financial statements.

Net	Amended Budget	Variance - Favorable (Unfavorable)	Net as % of Amended Budget
4,483,620	4,355,463	128,157	103%
30,895	5,240	25,655	590%
3,690,781	2,802,816	887,965	132%
8,122	4,070	4,052	200%
408,570	319,470	89,100	128%
115,421	217,691	(102,270)	53%
22,675	52,559	(29,884)	43%
<u>8,760,084</u>	<u>7,757,309</u>	<u>1,002,775</u>	<u>113%</u>
1,100,050	1,149,208	49,158	96%
270,125	326,929	56,804	83%
1,391,486	1,557,548	166,062	89%
947,378	998,311	50,933	95%
2,626,327	2,882,660	256,333	91%
264,931	275,180	10,249	96%
870,631	909,231	38,600	96%
-	-	-	
10,154	10,155	1	100%
128,568	356,890	228,322	36%
<u>7,609,650</u>	<u>8,466,112</u>	<u>856,462</u>	<u>90%</u>
1,150,434	(708,803)		
<u>3,377</u>	-		
1,153,811	(708,803)		
<u>2,788,817</u>	<u>2,784,125</u>		
<u>3,942,628</u>	<u>2,075,322</u>		

Palo Alto County

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

Palo Alto 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.

A. Reporting Entity

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

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

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

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

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Palo Alto County Assessor's Conference Board, Palo Alto County Emergency Management Commission and Palo Alto County E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following additional jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Synergy Center and Northwest Central Iowa Drug Task Force. In addition, the County is involved in the following jointly governed organizations: Northwest Iowa Mental Health Center, Northwest Iowa Alcoholism and Drug Treatment Unit, Inc., Northwest Iowa Planning and Development Commission, Regional Transit Authority and Third Judicial District Department of Correctional Services.

B. Fund Accounting

The accounts of the County are organized on the basis of funds and account group, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenues and expenditures. The various funds and account group and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the County. All general tax revenues and other revenues that are 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 that are not paid from other funds.

Special Revenue Funds – The Special Revenue Funds are used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the County's general long-term debt.

Fiduciary Funds

Trust Funds – The Trust Funds are used to account for assets held by the County in a trustee capacity. These include the Expendable Trust Fund which is accounted for in essentially the same manner as Governmental Funds.

Agency Funds – The 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. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

Account Group

General Long-Term Debt – This account group is established to account for long-term debt of the County. Long-term liabilities expected to be financed from Governmental Funds are accounted for in this account group, not in the Governmental Funds.

C. Measurement Focus

Governmental Funds and the Expendable Trust Fund are accounted for on a spending or "financial flow" measurement focus. This means only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources." Governmental Fund and Expendable Trust Fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds and the Expendable Trust Fund are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The assets and liabilities of the Agency Funds are accounted for using the modified accrual basis of accounting.

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.

E. Assets, Liabilities and Fund Equity

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

Cash and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are in the form of non-negotiable certificates of deposit which are stated at cost.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred 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, 2001 assessed property valuations; is for the tax accrual period July 1, 2002 through June 30, 2003 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2002.

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

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2003, balances of interfund amounts receivable or payable have been recorded.

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.

Due to Other Governments – Due to other governments represents taxes and 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 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, the succeeding year property tax receivable, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. For the Agency Funds, these accumulations are recorded as liabilities in the year earned. In the Governmental Funds, the cost of vacation payments expected to be liquidated currently are recorded as liabilities of the Governmental Funds. A liability has been recorded in the General Long-Term Debt Account Group representing the County's commitment to fund non-current compensated absences. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2003.

F. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund and Expendable Trust Fund. Although the budget document presents disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department.

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 E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

Exhibit C is a comparison of cash basis receipts, disbursements and changes in balances with the cash basis budget, which is legally controlled by function, not fund type. Operations and ending fund balances on the cash and modified accrual basis have been reconciled as follows:

	Governmental Fund Types					
	General			Special Revenue		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$3,117,402	37,180	3,154,582	6,323,546	60,848	6,384,394
Expenditures	2,992,297	16,360	3,008,657	5,529,328	(16,917)	5,512,411
Net	125,105	20,820	145,925	794,218	77,765	871,983
Other financing sources	3,377	-	3,377	215,839	-	215,839
Beginning fund balances	866,255	28,596	894,851	2,006,315	(63,704)	1,942,611
Increase in reserve for prepaid insurance	-	3,164	3,164	-	4,364	4,364
Ending fund balances	\$ 994,737	52,580	1,047,317	3,016,372	18,425	3,034,797

	Governmental Fund Types		
	Debt Service		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ -	-	-
Expenditures	10,154	-	10,154
Net	(10,154)	-	(10,154)
Other financing sources	10,154	-	10,154
Beginning fund balances	-	-	-
Increase in reserve for prepaid insurance	-	-	-
Ending fund balances	\$ -	-	-

	Fiduciary Fund Type			Total		
	Expendable Trust			Cash Basis	Accrual Adjustments	Modified Accrual Basis
	Cash Basis	Accrual Adjustments	Modified Accrual Basis			
Revenues	\$ 4,658	-	4,658	9,445,606	98,028	9,543,634
Expenditures	-	-	-	8,531,779	(557)	8,531,222
Net	4,658	-	4,658	913,827	98,585	1,012,412
Other financing sources	-	-	-	229,370	-	229,370
Beginning fund balances	48,333	-	48,333	2,920,903	(35,108)	2,885,795
Increase in reserve for prepaid insurance	-	-	-	-	7,528	7,528
Ending fund balances	\$ 52,991	-	52,991	4,064,100	71,005	4,135,105

G. Total (Memorandum Only)

The total column on the combined balance sheet and the combined statement of revenues, expenditures and changes in fund balances is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2003 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 instrumentality's: 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.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2003 is as follows:

Receivable Fund	Payable Fund	Amount
General	Trust and Agency:	
	County Recorder	\$ 20,799
	County Sheriff	7,859
	Auto License and Use Tax	5,905
Special Revenue:		
County Recorder's	Trust and Agency:	
Records Management	County Recorder	797
Total		<u>\$ 35,360</u>

(4) 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. The Agency Fund collections also include accruals of property tax for the succeeding year. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	<u>\$ 3,474</u>
Special Revenue:		
Rural Services	Services	15,913
Secondary Roads		122
Mental Health		<u>73,467</u>
		<u>89,502</u>
Trust and Agency:		
Agricultural Extension Education	Collections	71,247
County Assessor		219,388
Schools		5,380,739
Community Colleges		314,657
Corporations		1,668,640
City Special Assessments		90,400
Townships		109,036
Auto License and Use Tax		167,561
Emergency Management Services		7,361
County Hospital		488,421
E911		100,539
All other		<u>49,079</u>
		<u>8,667,068</u>
Total		<u>\$ 8,760,044</u>

(5) Economic Development Loans

The Palo Alto County Economic Development Fund was established for the purpose of promoting economic development in Palo Alto County through grants and loans.

Upon receipt of the loan payments from the businesses, the funds remain in the Palo Alto County Economic Development Fund for subsequent loans to other businesses.

Loans by the Palo Alto County Economic Development Fund are as follows:

<u>Loaned to</u>	<u>Date of Loan</u>	<u>Maturity Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Term of Loan</u>	<u>Loan Balance June 30, 2003</u>
Mike and Kim Gehrt	Feb 24, 1998	Jun 1, 2008	\$10,000	5.0%	10 years	\$ 6,940
Jason White	Jun 27, 2000	Aug 1, 2003	2,500	6.0%	3 years	1,387
Stanley Propane and Appliance	Mar 26, 2002	Jul 1, 2012	<u>20,000</u>	5.0%	10 years	<u>17,154</u>
Total			<u>\$32,500</u>			<u>\$ 25,481</u>

(6) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2003 is as follows:

	Capital Lease Purchase Agreement	Urban Renewal Tax Increment Financing Bonds	Drainage Warrants	Drainage Improvement Certificates	Compensated Absences	Total
Balance beginning of year	\$ 14,520	55,695	616,625	27,512	99,225	813,577
Additions	-	-	225,993	-	6,841	232,834
Reductions	14,520	6,534	225,196	11,442	-	257,692
Balance end of year	\$ -	49,161	617,422	16,070	106,066	788,719

Bonds Payable

On October 15, 1998, the County issued \$73,000 of urban renewal tax increment revenue bonds to defray a portion of the costs of an urban renewal project in the Palo Alto County/Graettinger Urban Renewal Area.

The bonds are not a general obligation of the County, but are payable only from the income and proceeds of the Special Revenue, Tax Increment Financing Fund established in the resolution. During the year ended June 30, 2003, principal of \$6,534 and interest of \$3,620 were paid.

A summary of the County's June 30, 2003 annual debt service requirements to maturity are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2004	6.50%	\$ 6,959	3,195	10,154
2005	6.50	7,411	2,743	10,154
2006	6.50	7,893	2,261	10,154
2007	6.50	8,406	1,748	10,154
2008	6.50	8,952	1,202	10,154
2009	6.50	9,540	619	10,159
Total		\$ 49,161	11,768	60,929

Drainage Warrants/Drainage Improvement Certificates Payable

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

Drainage improvement certificates payable represent amounts due to purchasers of drainage improvement certificates. Drainage improvement certificates are waivers that provide for a landowner to pay an improvement assessment in installment payments over a designated number of years with interest at a designated interest rate. The improvement certificates representing those assessments or installments due from the landowner are sold for cash as interest bearing certificates. Funds received from the sale of certificates are used to pay outstanding registered warrants issued to contractors who perform work on drainage district improvements and registered warrants issued for other related costs. Drainage improvement certificates are redeemed and interest paid to the bearer of the certificate upon receipt of the installment payment plus interest from the landowner.

Drainage warrants and drainage improvement certificates are paid from the Special Revenue, Drainage Districts Fund solely from special assessments against benefited properties.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages are 5.37% and 8.05% and conservation employees in which case the percentages are 9.07% and 6.04%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$164,396 \$154,602 and \$151,857, respectively, equal to the required contributions for each year.

(8) Risk Management

Palo Alto County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 400 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2003 were \$89,393.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the County's financial statements. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

(9) Community Economic Betterment Account Loan Program

Palo Alto County entered into a loan agreement dated May 20, 1999 for \$250,000. The proceeds were received during the year ended June 30, 2000 and loaned to a local business, Skyjack Equipment, Inc., to assist with economic development. The loan consists of an \$85,000 forgivable loan and a \$165,000 no interest conventional loan. Repayment of the conventional loan is to be made in 84 equal monthly payments of \$1,964, with the first payment due on April 1, 2000. The installments due for the year ended June 30, 2003 have been paid, leaving a balance on the conventional loan at June 30, 2003 of \$86,428. The conditions of the forgivable loan were to be met by June 30, 2002. The County has not yet received notification of forgiveness from the Iowa Department of Economic Development. The County's liability for repayment of the loan is limited to the amounts collected from the local business. Therefore, the liability for these loans is not included in the General Long-Term Debt Account Group.

(10) Hospital Revenue Bonds

On August 1, 1998, the County issued \$7,000,000 of Hospital Revenue Bonds in accordance with Chapters 331.402(3) and 384.24A of the Code of Iowa to renovate a substantial portion of the Hospital, construct a medical office building and construct and equip a 30 unit care retirement center.

The bonds are not a general obligation of the County, but are payable solely from the net revenues of the Palo Alto County Hospital. No resources of the County shall be required to be used, nor the general credit of the County pledged, for payment of the bonds.

During the year ended June 30, 2003, interest of \$391,264 was paid by the Hospital. This payment is not included in the County's financial statements. The liability for the bonds (\$6,670,000 at June 30, 2003) is not recorded in the General Long-Term Debt Account Group on Exhibit A since the bonds are to be paid from other than County resources.

The bonds mature on August 1 of each year, as set forth below, and shall bear interest payable semiannually on February 1 and August 1 of each year.

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2004	5.00%	\$ 120,000	385,533	505,533
2005	5.10	125,000	379,345	504,345
2006	5.20	130,000	372,778	502,778
2007	5.25	140,000	365,773	505,773
2008	5.30	145,000	358,205	503,205
Thereafter	5.35-6.00	6,010,000	4,502,216	10,512,216
Total		\$ 6,670,000	6,363,850	13,033,850

(11) Future Commitments

The County passed a resolution on April 17, 2001 committing \$10,000 per year for each of the next five years to be paid to the Graettinger Economic Development Council for the establishment of a spec building. The balance remaining to be paid at June 30, 2003 was \$20,000.

(12) Subsequent Event

On August 1, 2003, the Hospital called the outstanding Hospital Revenue Bonds and issued \$6,735,000 of Hospital Revenue Refunding Bonds with interest rates ranging from 1.70% to 4.63%.

(13) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the year ending June 30, 2004. The effects are expected to significantly impact the presentation of the County’s financial statements in the year of implementation. The revised requirements include using the economic resources measurement focus and full accrual accounting. Also, the revised minimum reporting requirements include Management’s Discussion and Analysis to introduce the financial statements and to provide an analytical overview of the County’s financial activities.

Palo Alto County

Supplemental Information

Schedule 1

Palo Alto County

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Year ended June 30, 2003

Revenues:

Property and other County tax:

Property tax	\$ 2,242,100	
Utility tax replacement excise tax	65,125	
Other	<u>3,476</u>	\$ 2,310,701

Interest and penalty on property tax 30,859

Intergovernmental:

State shared revenues:

Franchise tax	27,782	
Liquor licenses and beer permits	<u>1,673</u>	
	<u>29,455</u>	

State and federal pass-thru revenues:

Human services administrative reimbursement	27,539	
Federal emergency management agency assistance	1,062	
Well testing and abandonment	14,235	
District court fees	6,415	
Other	<u>49,860</u>	
	<u>99,111</u>	

State tax replacements:

State tax credits	147,860	
State allocation	<u>68,165</u>	
	<u>216,025</u>	

Federal grants and entitlements:

Bulletproof vest partnership program	2,541	
Wetland and upland restoration	<u>49,627</u>	
	<u>52,168</u>	

Contributions and reimbursements from other governmental units:

Contract law enforcement	100,826	
Elections	10,438	
Prisoner care	<u>1,970</u>	
	<u>113,234</u>	

Payments in lieu of taxes 1,030 511,023

Palo Alto County

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Year ended June 30, 2003

Revenues (continued):		
Licenses and permits		7,631
Charges for service:		
Office fees and collections	110,218	
Tax sale fees	3,359	
Auto registration, use tax and mailing	66,158	
Camping fees	10,842	
Other	2,509	193,086
Use of money and property:		
Interest on investments	88,273	
Building rent	4,590	92,863
Miscellaneous		8,419
Total revenues		<u>3,154,582</u>
Expenditures:		
Operating:		
Public safety and legal services		1,103,475
Physical health and social services		269,280
County environment and education		460,847
Governmental services to residents		262,502
Administration		888,506
Capital projects		24,047
Total expenditures		<u>3,008,657</u>
Excess of revenues over expenditures		145,925
Other financing sources:		
Sale of capital assets		<u>3,377</u>
Excess of revenues and other financing sources over expenditures		149,302
Fund balance beginning of year		894,851
Increase in reserve for prepaid insurance		3,164
Fund balance end of year		<u><u>\$ 1,047,317</u></u>

See accompanying independent auditor's report.

Schedule 2

Palo Alto County

General Fund

Statement of Expenditures

Year ended June 30, 2003

Public safety and legal services:

Law enforcement:

Uniformed patrol services	\$ 428,570	
Investigations	1,685	
Law enforcement communication	176,848	
Adult correction services	119,293	
Administration	134,522	
	<u>860,918</u>	

Legal services:

Criminal prosecution	184,432	
Medical examinations	9,683	
	<u>194,115</u>	

Emergency services:

Emergency management	<u>15,438</u>	
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Assistance to district court system:

Research and other assistance	<u>10,181</u>	
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Court proceedings:

Juries and witnesses	11,496	
Court costs	9,482	
	<u>20,978</u>	

Juvenile justice administration:

Court-appointed attorneys and court costs for juveniles	<u>1,845</u>	\$ 1,103,475
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Physical health and social services:

Physical health services:

Sanitation	40,206	
Health administration	60,000	
	<u>100,206</u>	

Services to the poor:

Administration	23,434	
General welfare services	30,862	
	<u>54,296</u>	

Services to military veterans:

Administration	21,716	
General services to veterans	19,841	
	<u>41,557</u>	

Palo Alto County

General Fund

Statement of Expenditures

Year ended June 30, 2003

Physical health and social services (continued):		
Children and family services:		
Family protection services	34,259	
Services for disabled child	29,523	
	<u>63,782</u>	
Chemical dependency:		
Treatment services	875	
Preventive services	8,564	
	<u>9,439</u>	269,280
County environment and education:		
Environmental quality:		
Natural resources conservation	59,338	
Conservation and recreation services:		
Administration	101,196	
Maintenance and operations	248,165	
	<u>349,361</u>	
Animal control:		
Animal bounties and state apiarist expenses	185	
County development:		
Land use and building controls	15,113	
Education services:		
Historic preservation	350	
Fair and 4-H clubs	4,000	
Fairgrounds	32,500	
	<u>36,850</u>	460,847
Governmental services to residents:		
Representation services:		
Elections administration	21,256	
Local elections	9,926	
Township officials	3,456	
	<u>34,638</u>	
State administrative services:		
Motor vehicle registrations and licensing	105,471	
Recording of public documents	122,393	
	<u>227,864</u>	262,502

Schedule 2

Palo Alto County

General Fund

Statement of Expenditures

Year ended June 30, 2003

Administration:

Policy and administration:

General County management	182,112	
Administrative management services	217,323	
Treasury management services	153,672	
Other policy and administration	71,557	
	<u>624,664</u>	

Central services:

General services	95,505	
Data processing services	67,010	
	<u>162,515</u>	

Risk management services:

Tort liability	29,508	
Safety of the workplace	70,486	
Fidelity of public officials	1,333	
	<u>101,327</u>	888,506

Capital projects:

Other capital projects		<u>24,047</u>
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Total		<u><u>\$ 3,008,657</u></u>
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See accompanying independent auditor's report.

Palo Alto County

Palo Alto County
Special Revenue Funds
Combining Balance Sheet
June 30, 2003

	Rural Services	Secondary Roads	Resource Enhance- ment and Protection
Assets			
Cash and pooled investments	\$ 736,528	1,926,396	25,217
Receivables:			
Property tax:			
Delinquent	337	-	-
Succeeding year	1,266,000	-	-
Accounts	19,333	47,012	-
Accrued interest	-	3,796	-
Economic development loans	-	-	-
Drainage assessments:			
Current	-	-	-
Future	-	-	-
Due from other funds	-	-	-
Due from other governments	32,935	163,907	-
Prepaid insurance	3,486	41,269	-
Total assets	\$ 2,058,619	2,182,380	25,217
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 4,314	48,715	-
Salaries and benefits payable	-	63,294	-
Due to other governments	15,913	122	-
Deferred revenue:			
Succeeding year property tax	1,266,000	-	-
Other	337	45,672	-
Compensated absences	1,352	15,437	-
Total liabilities	1,287,916	173,240	-
Fund equity:			
Fund balances:			
Reserved for:			
Drainage warrants/drainage improvement certificates	-	-	-
Prepaid insurance	3,486	41,269	-
Unreserved	767,217	1,967,871	25,217
Total fund equity	770,703	2,009,140	25,217
Total liabilities and fund equity	\$ 2,058,619	2,182,380	25,217

See accompanying independent auditor's report.

County Recorder's Records Management	Tax Increment Financing	Drainage Districts	Mental Health	Palo Alto County Economic Development	Total
7,458	50	121,473	174,663	24,587	3,016,372
-	-	-	498	-	835
-	10,000	-	646,000	-	1,922,000
-	-	-	-	-	66,345
-	-	-	-	-	3,796
-	-	-	-	25,481	25,481
-	-	184,945	-	-	184,945
-	-	427,457	-	-	427,457
797	-	-	-	-	797
-	-	47,223	-	-	244,065
-	-	-	-	-	44,755
8,255	10,050	781,098	821,161	50,068	5,936,848
-	-	3,899	68,634	-	125,562
-	-	-	-	-	63,294
-	-	-	73,467	-	89,502
-	10,000	-	646,000	-	1,922,000
-	-	612,402	490	25,481	684,382
-	-	-	522	-	17,311
-	10,000	616,301	789,113	25,481	2,902,051
-	-	29,650	-	-	29,650
-	-	-	-	-	44,755
8,255	50	135,147	32,048	24,587	2,960,392
8,255	50	164,797	32,048	24,587	3,034,797
8,255	10,050	781,098	821,161	50,068	5,936,848

Palo Alto County

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2003

	Rural Services	Secondary Roads	Resource Enhance- ment and Protection
Revenues:			
Property and other County tax:			
Property tax	\$ 1,241,480	-	-
Local option sales tax	226,407	-	-
Utility tax replacement excise tax	32,821	-	-
Tax increment financing	-	-	-
Other	1,461	-	-
	<u>1,502,169</u>	-	-
Intergovernmental:			
State shared revenues:			
Road use tax	-	1,692,023	-
State grants and reimbursements including indirect federal funding:			
Resource enhancement and protection program	-	-	191
Fuel and sales tax refunds	-	-	-
Social services block grant	-	-	-
Federal emergency management agency assistance	-	-	-
	-	-	<u>191</u>
State tax replacements:			
State tax credits	64,982	-	-
Mental health property tax relief	-	-	-
	<u>64,982</u>	-	-
Contributions and reimbursements from other governmental units:			
Drainage district services	-	26,342	-
Sanitary disposal assessments	59,821	-	-
Fuel reimbursements	-	10,200	-
Transfer of road jurisdiction	-	742,796	-
Other	-	70,219	-
	<u>59,821</u>	<u>849,557</u>	-

County Recorder's Records Management	Tax Increment Financing	Drainage Districts	Mental Health	Palo Alto County Economic Development	Total
-	-	-	629,984	-	1,871,464
-	-	-	-	-	226,407
-	-	-	18,299	-	51,120
-	10,204	-	-	-	10,204
-	-	-	977	-	2,438
-	10,204	-	649,260	-	2,161,633
-	-	-	-	-	1,692,023
-	-	-	-	-	191
-	-	7,188	-	-	7,188
-	-	-	50,806	-	50,806
-	-	470,083	-	-	470,083
-	-	477,271	50,806	-	528,268
-	-	-	41,549	-	106,531
-	-	-	479,707	-	479,707
-	-	-	521,256	-	586,238
-	-	-	-	-	26,342
-	-	-	-	-	59,821
-	-	-	-	-	10,200
-	-	-	-	-	742,796
-	-	26,499	-	-	96,718
-	-	26,499	-	-	935,877

Palo Alto County

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2003

	<u>Rural Services</u>	<u>Secondary Roads</u>	<u>Resource Enhance- ment and Protection</u>
Revenues (continued):			
Intergovernmental:			
Payment in lieu of taxes	736	-	-
	<u>125,539</u>	<u>2,541,580</u>	<u>191</u>
Licenses and permits	-	275	-
Charges for service:			
Solid waste disposal fee	153,432	-	-
Document management fee	-	-	-
Other	11	63,339	-
	<u>153,443</u>	<u>63,339</u>	<u>-</u>
Use of money and property:			
Interest on investments	-	-	38
Land and equipment rent	-	9,252	-
Other	35	284	-
	<u>35</u>	<u>9,536</u>	<u>38</u>
Miscellaneous:			
Drainage assessments	-	-	-
Secondary road material	-	8,486	-
Other	-	5,708	-
	<u>-</u>	<u>14,194</u>	<u>-</u>
Total revenues	<u>1,781,186</u>	<u>2,628,924</u>	<u>229</u>

County Recorder's Records Management	Tax Increment Financing	Drainage Districts	Mental Health	Palo Alto County Economic Development	Total
-	-	-	289	-	1,025
-	-	503,770	572,351	-	3,743,431
-	-	-	-	-	275
-	-	-	-	-	153,432
2,795	-	-	-	-	2,795
-	-	-	-	-	63,350
2,795	-	-	-	-	219,577
10	-	-	-	6,544	6,592
-	-	-	-	-	9,252
-	-	-	-	-	319
10	-	-	-	6,544	16,163
-	-	228,975	-	-	228,975
-	-	-	-	-	8,486
-	-	-	146	-	5,854
-	-	228,975	146	-	243,315
2,805	10,204	732,745	1,221,757	6,544	6,384,394

Palo Alto County

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2003

	Rural Services	Secondary Roads	Resource Enhance- ment and Protection
Expenditures:			
Operating:			
Mental health:			
Persons with mental health problems - mental illness:			
Information and education	-	-	-
General administration	-	-	-
Personal and environmental support	-	-	-
Institutional, hospital, and commitment services	-	-	-
	-	-	-
Persons with chronic mental illness:			
Information and education	-	-	-
General administration	-	-	-
Coordination services	-	-	-
Treatment services	-	-	-
Vocational and day services	-	-	-
Licensed or certified living arrangements	-	-	-
Institutional, hospital, and commitment services	-	-	-
	-	-	-
Persons with mental retardation:			
General administration	-	-	-
Coordination services	-	-	-
Vocational and day services	-	-	-
Licensed or certified living arrangements	-	-	-
Institutional, hospital, and commitment services	-	-	-
	-	-	-

County Recorder's Records Management	Tax Increment Financing	Drainage Districts	Mental Health	Palo Alto County Economic Development	Total
-	-	-	49,823	-	49,823
-	-	-	2,277	-	2,277
-	-	-	9,396	-	9,396
-	-	-	8,517	-	8,517
-	-	-	70,013	-	70,013
-	-	-	16,066	-	16,066
-	-	-	3,713	-	3,713
-	-	-	466	-	466
-	-	-	5,876	-	5,876
-	-	-	45,934	-	45,934
-	-	-	87,854	-	87,854
-	-	-	3,785	-	3,785
-	-	-	163,694	-	163,694
-	-	-	16,883	-	16,883
-	-	-	6,988	-	6,988
-	-	-	332,524	-	332,524
-	-	-	696,120	-	696,120
-	-	-	72,019	-	72,019
-	-	-	1,124,534	-	1,124,534

Palo Alto County

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2003

	Rural Services	Secondary Roads	Resource Enhance- ment and Protection
Expenditures (continued):			
Operating:			
Mental health:			
Persons with other developmental disabilities:			
General administration	-	-	-
Coordination services	-	-	-
Vocational and day services	-	-	-
Licensed or certified living arrangements	-	-	-
	-	-	-
	-	-	-
County environment and education:			
Environmental quality:			
Natural resources conservation	-	-	3,602
Weed eradication	1,078	-	-
Solid waste disposal	282,249	-	-
Environmental restoration	72,457	-	-
	355,784	-	3,602
County development:			
Economic development	-	-	-
Educational services:			
Libraries	77,126	-	-
	432,910	-	3,602
Roads and transportation:			
Secondary roads administration and engineering:			
Administration	13,938	146,038	-
Engineering	13,535	194,467	-
	27,473	340,505	-
Roadway maintenance:			
Bridges and culverts	1,624	17,246	-
Roads	51,257	901,418	-
Snow and ice control	7,529	81,720	-
Traffic controls	3,449	55,411	-
Road clearing	7,709	78,121	-
	71,568	1,133,916	-

County Recorder's Records Management	Tax Increment Financing	Drainage Districts	Mental Health	Palo Alto County Economic Development	Total
-	-	-	226	-	226
-	-	-	408	-	408
-	-	-	10,731	-	10,731
-	-	-	11,306	-	11,306
-	-	-	22,671	-	22,671
-	-	-	1,380,912	-	1,380,912
-	-	-	-	-	3,602
-	-	-	-	-	1,078
-	-	-	-	-	282,249
-	-	-	-	-	72,457
-	-	-	-	-	359,386
-	-	-	-	47,999	47,999
-	-	-	-	-	77,126
-	-	-	-	47,999	484,511
-	-	-	-	-	159,976
-	-	-	-	-	208,002
-	-	-	-	-	367,978
-	-	-	-	-	18,870
-	-	-	-	-	952,675
-	-	-	-	-	89,249
-	-	-	-	-	58,860
-	-	-	-	-	85,830
-	-	-	-	-	1,205,484

Palo Alto County

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2003

	Rural Services	Secondary Roads	Resource Enhance- ment and Protection
Expenditures (continued):			
Operating:			
Roads and transportation:			
General roadway:			
Equipment	1,062	91,987	-
Equipment operations	33,511	795,380	-
Tools, materials, and supplies	-	25,296	-
Real estate and buildings	2,542	93,372	-
	37,115	1,006,035	-
	136,156	2,480,456	-
Governmental services to residents			
State administrative services:			
Recording of public documents	-	-	-
Non-program:			
Drainage district construction and repair	-	-	-
Debt service:			
Drainage warrants paid	-	-	-
Drainage improvement certificates paid	-	-	-
Interest on warrants and certificates	-	-	-
	-	-	-
Capital projects:			
Roadway construction	7,412	99,075	-
Other capital projects	-	-	525
	7,412	99,075	525
Total expenditures	576,478	2,579,531	4,127
Excess (deficiency) of revenues over (under) expenditures	1,204,708	49,393	(3,898)

County Recorder's Records Management	Tax Increment Financing	Drainage Districts	Mental Health	Palo Alto County Economic Development	Total
-	-	-	-	-	93,049
-	-	-	-	-	828,891
-	-	-	-	-	25,296
-	-	-	-	-	95,914
-	-	-	-	-	1,043,150
-	-	-	-	-	2,616,612
3,273	-	-	-	-	3,273
-	-	647,697	-	-	647,697
-	-	225,196	-	-	225,196
-	-	11,442	-	-	11,442
-	-	35,756	-	-	35,756
-	-	272,394	-	-	272,394
-	-	-	-	-	106,487
-	-	-	-	-	525
-	-	-	-	-	107,012
3,273	-	920,091	1,380,912	47,999	5,512,411
(468)	10,204	(187,346)	(159,155)	(41,455)	871,983

Palo Alto County

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2003

	Rural Services	Secondary Roads	Resource Enhance- ment and Protection
Other financing sources (uses):			
Operating transfers in (out):			
Special Revenue:			
Rural Services	-	1,017,823	-
Secondary Roads	(1,017,823)	-	-
Debt Service	-	-	-
Drainage warrants/drainage improvement certificate proceeds	-	-	-
Total other financing sources (uses)	<u>(1,017,823)</u>	<u>1,017,823</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	186,885	1,067,216	(3,898)
Fund balances beginning of year	582,562	938,816	29,115
Increase in reserve for prepaid insurance	1,256	3,108	-
Fund balances end of year	<u>\$ 770,703</u>	<u>2,009,140</u>	<u>25,217</u>

See accompanying independent auditor's report.

County Recorder's Records Management	Tax Increment Financing	Drainage Districts	Mental Health	Palo Alto County Economic Development	Total
-	-	-	-	-	1,017,823
-	-	-	-	-	(1,017,823)
-	(10,154)	-	-	-	(10,154)
-	-	225,993	-	-	225,993
-	(10,154)	225,993	-	-	215,839
(468)	50	38,647	(159,155)	(41,455)	1,087,822
8,723	-	126,150	191,203	66,042	1,942,611
-	-	-	-	-	4,364
8,255	50	164,797	32,048	24,587	3,034,797

Palo Alto County

Palo Alto County

Debt Service Fund

Statement of Revenues, Expenditures and
Changes in Fund Balance

Year ended June 30, 2003

Revenues:		
None		\$ -
Expenditures:		
Debt service:		
Bonds redeemed		6,534
Interest paid		3,620
Total expenditures		<u>10,154</u>
Deficiency of revenues under expenditures		(10,154)
Other financing sources:		
Operating transfers in:		
Special Revenue:		
Tax Increment Financing		<u>10,154</u>
Excess of revenues and other financing sources over expenditures		-
Fund balance beginning of year		<u>-</u>
Fund balance end of year		<u><u>\$ -</u></u>

See accompanying independent auditor's report.

Palo Alto County
Trust and Agency Funds
Combining Balance Sheet
June 30, 2003

	Expendable Trust Fund		
	Conservation Land Acquisition Trust	County Offices	
		County Recorder	County Sheriff
Assets			
Cash and pooled investments:			
County Treasurer	\$ 52,991	-	-
Other County officials	-	23,460	14,213
Receivables:			
Property tax:			
Delinquent	-	-	-
Succeeding year	-	-	-
Accounts	-	2,021	-
Special assessments	-	-	-
Due from other governments	-	-	-
Total assets	\$ 52,991	25,481	14,213
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ -	-	-
Due to other funds	-	21,596	7,859
Due to other governments	-	3,885	11
Trusts payable	-	-	6,343
Compensated absences	-	-	-
Total liabilities	-	25,481	14,213
Fund equity:			
Unreserved fund balance	52,991	-	-
Total liabilities and fund equity	\$ 52,991	25,481	14,213

Agency Funds							
Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corpor- ations	City Special Assess- ments	Townships	Auto License and Use Tax
1,193	55,202	88,753	5,419	30,441	1,702	1,998	173,466
-	-	-	-	-	-	-	-
54	130	3,986	238	3,199	-	38	-
70,000	170,000	5,288,000	309,000	1,635,000	-	107,000	-
-	-	-	-	-	-	-	-
-	-	-	-	-	88,698	-	-
-	-	-	-	-	-	-	-
71,247	225,332	5,380,739	314,657	1,668,640	90,400	109,036	173,466
-	1,122	-	-	-	-	-	-
-	-	-	-	-	-	-	5,905
71,247	219,388	5,380,739	314,657	1,668,640	90,400	109,036	167,561
-	-	-	-	-	-	-	-
-	4,822	-	-	-	-	-	-
71,247	225,332	5,380,739	314,657	1,668,640	90,400	109,036	173,466
-	-	-	-	-	-	-	-
71,247	225,332	5,380,739	314,657	1,668,640	90,400	109,036	173,466

Palo Alto County
Trust and Agency Funds
Combining Balance Sheet
June 30, 2003

	Brucellosis and Tuberculosis Eradication	Drainage Districts	Emergency Management Services
Assets			
Cash and pooled investments:			
County Treasurer	28	7,504	6,611
Other County officials	-	-	-
Receivables:			
Property tax:			
Delinquent	1	-	-
Succeeding year	2,000	-	-
Accounts	-	-	-
Special assessments	-	-	-
Due from other governments	-	-	3,334
Total assets	2,029	7,504	9,945
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	-	-	152
Due to other funds	-	-	-
Due to other governments	2,029	7,504	7,361
Trusts payable	-	-	-
Compensated absences	-	-	2,432
Total liabilities	2,029	7,504	9,945
Fund equity:			
Unreserved fund balance	-	-	-
Total liabilities and fund equity	2,029	7,504	9,945

See accompanying independent auditor's report.

Agency Funds					
Fire Districts	County Hospital	Tax Sale Redemption	E911	Lost Island Sanitary District	Total
432	8,052	6,730	85,623	183	526,328
-	-	-	-	-	37,673
35	369	-	-	-	8,050
32,000	480,000	-	-	3,000	8,096,000
-	-	-	16,587	-	18,608
-	-	-	-	-	88,698
-	-	-	-	-	3,334
32,467	488,421	6,730	102,210	3,183	8,778,691
-	-	-	1,671	-	2,945
-	-	-	-	-	35,360
32,467	488,421	-	100,539	3,183	8,667,068
-	-	6,730	-	-	13,073
-	-	-	-	-	7,254
32,467	488,421	6,730	102,210	3,183	8,725,700
-	-	-	-	-	52,991
32,467	488,421	6,730	102,210	3,183	8,778,691

Palo Alto County

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year ended June 30, 2003

	<u>County Offices</u>		Agricultural
	<u>County Recorder</u>	<u>County Sheriff</u>	<u>Extension Education</u>
Assets and Liabilities			
Balance beginning of year	\$ 22,264	21,386	72,370
Additions:			
Property and other County tax	-	-	69,727
E911 surcharge	-	-	-
State tax credits	-	-	4,528
Office fees and collections	172,102	30,618	-
Auto licenses, use tax and postage	-	-	-
Assessments	-	-	-
Trusts	-	104,233	-
Miscellaneous	-	-	32
Total additions	<u>172,102</u>	<u>134,851</u>	<u>74,287</u>
Deductions:			
Agency Remittances:			
To other funds	77,002	37,299	-
To other governments	91,883	132	75,410
Trusts paid out	-	104,593	-
Total deductions	<u>168,885</u>	<u>142,024</u>	<u>75,410</u>
Balance end of year	<u>\$ 25,481</u>	<u>14,213</u>	<u>71,247</u>

County Assessor	Schools	Community Colleges	Corporations	City Special Assessments	Townships	Auto License and Use Tax
228,559	5,336,452	330,603	1,579,093	126,949	115,279	145,666
167,933	5,222,780	304,620	1,750,879	-	106,642	-
-	-	-	-	-	-	-
10,687	332,121	20,550	166,627	-	6,080	-
-	-	-	-	-	-	-
-	-	-	-	-	-	1,972,144
-	-	-	-	985	-	-
-	-	-	-	-	-	-
3,298	2,340	144	-	-	77	-
181,918	5,557,241	325,314	1,917,506	985	112,799	1,972,144
-	-	-	-	-	-	67,816
185,145	5,512,954	341,260	1,827,959	37,534	119,042	1,876,528
-	-	-	-	-	-	-
185,145	5,512,954	341,260	1,827,959	37,534	119,042	1,944,344
225,332	5,380,739	314,657	1,668,640	90,400	109,036	173,466

Palo Alto County

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year ended June 30, 2003

	<u>Brucellosis and Tuberculosis Eradication</u>	<u>Drainage Districts</u>	<u>Emergency Management Services</u>
Assets and Liabilities			
Balance beginning of year	<u>2,040</u>	<u>1,700</u>	<u>6,249</u>
Additions:			
Property and other County tax	1,664	-	-
E911 surcharge	-	-	-
State tax credits	107	-	-
Office fees and collections	-	-	-
Auto licenses, use tax and postage	-	-	-
Assessments	-	6,606	-
Trusts	-	-	-
Miscellaneous	1	-	68,113
Total additions	<u>1,772</u>	<u>6,606</u>	<u>68,113</u>
Deductions:			
Agency Remittances:			
To other funds	-	-	-
To other governments	1,783	802	64,417
Trusts paid out	-	-	-
Total deductions	<u>1,783</u>	<u>802</u>	<u>64,417</u>
Balance end of year	<u>2,029</u>	<u>7,504</u>	<u>9,945</u>

See accompanying independent auditor's report.

Fire Districts	County Hospital	Tax Sale Redemption	E911	Lost Island Sanitary District	Improvement Certificate Agency	Total
33,430	492,229	6,820	97,876	22,292	1,739	8,642,996
30,779	474,240	-	-	2,992	-	8,132,256
-	-	-	70,089	-	-	70,089
2,007	30,554	-	-	475	-	573,736
-	-	-	-	-	-	202,720
-	-	-	-	-	-	1,972,144
-	-	-	-	-	-	7,591
-	-	98,716	-	-	-	202,949
12	213	-	224	485	14,093	89,032
32,798	505,007	98,716	70,313	3,952	14,093	11,250,517
-	-	-	-	-	-	182,117
33,761	508,815	98,806	65,979	23,061	15,832	10,881,103
-	-	-	-	-	-	104,593
33,761	508,815	98,806	65,979	23,061	15,832	11,167,813
32,467	488,421	6,730	102,210	3,183	-	8,725,700

Schedule 8

Palo Alto County

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2003	2002	2001	2000
Taxes:				
Property tax	\$4,113,564	3,621,012	2,970,822	2,962,513
Local option sales tax	226,407	289,330	123,108	71,976
Tax increment financing	10,204	9,334	10,190	10,157
Utility tax replacement excise tax	116,245	105,199	90,061	-
Other	5,914	5,833	5,292	-
	<u>4,472,334</u>	<u>4,030,708</u>	<u>3,199,473</u>	<u>3,044,646</u>
Intergovernmental:				
State shared revenues:				
Road use tax	1,692,023	1,668,399	1,599,837	1,623,098
Other	29,455	24,930	28,321	22,298
State grants and reimbursements including indirect federal funding:				
Social services block grant	50,806	50,804	55,542	57,736
Federal emergency management agency grants	471,145	-	-	-
Other	105,428	238,372	330,093	206,727
State tax replacements:				
State tax credits	254,391	250,991	232,483	239,098
State allocation	68,165	71,822	78,814	79,041
Mental health property tax relief	479,707	421,279	404,945	404,945
Other	-	-	48,487	54,642
Direct federal grants and entitlements:				
Other	52,168	35,406	50,430	1,390
Contributions and reimbursements from other governmental units:				
Transfer of road jurisdiction	742,796	-	-	-
Other	306,315	302,192	288,504	348,024
Payments in lieu of taxes	2,055	481	1,523	1,128
	<u>4,254,454</u>	<u>3,064,676</u>	<u>3,118,979</u>	<u>3,038,127</u>
Total	<u>\$8,726,788</u>	<u>7,095,384</u>	<u>6,318,452</u>	<u>6,082,773</u>

See accompanying independent auditor's report.

Palo Alto County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expend- itures
Direct:			
U.S. Department of Agriculture: Wetlands Reserve Program	10.072		\$ 49,627
U.S. Department of Justice: Bulletproof Vest Partnership Program	16.607		<u>2,541</u>
Total direct			<u>52,168</u>
Indirect:			
U.S. Department of Agriculture: Iowa Department of Human Services: Human Services Administrative Reimbursements: State Administrative Matching Grants for Food Stamp Program	10.561		<u>4,726</u>
Iowa Department of Public Safety: State and Community Highway Safety	20.600	PAP 03-157 Task 128	<u>3,950</u>
Federal Emergency Management Agency:			
Iowa Department of Public Defense: Public Assistance Grants	83.544		<u>404,007</u>
Hazard Mitigation Grant	83.548	1367-0002	<u>45,172</u>
Hazard Mitigation Grant	83.548	1230-0077	<u>3,090</u>
			<u>48,262</u>
Emergency Management Performance Grants	83.552		<u>20,568</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health: State Rural Hospital Flexibility Program	93.241	588EM70	<u>23,881</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5883BT172	<u>1,547</u>
Iowa Department of Human Services: Human Services Administrative Reimbursements: Temporary Assistance for Needy Families Refugee and Entrant Assistance - State Administered Programs	93.558		<u>7,438</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.566		<u>36</u>
Foster Care - Title IV-E	93.596		<u>957</u>
Adoption Assistance	93.658		<u>2,478</u>
Medical Assistance Program	93.659		<u>837</u>
Social Services Block Grant	93.778		<u>7,532</u>
Social Services Block Grant	93.667		<u>4,887</u>
Social Services Block Grant	93.667		<u>50,806</u>
			<u>55,693</u>
Total indirect			<u>581,912</u>
Total			<u>\$ 634,080</u>

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

See accompanying independent auditor's report.

Palo Alto County

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

Palo Alto County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Officials of Palo Alto County:

We have audited the general purpose financial statements of Palo Alto County, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 14, 2004. Our report expressed a qualified opinion on the financial statements due to the omission of the general fixed assets account group and materials and supplies inventories, pertaining primarily to the Special Revenue Funds, which should be included in order to conform with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-C-03 and IV-E-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palo Alto County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Palo Alto County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-03 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Palo Alto County and other parties to whom Palo Alto 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 Palo Alto 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 14, 2004



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Palo Alto County:

Compliance

We have audited the compliance of Palo Alto County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. Palo Alto County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Palo Alto County's management. Our responsibility is to express an opinion on Palo Alto County's compliance based on our audit.

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

In our opinion, Palo Alto County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 14, 2004

Palo Alto County
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

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

- (a) A qualified opinion was issued on the financial statements due to the omission of the general fixed asset account group and materials and supplies inventories, pertaining primarily to the Special Revenue Funds.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to its major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 83.544 – Public Assistance Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Palo Alto County did not qualify as a low-risk auditee.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County’s financial statements. Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
(1) Incoming mail is not opened by an employee who is not authorized to make entries to the accounting records. A listing of cash and checks received is not prepared, so the listing can not be compared to the cash receipt records.	County Treasurer
(2) Receipts – collecting, depositing, posting and daily reconciling.	County Extension
(3) Bank reconciliation is not prepared by someone who doesn't sign checks, handle or record cash.	County Treasurer and County Extension
(4) Bank reconciliations are not reviewed periodically by an independent person for propriety.	County Treasurer and County Extension

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

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response –

County Treasurer – We will try to comply with the recommendations.

County Extension – Procedures are in place to comply with the recommendations.

Conclusion – Responses accepted.

II-B-03 Electronic Data Processing Systems – The following weaknesses in the County’s computer based systems were noted:

- Passwords are not required to be changed periodically.
- The County does not have a written disaster recovery plan and does not require backup tapes to be stored off site in a fire proof vault or safe.

Recommendation – The County should develop written policies addressing the above items in order to improve the County’s control over computer based systems. A written disaster recovery plan should be developed and back up tapes should be stored off site in a fire proof vault or safe.

Response – Passwords will be required to be changed every 6 months in the future.

A written disaster recovery plan has not been developed and the elected officials do not feel one is required at this time, but backup tapes will be stored off site in a fire proof vault.

Conclusion – Response acknowledged. A written disaster recovery plan would help ensure appropriate personnel were contacted and critical duties were performed in the event of a disruption of normal operations.

II-C-03 Credit Cards – The County has Visa, Mastercard and Advanta credit cards issued to the County Auditor, County Engineer, Conservation Officer and County Sheriff. The County does not have a written policy regarding use of these credit cards.

Recommendation – The Board should adopt a written policy governing the use of County owned credit cards. The policy should specify the individuals who are authorized to use the cards and should include the types of expenses allowed to be charged and the documentation required to be submitted to support the expense incurred and to allow authorization for payment. Board policy should prohibit the use of County-owned credit cards for personal expenses.

Response – A County policy is being written for the approval of the Board of Supervisors regarding the use of County owned credit cards. The rough draft of that policy states that any expenses incurred must be strictly for County purposes and no personal use will be tolerated.

Conclusion – Response accepted.

Palo Alto County
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program were noted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-03 Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 did not exceed amounts budgeted.
- IV-C-03 Questionable Disbursements of Boards and Commission – One E911 Board expenditure was noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. Expenditures of \$67 were made for food and refreshments at meetings.

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The E911 Board should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, written policies and procedures should be in place, including a requirement for proper documentation.

Response – This money was spent for a meeting room to hold the E911 Board meeting. The expense is approved by the Board at each meeting. The required meeting is to approve budgets to be sent to the state.

Conclusion – Response acknowledged. The Board should ensure the public purpose is clearly documented.

- IV-D-03 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-E-03 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Jergens, son of Russell Jergens, County Sheriff	Services	\$ 260
Ryan Jergens, son of Russell Jergens, County Sheriff	Transport expense	60
Richard Jergens, brother of Russell Jergens, County Sheriff	Services	300
Harvey Jergens, father of Russell Jergens, County Sheriff	Transport expense	189

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions do not appear to represent conflicts of interest since total transactions for each individual were less than \$1,500 during the fiscal year.

IV-F-03 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-G-03 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.

IV-I-03 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-J-03 Economic Development – During the year ended June 30, 2003, the County made the following payments for economic development:

<u>Payee</u>	<u>Amount</u>
Emmetsburg Economic Development Board	\$ 2,000
Ruthven Economic Development Board	2,000
West Bend Economic Development Board	2,000
NW Iowa Planning & Development Board	20,000
Graettinger Economic Development Board	<u>22,000</u>
Total	<u>\$48,000</u>

These payments may not be an appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises that the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Board should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require documentation of how the funds were used to accomplish economic development activities.

Response – The Board of Supervisors of Palo Alto County feel that these expenditures do benefit the general public by creating jobs. The cities receiving the \$2,000 economic development grants do file an expenditure sheet with the County Auditor every year showing expenditures for economic development which are much greater than the \$2,000.

The Board of Supervisors have indicated that this may be the last year for the funds to be granted.

Conclusion – Response acknowledged. The Board should document the public purpose prior to disbursement of funds.

IV-K-03 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.

General

The publication of the expenditures did not include the purpose as required by Chapter 176A.8(14) of the Code of Iowa.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Budget

The budget was not adopted by March 15, 2002 for the year ended June 30, 2003.

Recommendation – A detailed report of all receipts, from whatever source derived and expenditures of such county agricultural extension, education fund showing from whom received, to whom paid and for what purpose for the last fiscal year should be published before August 1. Budgets should be adopted by March 15.

Response – We will comply in the future.

Conclusion – Response accepted.

IV-L-03 E911 Budget – Disbursements during the year ended June 30, 2003 exceeded the amount budgeted.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa.

Response – We were not aware of the misprint on the budget sheets. This is what caused the overspending of the budget.

Conclusion – Response acknowledged.

Palo Alto County

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Cory A. Warmuth, CPA, Staff Auditor
Kevin P. Riley, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State