



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

February 13, 2012

Contact: Andy Nielsen  
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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 \$18,156,631 for the year ended June 30, 2011, which included \$696,623 in tax credits from the state. The County forwarded \$12,353,530 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$5,803,101 of the local tax revenue to finance County operations, a 9.6% increase over the prior year. Other revenues included charges for service of \$3,579,350, operating grants, contributions and restricted interest of \$3,777,230, capital grants, contributions and restricted interest of \$299,300, local option sales tax of \$328,462, tax increment financing of \$300,000, gaming tax of \$155,918, unrestricted investment earnings of \$55,835 and other general revenues of \$66,291.

Expenses for County operations totaled \$14,681,079, a 26.2% increase over the prior year. Expenses included \$5,139,099 for roads and transportation, \$2,881,673 for non-program and \$1,612,902 for public safety and legal services.

The significant increase in expenses is primarily due to an increase in roadway construction projects and drainage district repairs.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1110-0074-B00F.pdf>.

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**PALO ALTO COUNTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2011**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	28
Notes to Financial Statements		29-44
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		46-47
Budget to GAAP Reconciliation		48
Notes to Required Supplementary Information – Budgetary Reporting		49
Schedule of Funding Progress for the Retiree Health Plan		50
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	52-53
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	54-55
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	56-57
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4	58-59
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	5	60-61
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		63-64
Schedule of Findings		65-71
Staff		72

**Palo Alto County**

**Officials**

**(Before January 2011)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Hofstad	Board of Supervisors	Jan 2011
Edward Noonan	Board of Supervisors	Jan 2011
Keith Wirtz	Board of Supervisors	Jan 2011
Leo Goeders	Board of Supervisors	Jan 2013
Ronald Graettinger	Board of Supervisors	Jan 2013
Gary Leonard	County Auditor	Jan 2013
Mary Hilfiker	County Treasurer	Jan 2011
Bonnie Whitney	County Recorder	Jan 2011
Dennis Goeders	County Sheriff	Jan 2013
Peter C. Hart	County Attorney	Jan 2011
Lois Naig	County Assessor	Jan 2016

**(After January 2011)**

Leo Goeders	Board of Supervisors	Jan 2013
Ronald Graettinger	Board of Supervisors	Jan 2013
Jerry Hofstad	Board of Supervisors	Jan 2015
Edward Noonan	Board of Supervisors	Jan 2015
Keith Wirtz	Board of Supervisors	Jan 2015
Gary Leonard	County Auditor	Jan 2013
Mary Hilfiker	County Treasurer	Jan 2015
Bonnie Whitney	County Recorder	Jan 2015
Dennis Goeders	County Sheriff	Jan 2013
Lyssa Henderson	County Attorney	Jan 2015
Lois Naig	County Assessor	Jan 2016

**Palo Alto County**



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Independent Auditor's Report

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Palo Alto County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2012 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 14 and 46 through 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palo Alto County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. We also previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (which are not presented herein) and expressed qualified opinions on those financial statements due to the omission of general fixed assets and supplies inventory for the Secondary Roads Fund. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 31, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Palo Alto County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues decreased approximately \$2,482,000 from fiscal year 2010, primarily due to a decrease in contributions from the Iowa Department of Transportation for farm to market projects. Property tax and other county tax, including tax increment financing, increased approximately \$421,000 from fiscal year 2010.
- Palo Alto County's governmental activities expenses increased approximately \$3,048,000 over fiscal year 2010, primarily due to an increase in roadway construction projects and drainage district repairs.
- The County's net assets decreased 1.3%, or approximately \$316,000, from June 30, 2010 to June 30, 2011.

### USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Palo Alto County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Palo Alto County's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Palo Alto County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

## **REPORTING THE COUNTY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services, Secondary Roads, Drainage Districts and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

2) Proprietary funds account for the County's Internal Service, Employee Group Health Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

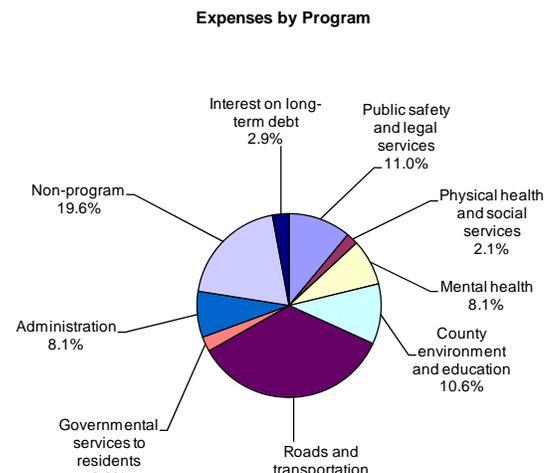
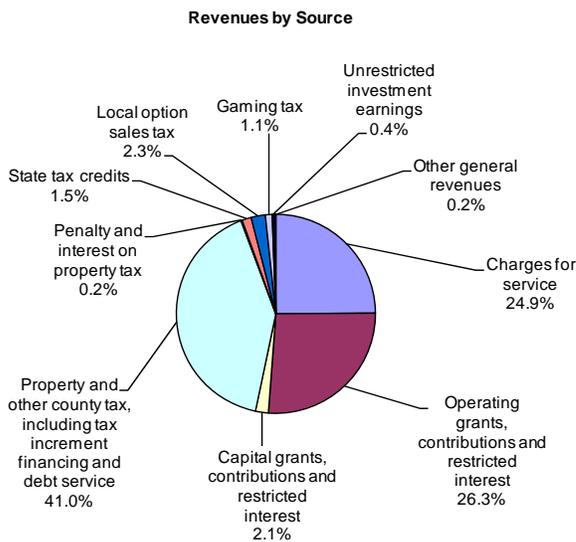
As noted earlier, net assets may serve over time as a useful indicator of financial position. Palo Alto County's combined net assets decreased from approximately \$24,898,000 to approximately \$24,582,000. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2011	2010
Current and other assets	\$ 22,455	24,838
Capital assets	20,907	18,426
Total assets	43,362	43,264
Long-term liabilities	11,427	11,823
Other liabilities	7,353	6,543
Total liabilities	18,780	18,366
Net assets:		
Invested in capital assets, net of related debt	17,078	17,668
Restricted	6,933	5,965
Unrestricted	571	1,265
Total net assets	\$ 24,582	24,898

Net assets of Palo Alto County's governmental activities decreased approximately \$316,000. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment) less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Unrestricted net assets decreased from approximately \$1,265,000 at June 30, 2010 to approximately \$571,000 at June 30, 2011.

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

	Year ended June 30,	
	2011	2010
Revenues:		
Program revenues:		
Charges for service	\$ 3,579	1,656
Operating grants, contributions and restricted interest	3,777	3,421
Capital grants, contributions and restricted interest	299	5,397
General revenues:		
Property and other county tax, including tax increment financing	5,881	5,460
Penalty and interest on property tax	33	26
State tax credits	222	226
Local option sales tax	329	334
Gaming tax	156	144
Unrestricted investment earnings	56	74
Other general revenues	33	109
Total revenues	14,365	16,847
Program expenses:		
Public safety and legal services	1,613	1,640
Physical health and social services	301	312
Mental health	1,188	1,130
County environment and education	1,560	1,300
Roads and transportation	5,139	4,386
Governmental services to residents	381	369
Administration	1,186	1,176
Non-program	2,882	867
Interest on long-term debt	431	453
Total expenses	14,681	11,633
Increase (decrease) in net assets	(316)	5,214
Net assets beginning of year	24,898	19,684
Net assets end of year	\$ 24,582	24,898



Palo Alto County's net assets of governmental activities decreased approximately \$316,000 during the year. Revenues for governmental activities decreased approximately \$2,482,000 to approximately \$14,365,000, with capital grants, contributions and restricted interest down approximately \$5,098,000, or 94.4%, from the prior year. Additionally, property tax revenue, including tax increment financing, increased approximately \$421,000, or 8%, from the prior year.

The County decreased property tax rates for fiscal year 2011 an average of 3%. However, the total taxable value increased approximately \$26.6 million, or 5%. Property tax is budgeted to increase approximately \$448,000 next year.

The cost of all governmental activities this year was approximately \$14.7 million compared to approximately \$11.6 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was approximately \$7.0 million because some of the cost was paid by those directly benefited from the programs (\$3,579,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$4,077,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased from approximately \$10,474,000 in fiscal year 2010 to approximately \$7,656,000 in fiscal year 2011, principally due to receiving less grant proceeds for construction improvements to county roads than received in the prior year. The County paid for the remaining "public benefit" portion of governmental activities (\$7,025,000) with taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$13.3 million, a decrease of approximately \$3,496,000 from last year's total of approximately \$16.8 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance decreased approximately \$127,000 from the prior year to approximately \$1,864,000. General Fund revenues increased approximately \$382,000 and expenditures increased approximately \$130,000. The increase in revenues was primarily due to an increase of approximately \$321,000 in property tax levied and an increase of approximately \$41,000 in intergovernmental grants in fiscal year 2011. The increase in expenditures was primarily due to a water restoration project completed during fiscal year 2011 through the Iowa Department of Natural Resources for \$162,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,188,000, an increase of 5% from the prior year, and revenues decreased approximately \$131,000. The Special Revenue, Mental Health Fund balance at year end decreased approximately \$14,000 to approximately \$552,000. Revenues decreased primarily due to a reduction of allowable growth and community service dollars received from the State.
- Special Revenue, Rural Services Fund expenditures increased approximately \$9,000 from the prior year. Revenues increased approximately \$229,000, primarily due to an increase in property and other county tax. The Rural Services Fund balance decreased approximately \$82,000 to approximately \$576,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$149,000.
- Special Revenue, Secondary Roads Fund expenditures decreased approximately \$383,000 from the prior year. This decrease in expenditures is due primarily to the completion of the locally funded "Kirby-Flynn" high truss bridge reconstruction project and completion of a new fuel system. In addition, the County's snow removal cost decreased after the record setting winter in fiscal year 2010. Revenues increased

approximately \$193,000. The major item increasing the revenues was road use tax of approximately \$190,000. The Secondary Roads Fund ending fund balance increased approximately \$454,000, or 11%.

- Special Revenue, Drainage Districts Fund revenues increased approximately \$157,000 due to an increase in drainage assessments over the prior year. Expenditures increased approximately \$463,000, due primarily to flood repair and projects being completed in the current year. This resulted in a decrease of approximately \$196,000 in the Drainage Districts Fund end of year fund balance.
- The Special Revenue, Tax Increment Financing Fund expended \$411,114 for the payment of revenue bond principal and interest, including an additional \$200,000 paid toward the principal balance on the revenue bond. The balance in the fund at June 30, 2011 was approximately \$110,000, which will be used to pay the principal and interest on the bonds through September 2011.
- Debt Service Fund revenues decreased approximately \$200 from the prior year. Expenditures decreased approximately \$2,000. The balance in the fund at June 30, 2011 was approximately \$18,000, or approximately \$1,000 over the prior year end fund balance. The Debt Service Fund is used to pay for general obligation bond principal and interest for the road projects.
- Capital Projects Fund revenues decreased approximately \$66,000 due to a decrease in interest earned on the investment of prior year general obligation bond proceeds. Expenditures increased approximately \$2,349,000 for construction on four road projects active in fiscal year 2011. All expenditures for the projects are charged to this fund, except for the principal and interest payments which are paid from the Debt Service Fund.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Palo Alto County amended its budget once. The amendment was made on May 24, 2011 and resulted in an increase in budgeted disbursements of \$270,001. The majority of this increase was the result of unbudgeted pass through grant money in the county environment and education function.

The County's receipts were \$564,197 less than budgeted, a variance of 4.7%. A significant variance resulted from the County not receiving anticipated intergovernmental receipts and reduced interest earnings as a result of the decrease in interest rates.

Total disbursements were \$6,386,193 less than the amended budget. Actual disbursements for the capital projects, roads and transportation and county environment and education functions were \$4,497,202, \$589,299 and \$524,967, respectively, less than budgeted. The variance affecting the capital projects function was primarily due to only spending \$3,710,428 of the \$8,207,630 budgeted for road projects from the Capital Projects Fund. This resulted from changes in the farm-to-market funding rules for borrowing ahead, which allowed the County to utilize farm-to-market funds instead of bond funds. Bond funds are planned to be utilized for future capital projects. The remaining variances are a result of disbursements budgeted and not expended by June 30, 2011.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2011, Palo Alto County had approximately \$20.9 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges and intangible assets. This is a net increase (including additions and deletions) of approximately \$2,481,000, or 13.5%, over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2011	2010
Land	\$ 934	934
Buildings and improvements	815	845
Equipment and vehicles	2,845	2,809
Intangibles	383	402
Infrastructure	15,930	13,436
Total	\$ 20,907	18,426
This year's major additions included (in thousands):		
Infrastructure, road network	\$	3,025
CAT motor grader		262
Fuel system		223
Total	\$	3,510

The County had depreciation/amortization expense of approximately \$986,000 in fiscal year 2011 and total accumulated depreciation/amortization of approximately \$6.3 million at June 30, 2011. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

### Long-Term Debt

At June 30, 2011, Palo Alto County had approximately \$10.9 million in outstanding long-term debt, which included \$935,000 of urban renewal tax increment (TIF) revenue bonds, \$8,720,000 of general obligation bonds and \$1,240,736 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
Urban renewal TIF bonds	\$ 935	1,308
General obligation bonds	8,720	9,190
Drainage warrants	1,241	928
Total	\$ 10,896	11,426

Debt decreased as a result of making the first debt payment to retire general obligation bonds for County road improvements.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Palo Alto County's outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of approximately \$46 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Palo Alto County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees for various County activities. One of those factors is the economy. Palo Alto County's employment (number of persons working) during October 2011 was 4,910, which is down from 4,940 during December 2010. Unemployment in the County during October 2011 was 4.6% compared to 5.1% during December 2010. This compares with the State's unemployment rate of 6.0% and the national rate of 9.0% during October 2011.

The national Consumer Price Index remained stable in December 2011 as compared to the previous month. However, over the last twelve months, the index increased 3% due to increasing energy prices, electricity and fuel oil.

The above factors were all part of the considerations for the fiscal year 2012 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2012 Dollars Certified	2011 Dollars Certified	Percentage Change
General Fund	\$ 2,942,404	\$ 2,725,185	7.97%
Mental Health Fund	683,243	682,516	0.11%
Rural Services Fund	1,632,276	1,560,646	4.59%
Debt Service Fund	981,799	823,603	19.21%
Total	<u>\$ 6,239,722</u>	<u>\$ 5,791,950</u>	<u>7.73%</u>

Continued state revenue cutbacks the past few years are driving the increases in property tax. No new services were added in the fiscal year 2012 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2012 are as follows:

	2012	2011	Percentage Change
General basic levy	\$ 3.50000	\$ 3.50000	0.00%
General supplemental levy	1.50000	1.35000	11.11%
Mental health levy	1.16103	1.21467	-4.42%
Rural services basic levy	3.95000	3.95000	0.00%
Debt service levy	1.61000	1.40264	14.78%
Total	<u>\$ 11.72103</u>	<u>\$ 11.41731</u>	<u>2.66%</u>

These factors were taken into account when adopting the budget for fiscal year 2012. Amounts appropriated in the operating budget are \$17,823,170, a decrease of \$3,091,058, or 14.8%, under the final fiscal year 2011 budget. The majority of the disbursements budgeted are for capital projects as road improvements continue during fiscal year 2012. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy for fiscal year 2012 increased from \$1.35 per \$1,000 of taxable valuation to \$1.50 per \$1,000 of taxable valuation. Palo Alto County decreased the mental health levy for fiscal year 2012 from \$1.21467 per \$1,000 of taxable valuation to \$1.16103 per \$1,000 of taxable valuation. Additionally, the County increased the debt service levy for fiscal year 2012 from \$1.40264 per \$1,000 of taxable valuation to \$1.61000 per \$1,000 of taxable valuation. The rural basic levy rate remained at the limit of \$3.95 per \$1,000 of taxable valuation.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Palo Alto County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Palo Alto County Auditor's Office, 1010 Broadway, Emmetsburg, Iowa 50536-2442.

## **Basic Financial Statements**

**Exhibit A**

Palo Alto County  
Statement of Net Assets  
June 30, 2011

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 13,350,059
Receivables:	
Property tax:	
Delinquent	7,810
Succeeding year	6,310,000
Interest and penalty on property tax	18,106
Accounts	154,776
Accrued interest	8,736
Drainage assessments	1,442,964
Due from other governments	438,819
Inventories	600,075
Prepaid insurance	123,629
Capital assets (net of accumulated depreciation)	20,907,205
<b>Total assets</b>	<u>43,362,179</u>
<b>Liabilities</b>	
Accounts payable	569,605
Accrued interest payable	94,047
Salaries and benefits payable	69,300
Due to other governments	309,806
Deferred revenue:	
Succeeding year property tax	6,310,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment revenue bonds	173,000
General obligation bonds	485,000
Drainage warrants	1,240,736
Compensated absences	149,548
Portion due or payable after one year:	
Urban renewal tax increment revenue bonds	762,000
General obligation bonds	8,235,000
Compensated absences	80,590
Net OPEB liability	301,197
<b>Total liabilities</b>	<u>18,779,829</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	17,077,828
Restricted for:	
Supplemental levy purposes	339,844
Mental health purposes	552,628
Rural services purposes	572,514
Secondary roads purposes	4,671,466
Drainage district purposes	151,266
Debt service	19,206
Capital projects	469,244
Other purposes	156,895
Unrestricted	571,459
<b>Total net assets</b>	<u>\$ 24,582,350</u>

See notes to financial statements.

Palo Alto County  
Statement of Activities  
Year ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
<b>Functions/Programs:</b>					
Governmental activities:					
Public safety and legal services	\$ 1,612,902	206,421	10,586	-	(1,395,895)
Physical health and social services	301,009	112,883	39,917	-	(148,209)
Mental health	1,187,643	-	492,083	-	(695,560)
County environment and education	1,560,441	325,698	184,785	-	(1,049,958)
Roads and transportation	5,139,099	146,862	2,739,736	237,542	(2,014,959)
Governmental services to residents	381,029	169,793	-	-	(211,236)
Administration	1,186,319	5,703	-	-	(1,180,616)
Non-program	2,881,673	2,611,990	310,123	61,758	102,198
Interest on long-term debt	430,964	-	-	-	(430,964)
<b>Total</b>	<b>\$ 14,681,079</b>	<b>3,579,350</b>	<b>3,777,230</b>	<b>299,300</b>	<b>(7,025,199)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					4,787,112
Debt service					793,784
Tax increment financing					300,000
Penalty and interest on property tax					32,875
State tax credits					222,205
Local option sales tax					328,462
Gaming tax					155,918
Unrestricted investment earnings					55,835
Miscellaneous					33,416
<b>Total general revenues</b>					<b>6,709,607</b>
Change in net assets					(315,592)
Net assets beginning of year					24,897,942
Net assets end of year					<b>\$ 24,582,350</b>

See notes to financial statements.

Palo Alto County  
Balance Sheet  
Governmental Funds

June 30, 2011

	Special			
	General	Mental Health	Rural Services	Secondary Roads
<b>Assets</b>				
Cash and pooled investments	\$ 1,865,349	707,419	542,068	4,041,790
Receivables:				
Property tax:				
Delinquent	3,046	707	655	2,415
Succeeding year	2,833,000	658,000	1,572,000	-
Interest and penalty on property tax	18,106	-	-	-
Accounts	6,403	-	36,211	112,162
Accrued interest	3,034	-	-	-
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	23,119
Due from other governments	180,165	-	57,820	200,047
Inventories	-	-	-	600,075
Prepaid insurance	24,636	-	652	17,751
<b>Total assets</b>	<b>\$ 4,933,739</b>	<b>1,366,126</b>	<b>2,209,406</b>	<b>4,997,359</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 37,433	44,447	11,625	103,196
Salaries and benefits payable	-	-	-	69,300
Due to other funds	6,520	-	16,599	-
Due to other governments	172,251	111,051	24,772	1,732
Deferred revenue:				
Succeeding year property tax	2,833,000	658,000	1,572,000	-
Other	20,699	654	8,225	112,162
Total liabilities	<b>3,069,903</b>	<b>814,152</b>	<b>1,633,221</b>	<b>286,390</b>
Fund balances:				
Nonspendable:				
Inventories	-	-	-	600,075
Prepaid insurance	24,636	-	652	17,751
Restricted for:				
Supplemental levy purposes	347,850	-	-	-
Mental health purposes	-	551,974	-	-
Rural services purposes	-	-	537,533	-
Secondary roads purposes	-	-	-	4,093,143
Drainage warrants	-	-	-	-
Conservation land acquisition/capital improvements	89,091	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Assigned:				
Economic development	19,177	-	-	-
Courthouse repairs and global information system	75,000	-	-	-
Transfer station equipment	-	-	38,000	-
Unassigned	1,308,082	-	-	-
Total fund balances	<b>1,863,836</b>	<b>551,974</b>	<b>576,185</b>	<b>4,710,969</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,933,739</b>	<b>1,366,126</b>	<b>2,209,406</b>	<b>4,997,359</b>

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
202,239	110,356	18,219	5,392,520	48,179	12,928,139
-	-	987	-	-	7,810
-	300,000	947,000	-	-	6,310,000
-	-	-	-	-	18,106
-	-	-	-	-	154,776
-	-	-	5,702	-	8,736
1,442,964	-	-	-	-	1,442,964
-	-	-	-	-	23,119
-	-	-	-	787	438,819
-	-	-	-	-	600,075
-	-	-	-	-	43,039
1,645,203	410,356	966,206	5,398,222	48,966	21,975,583
191,049	-	-	9,966	339	398,055
-	-	-	-	-	69,300
-	-	-	-	-	23,119
-	-	-	-	-	309,806
-	300,000	947,000	-	-	6,310,000
1,442,964	-	912	-	-	1,585,616
1,634,013	300,000	947,912	9,966	339	8,695,896
-	-	-	-	-	600,075
-	-	-	-	-	43,039
-	-	-	-	-	347,850
-	-	-	-	-	551,974
-	-	-	-	-	537,533
-	-	-	-	-	4,093,143
98,592	-	-	-	-	98,592
-	-	-	-	-	89,091
-	-	18,294	-	-	18,294
-	-	-	5,388,256	-	5,388,256
-	110,356	-	-	48,709	159,065
-	-	-	-	-	19,177
-	-	-	-	-	75,000
-	-	-	-	-	38,000
(87,402)	-	-	-	(82)	1,220,598
11,190	110,356	18,294	5,388,256	48,627	13,279,687
1,645,203	410,356	966,206	5,398,222	48,966	21,975,583

**Palo Alto County**

Palo Alto County

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

June 30, 2011

**Total governmental fund balances (page 19)** \$ 13,279,687

***Amounts reported for governmental activities in the Statement of Net Assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$27,235,952 and the accumulated depreciation/amortization is \$6,328,747. 20,907,205

Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds. 1,585,616

The Internal Service Fund is used by management to charge the costs of the partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Assets. 330,960

Long-term liabilities, including urban renewal tax increment revenue bonds payable, general obligation bonds payable, drainage warrants payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (11,521,118)

**Net assets of governmental activities (page 16)** \$ 24,582,350

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2011

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,780,348	657,280	1,505,288	-
Local option sales tax	-	-	328,462	-
Interest and penalty on property tax	30,237	-	-	-
Intergovernmental	461,977	516,333	112,565	2,915,908
Licenses and permits	3,761	-	-	3,650
Charges for service	304,472	-	269,218	40,503
Use of money and property	68,333	-	-	17,911
Miscellaneous	200,657	216	2,385	50,410
Total revenues	<u>3,849,785</u>	<u>1,173,829</u>	<u>2,217,918</u>	<u>3,028,382</u>
Expenditures:				
Operating:				
Public safety and legal services	1,375,514	-	196,249	-
Physical health and social services	298,385	-	-	-
Mental health	-	1,187,643	-	-
County environment and education	892,425	-	622,140	-
Roads and transportation	-	-	196,042	3,638,494
Governmental services to residents	361,075	-	-	-
Administration	1,011,551	-	90,881	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	37,963	-	6,149	124,346
Total expenditures	<u>3,976,913</u>	<u>1,187,643</u>	<u>1,111,461</u>	<u>3,762,840</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(127,128)</u>	<u>(13,814)</u>	<u>1,106,457</u>	<u>(734,458)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	1,188,531
Operating transfers out	-	-	(1,188,531)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,188,531)</u>	<u>1,188,531</u>
Net change in fund balances	(127,128)	(13,814)	(82,074)	454,073
Fund balances beginning of year, as restated	<u>1,990,964</u>	<u>565,788</u>	<u>658,259</u>	<u>4,256,896</u>
Fund balances end of year	<u>\$ 1,863,836</u>	<u>551,974</u>	<u>576,185</u>	<u>4,710,969</u>

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	300,000	793,675	-	-	6,036,591
-	-	-	-	-	328,462
-	-	-	-	-	30,237
85,242	-	31,110	-	28,093	4,151,228
-	-	-	-	-	7,411
-	-	-	-	2,113	616,306
-	-	-	116,482	22	202,748
505,145	-	-	-	2,859	761,672
590,387	300,000	824,785	116,482	33,087	12,134,655
-	-	-	-	10,695	1,582,458
-	-	-	-	-	298,385
-	-	-	-	-	1,187,643
-	-	-	-	16,609	1,531,174
-	-	-	-	-	3,834,536
-	-	-	-	1,085	362,160
-	-	-	-	-	1,102,432
1,004,990	-	-	-	-	1,004,990
442,012	411,114	823,602	-	-	1,676,728
-	-	-	3,541,832	339	3,710,629
1,447,002	411,114	823,602	3,541,832	28,728	16,291,135
(856,615)	(111,114)	1,183	(3,425,350)	4,359	(4,156,480)
-	-	-	-	-	1,188,531
-	-	-	-	-	(1,188,531)
660,920	-	-	-	-	660,920
660,920	-	-	-	-	660,920
(195,695)	(111,114)	1,183	(3,425,350)	4,359	(3,495,560)
206,885	221,470	17,111	8,813,606	44,268	16,775,247
11,190	110,356	18,294	5,388,256	48,627	13,279,687

Palo Alto County

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

Year ended June 30, 2011

**Net change in fund balances - Total governmental funds (page 23)** \$ (3,495,560)

**Amounts reported for governmental activities in the Statement of Activities are different because:**

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

Expenditures for capital assets	\$ 3,454,298	
Capital assets contributed by the Iowa Department of Transportation and others	12,733	
Depreciation/amortization expense	<u>(985,542)</u>	2,481,489

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	3,076	
Other	<u>381,542</u>	384,618

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

Issued	(660,920)	
Repaid	<u>1,191,434</u>	530,514

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

Compensated absences	19,552	
Other postemployment benefits	(154,612)	
Interest on long-term debt	<u>54,330</u>	(80,730)

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

(135,923)

**Change in net assets of governmental activities (page 17)**

\$ (315,592)

See notes to financial statements.

Palo Alto County  
 Statement of Net Assets  
 Proprietary Fund  
 June 30, 2011

	<u>Internal Service - Employee Group Health</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 421,920
Prepaid insurance	<u>80,590</u>
<b>Total assets</b>	502,510
<b>Liabilities</b>	
Accounts payable	<u>171,550</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$ 330,960</u></u>

See notes to financial statements.

**Exhibit H**

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

Year ended June 30, 2011

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 915,423
Reimbursements from employees		5,697
Total operating revenues		<u>921,120</u>
Operating expenses:		
Insurance premiums	\$ 913,384	
Medical claims	127,478	
Administrative fees	<u>16,181</u>	1,057,043
Operating loss		<u>(135,923)</u>
Net assets beginning of year		<u>466,883</u>
Net assets end of year		<u><u>\$ 330,960</u></u>

See notes to financial statements.

Palo Alto County  
Statement of Cash Flows  
Proprietary Fund  
Year ended June 30, 2011

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 915,423
Cash received from employees	7,019
Cash paid to suppliers for services	(986,409)
Net cash used for operating activities	(63,967)
Cash and cash equivalents beginning of year	485,887
Cash and cash equivalents end of year	\$ 421,920
<b>Reconciliation of operating loss to net cash used for operating activities:</b>	
Operating loss	\$ (135,923)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Decrease in accounts receivable	1,322
Increase in prepaid insurance	(2,344)
Increase in accounts payable	72,978
Net cash used for operating activities	\$ (63,967)

See notes to financial statements.

Palo Alto County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2011

**Assets**

Cash and pooled investments:	
County Treasurer	\$ 823,781
Other County officials	22,633
Receivables:	
Property tax:	
Delinquent	15,457
Succeeding year	11,870,000
Accounts	7,093
Accrued interest	79
Special assessments	40,299
<b>Total assets</b>	<u>12,779,342</u>

**Liabilities**

Accounts payable	1,898
Due to other governments	12,743,009
Trusts payable	19,262
Compensated absences	15,173
<b>Total liabilities</b>	<u>12,779,342</u>

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

Palo Alto County

Notes to Financial Statements

June 30, 2011

**(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.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

These financial statements present 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 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 eight-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. The drainage districts are reported as a Special Revenue Fund. Financial information of 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 Joint E911 Service Board. Financial transactions of these organizations are included in the County’s financial statements only to the extent of the County’s fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

The Drainage Districts Fund is used to account for drainage assessments and drainage construction and maintenance.

The Tax Increment Financing Fund is used to account for the property tax revenue levied for the payment of urban renewal tax increment revenue bond principal and interest.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2010.

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.

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. Delinquent drainage assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

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 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Special assessments receivable represent assessments which have been made 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, 2011, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 2003 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 75,000
Intangibles	75,000
Land, buildings and improvements	50,000
Equipment and vehicles	10,000

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

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Infrastructure	10 - 65
Intangibles	5 - 20
Equipment and vehicles	3 - 20

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Rural Services and Secondary Roads Funds.

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

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

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

Net Assets – The net assets of the Internal Service, Employee Group Health Fund are designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

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

**(2) Cash and Pooled Investments**

The County's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue:		
Secondary Roads	General	\$ 6,520
	Special Revenue:	
	Rural Services	16,599
		<u>          </u>
Total		<u>\$ 23,119</u>

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

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 1,188,531</u>

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

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated/amortized:				
Land	\$ 933,912	-	-	933,912
Intangibles	210,113	-	-	210,113
Construction in progress	4,002,072	3,105,951	(7,104,042)	3,981
Total capital assets not being depreciated/amortized	<u>5,146,097</u>	<u>3,105,951</u>	<u>(7,104,042)</u>	<u>1,148,006</u>
Capital assets being depreciated/amortized:				
Buildings	1,499,953	-	-	1,499,953
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	6,498,733	404,140	(284,855)	6,618,018
Intangibles	191,887	-	-	191,887
Infrastructure, road network	10,580,647	6,880,555	-	17,461,202
Infrastructure, other	-	223,487	-	223,487
Total capital assets being depreciated/amortized	<u>18,864,619</u>	<u>7,508,182</u>	<u>(284,855)</u>	<u>26,087,946</u>
Less accumulated depreciation/amortization for:				
Buildings	714,727	26,659	-	741,386
Improvements other than buildings	33,619	3,504	-	37,123
Equipment and vehicles	3,689,341	325,522	(241,795)	3,773,068
Intangibles	-	19,189	-	19,189
Infrastructure, road network	1,147,313	599,494	-	1,746,807
Infrastructure, other	-	11,174	-	11,174
Total accumulated depreciation/amortization	<u>5,585,000</u>	<u>985,542</u>	<u>(241,795)</u>	<u>6,328,747</u>
Total capital assets being depreciated/amortized, net	<u>13,279,619</u>	<u>6,522,640</u>	<u>(43,060)</u>	<u>19,759,199</u>
Governmental activities capital assets, net	<u>\$ 18,425,716</u>	<u>9,628,591</u>	<u>(7,147,102)</u>	<u>20,907,205</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 14,487
County environment and education	41,223
Roads and transportation	907,944
Administration	7,363
Nonprogram	<u>14,525</u>
Total depreciation/amortization expense - governmental activities	<u>\$ 985,542</u>

**(6) Due to Other Governments**

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$ 172,251
Special Revenue:		
Mental Health	Services	111,051
Rural Services	Services	24,772
Secondary Roads	Services	1,732
		<u>137,555</u>
Total for governmental funds		<u>\$ 309,806</u>
Agency:		
County Offices	Collections	\$ 9,595
Agricultural Extension Education		107,103
County Assessor		371,298
Schools		7,372,882
Community Colleges		443,288
Corporations		2,552,355
Townships		149,874
City Special Assessments		40,636
Auto License and Use Tax		191,065
All other		1,504,913
Total for agency funds		<u>\$ 12,743,009</u>

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Urban Renewal Tax Increment Revenue Bonds	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 1,308,000	9,190,000	928,250	249,690	146,585	11,822,525
Increases	-	-	660,920	241,679	164,275	1,066,874
Decreases	(373,000)	(470,000)	(348,434)	(261,231)	(9,663)	(1,462,328)
Balance end of year	<u>\$ 935,000</u>	<u>8,720,000</u>	<u>1,240,736</u>	<u>230,138</u>	<u>301,197</u>	<u>11,427,071</u>
Due within one year	<u>\$ 173,000</u>	<u>485,000</u>	<u>1,240,736</u>	<u>149,548</u>	<u>-</u>	<u>2,048,284</u>

Urban Renewal Tax Increment Revenue Bonds

On November 23, 2004, the County issued \$2,250,000 of urban renewal tax increment revenue bonds. The bonds were issued to defray a portion of the costs of carrying out an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area. During the year ended June 30, 2011, principal of \$373,000, including \$200,000 of principal in excess of the scheduled amount, and interest of \$38,114 were paid.

The bonds are not general obligations of the County, but are payable only from the income and proceeds of the Special Revenue, Tax Increment Financing Fund established in the resolutions. Although the bonds are not general obligations of the County, the debt is subject to the constitutional debt limitation of the County.

A summary of the County's June 30, 2011 annual debt service requirements to maturity for urban renewal tax increment revenue bonds is as follows:

Year Ending June 30,	Interest Rates	November 23, 2004 Issue		
		Principal	Interest	Total
2012	4.50%	\$ 173,000	40,129	213,129
2013	4.50	173,000	32,344	205,344
2014	4.50	173,000	24,559	197,559
2015	4.50	173,000	16,774	189,774
2016	4.50	173,000	8,989	181,989
2017	4.50	70,000	1,575	71,575
Total		\$ 935,000	124,370	1,059,370

### General Obligation Bonds

During the year ended June 30, 2008, the County issued \$10,000,000 of general obligation bonds. A summary of the County's June 30, 2011 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Series 2007B Issued December 31, 2007			
	Interest Rates	Principal	Interest	Total
2012	4.25%	\$ -	212,500	212,500
2013	4.25	-	212,500	212,500
2014	4.25	-	212,500	212,500
2015	4.25	-	212,500	212,500
2016	4.25	-	212,500	212,500
2017-2021	4.25	800,000	1,054,425	1,854,425
2022-2026	4.25	3,430,000	612,000	4,042,000
2027	4.25	770,000	32,725	802,725
Total		\$ 5,000,000	2,761,650	7,761,650

Year Ending June 30,	Series 2008 Issued May 1, 2008					Total		
	Interest Rates	Principal	Interest	Total	Principal	Interest	Total	
2012	3.00%	\$ 485,000	128,177	613,177	485,000	340,677	825,677	
2013	3.15	495,000	113,627	608,627	495,000	326,127	821,127	
2014	3.30	515,000	98,035	613,035	515,000	310,535	825,535	
2015	3.45	530,000	81,040	611,040	530,000	293,540	823,540	
2016	3.60	545,000	62,755	607,755	545,000	275,255	820,255	
2017-2021	3.70-3.80	1,150,000	65,365	1,215,365	1,950,000	1,119,790	3,069,790	
2022-2026		-	-	-	3,430,000	612,000	4,042,000	
2027		-	-	-	770,000	32,725	802,725	
Total		\$ 3,720,000	548,999	4,268,999	8,720,000	3,310,649	12,030,649	

### Drainage Warrants

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

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

**(8) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the County is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$257,091, \$239,363 and \$220,608, respectively, equal to the required contributions for each year.

**(9) Other Postemployment Benefits (OPEB)**

Plan Description. The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 78 active and 2 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-funded medical plan administered by Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability. In addition, upon retirement, the County pays 100% of the single policy health insurance premium plus the dental insurance premium for 3 years, but only until the individual is eligible for Medicare.

Funding Policy. The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 177,797
Interest on net OPEB obligation	3,364
Adjustment to annual required contribution	<u>(16,886)</u>
Annual OPEB cost	164,275
Contributions made	<u>(9,663)</u>
Increase in net OPEB obligation	154,612
Net OPEB obligation beginning of year	<u>146,585</u>
Net OPEB obligation end of year	<u>\$ 301,197</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the County contributed \$9,663 to the plan.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 162,040	9.5%	\$ 146,585
2011	164,275	5.9	301,197

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1,315,269 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,315,269. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,988,000 and the ratio of the UAAL to covered payroll was 44.0%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the County's funding policy. The projected annual and ultimate medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis.

Projected claim costs of the medical plan are \$1,068 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group over 30 years.

**(10) Risk Management**

The County is a member of 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 whose 645 members include 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 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2011 were \$129,249.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2011, no liability has been recorded in the County's financial statements. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim

was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$10,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Employee Health Insurance Plan**

The Internal Service, Employee Group Health Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by County contributions and is administered by Group Services, Inc. The County assumes liability for claims between \$750 and \$2,000 for single coverage and \$1,500 and \$4,000 for family coverage. Claims in excess of the deductible are insured through the purchase of insurance.

Payments to the Employee Group Health Fund are recorded as expenditures by the operating funds. Payments to Wellmark, Blue Cross and Blue Shield are for insurance premiums and payments to Group Services, Inc. are for service fees and medical claims. The County's contribution for the year ended June 30, 2011 was \$915,423.

Amounts payable from the Employee Group Health Fund at June 30, 2011 total \$171,550, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims and to establish a reserve for catastrophic losses. That reserve was \$330,960 at June 30, 2011 and is reported as a designation of the Internal Service, Employee Group Health Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 98,572
Incurred claims (including claims incurred but not reported at June 30, 2011)	200,456
Payment on claims during the fiscal year	<u>(127,478)</u>
Unpaid claims end of year	<u>\$ 171,550</u>

**(12) Transfer Station Closure Care**

To comply with state regulations, the County is required to complete a closure plan detailing how the transfer station will comply with proper disposal of all solid waste and litter at the site, cleaning the transfer station building, including the rinsing of all surfaces that have come in contact with solid waste or wash water, cleaning of all solid waste transport vehicles that will remain on site, including the rinsing of all surfaces that have come in contact with solid waste, and the removal and proper management of all wash water in the wash water management system.

To comply with state regulations, the County is required to maintain a closure account as financial assurance for the closure care costs. The effect of the state requirement is to commit landfill owners to perform certain closing functions as a condition for the right to operate the transfer station in the current period.

The total closure care costs for the County as of June 30, 2011 have been estimated at \$4,978. A balance of \$5,000 has been deposited in the Special Revenue, Closure/Postclosure Fund. The balance is restricted and the estimated closure care costs are fully funded at June 30, 2011.

**(13) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

		<u>Nonmajor Special Revenue</u>	
		<u>Conservation</u>	
	<u>General</u>	<u>Land Acquisition</u>	<u>Economic Development</u>
Balances June 30, 2010, as previously reported	\$ 1,913,120	63,673	14,171
Change in fund type classification per implementation of GASB Statement No. 54	77,844	(63,673)	(14,171)
Balances July 1, 2010, as restated	<u>\$ 1,990,964</u>	<u>-</u>	<u>-</u>

**(14) Subsequent Event**

The County entered into a contract totaling \$1,705,355 with Rognes Brothers Excavating, Inc. on September 6, 2011 for a roadway construction project.

**Required Supplementary Information**

Palo Alto County

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

Required Supplementary Information

Year ended June 30, 2011

	Actual	Less Funds not Required to be Budgeted	Net
<b>Receipts:</b>			
Property and other county tax	\$ 6,335,137	-	6,335,137
Interest and penalty on property tax	30,022	-	30,022
Intergovernmental	4,228,470	270,464	3,958,006
Licenses and permits	9,026	-	9,026
Charges for service	609,033	-	609,033
Use of money and property	233,206	-	233,206
Miscellaneous	767,551	505,145	262,406
Total receipts	<u>12,212,445</u>	<u>775,609</u>	<u>11,436,836</u>
<b>Disbursements:</b>			
Public safety and legal services	1,570,856	-	1,570,856
Physical health and social services	299,472	-	299,472
Mental health	1,175,813	-	1,175,813
County environment and education	1,368,793	-	1,368,793
Roads and transportation	3,703,719	-	3,703,719
Governmental services to residents	362,091	-	362,091
Administration	1,102,147	-	1,102,147
Non-program	914,213	914,213	-
Debt service	1,676,728	442,012	1,234,716
Capital projects	3,710,428	-	3,710,428
Total disbursements	<u>15,884,260</u>	<u>1,356,225</u>	<u>14,528,035</u>
Excess (deficiency) of receipts over (under) disbursements	(3,671,815)	(580,616)	(3,091,199)
Other financing sources, net	660,920	660,920	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,010,895)	80,304	(3,091,199)
Balance beginning of year	<u>15,939,034</u>	<u>121,935</u>	<u>15,817,099</u>
Balance end of year	<u>\$ 12,928,139</u>	<u>202,239</u>	<u>12,725,900</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
6,256,160	6,261,820	73,317
6,400	6,400	23,622
4,015,798	4,205,448	(247,442)
11,050	11,050	(2,024)
540,360	546,860	62,173
403,613	403,613	(170,407)
492,141	565,842	(303,436)
<u>11,725,522</u>	<u>12,001,033</u>	<u>(564,197)</u>
1,640,577	1,641,977	71,121
365,590	372,090	72,618
1,579,333	1,579,333	403,520
1,639,145	1,893,760	524,967
4,293,018	4,293,018	589,299
392,795	392,795	30,704
1,211,372	1,218,858	116,711
-	-	-
1,314,767	1,314,767	80,051
8,207,630	8,207,630	4,497,202
<u>20,644,227</u>	<u>20,914,228</u>	<u>6,386,193</u>
(8,918,705)	(8,913,195)	5,821,996
-	-	-
(8,918,705)	(8,913,195)	5,821,996
<u>12,967,380</u>	<u>12,967,380</u>	<u>2,849,719</u>
<u>4,048,675</u>	<u>4,054,185</u>	<u>8,671,715</u>

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Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 12,212,445	77,790	12,134,655
Expenditures	15,884,260	(406,875)	16,291,135
Net	(3,671,815)	484,665	(4,156,480)
Other financing sources, net	660,920	-	660,920
Beginning fund balances	15,939,034	836,213	16,775,247
Ending fund balances	<u>\$ 12,928,139</u>	<u>351,548</u>	<u>13,279,687</u>

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund, 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 ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$270,001. The budget amendment is reflected in the final budgeted amounts.

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

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

Palo Alto County

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	-	\$ 1,340	1,340	0.00%	\$ 3,088	43.4%
2011	Jul 1, 2009	-	1,315	1,315	0.00	2,988	44.0

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

**Other Supplementary Information**

Palo Alto County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2011

				Special
	Resource Enhancement and Protection	County Recorder's Records Management		Sheriff Reserve
<b>Assets</b>				
Cash and pooled investments	\$ 25,410	8,763		1,058
Due from other governments	-	-		-
<b>Total assets</b>	<b>\$ 25,410</b>	<b>8,763</b>		<b>1,058</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ -	-		-
Fund balances:				
Restricted for other purposes	25,410	8,763		1,058
Unassigned	-	-		-
Total fund balances	25,410	8,763		1,058
<b>Total liabilities and fund balances</b>	<b>\$ 25,410</b>	<b>8,763</b>		<b>1,058</b>

See accompanying independent auditor's report.

Revenue			
Five Island Trails	Closure/ Postclosure	County Attorney Collections	Total
257	5,000	7,691	48,179
-	-	787	787
257	5,000	8,478	48,966
339	-	-	339
-	5,000	8,478	48,709
(82)	-	-	(82)
(82)	5,000	8,478	48,627
257	5,000	8,478	48,966

Palo Alto County

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

Year ended June 30, 2011

	Resource Enhancement and Protection	County Recorder's Records Management	Special Sheriff Reserve
Revenues:			
Intergovernmental	\$ 12,435	-	7,727
Charges for service	-	2,113	-
Use of money and property	18	4	-
Miscellaneous	-	-	2,859
Total revenues	12,453	2,117	10,586
Expenditures:			
Operating:			
Public safety and legal services	-	-	10,548
County environment and education	16,609	-	-
Governmental services to residents	-	1,085	-
Capital projects	-	-	-
Total expenditures	16,609	1,085	10,548
Excess (deficiency) of revenues over (under) expenditures	(4,156)	1,032	38
Fund balances beginning of year, as restated	29,566	7,731	1,020
Fund balances end of year	\$ 25,410	8,763	1,058

See accompanying independent auditor's report.

Revenue				
Five Island Trails	Closure/ Postclosure	County Attorney Collections		Total
-	-	7,931		28,093
-	-	-		2,113
-	-	-		22
-	-	-		2,859
-	-	7,931		33,087
-	-	147		10,695
-	-	-		16,609
-	-	-		1,085
339	-	-		339
339	-	147		28,728
(339)	-	7,784		4,359
257	5,000	694		44,268
(82)	5,000	8,478		48,627

Palo Alto County  
Combining Schedule of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2011

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets</b>				
Cash and pooled investments:				
County Treasurer	\$ -	989	149,284	100,367
Other County officials	22,633	-	-	-
Receivables:				
Property tax:				
Delinquent	-	114	251	7,515
Succeeding year	-	106,000	234,000	7,265,000
Accounts	806	-	-	-
Accrued interest	-	-	-	-
Special assessments	-	-	-	-
<b>Total assets</b>	<b>\$ 23,439</b>	<b>107,103</b>	<b>383,535</b>	<b>7,372,882</b>
<b>Liabilities</b>				
Accounts payable	\$ -	-	411	-
Due to other governments	9,595	107,103	371,298	7,372,882
Trusts payable	13,844	-	-	-
Compensated absences	-	-	11,826	-
<b>Total liabilities</b>	<b>\$ 23,439</b>	<b>107,103</b>	<b>383,535</b>	<b>7,372,882</b>

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
5,819	38,695	1,809	337	191,065	335,416	823,781
-	-	-	-	-	-	22,633
469	5,660	65	-	-	1,383	15,457
437,000	2,508,000	148,000	-	-	1,172,000	11,870,000
-	-	-	-	-	6,287	7,093
-	-	-	-	-	79	79
-	-	-	40,299	-	-	40,299
443,288	2,552,355	149,874	40,636	191,065	1,515,165	12,779,342
-	-	-	-	-	1,487	1,898
443,288	2,552,355	149,874	40,636	191,065	1,504,913	12,743,009
-	-	-	-	-	5,418	19,262
-	-	-	-	-	3,347	15,173
443,288	2,552,355	149,874	40,636	191,065	1,515,165	12,779,342

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2011

<b>Assets and Liabilities</b>	County Offices	Agricultural Extension Education	County Assessor	Schools
Balances beginning of year	\$ 51,253	72,998	386,188	7,444,549
Additions:				
Property and other county tax	-	106,266	234,520	7,275,223
E911 surcharge	-	-	-	-
State tax credits	-	2,917	8,540	295,808
Drivers license fees	-	-	-	-
Office fees and collections	235,543	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	145,835	-	-	-
Miscellaneous	-	-	485	-
Total additions	381,378	109,183	243,545	7,571,031
Deductions:				
Agency remittances:				
To other funds	115,886	-	-	-
To other governments	118,274	75,078	246,198	7,642,698
Trusts paid out	175,032	-	-	-
Total deductions	409,192	75,078	246,198	7,642,698
Balances end of year	\$ 23,439	107,103	383,535	7,372,882

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
430,204	2,553,840	126,855	42,644	209,219	1,484,937	12,802,687
437,375	2,505,693	147,660	-	-	1,172,375	11,879,112
-	-	-	-	-	70,047	70,047
17,187	99,778	5,240	-	-	44,948	474,418
-	-	-	-	20,582	-	20,582
-	-	-	-	-	-	235,543
-	-	-	-	2,737,276	-	2,737,276
-	-	-	11,557	-	-	11,557
-	-	-	-	-	-	145,835
-	-	-	-	-	298,508	298,993
454,562	2,605,471	152,900	11,557	2,757,858	1,585,878	15,873,363
-	-	-	-	107,987	-	223,873
441,478	2,606,956	129,881	13,565	2,668,025	1,555,650	15,497,803
-	-	-	-	-	-	175,032
441,478	2,606,956	129,881	13,565	2,776,012	1,555,650	15,896,708
443,288	2,552,355	149,874	40,636	191,065	1,515,165	12,779,342

Palo Alto County

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

For the Last Ten Years

	2011	2010	2009
<b>Revenues:</b>			
Property and other county tax	\$ 6,036,591	5,603,209	5,324,307
Local option sales tax	328,462	333,579	333,000
Interest and penalty on property tax	30,237	23,945	21,939
Intergovernmental	4,151,228	4,254,845	4,114,678
Licenses and permits	7,411	10,067	9,013
Charges for service	616,306	554,575	545,346
Use of money and property	202,748	294,229	466,243
Miscellaneous	761,672	406,075	246,814
<b>Total</b>	<b>\$ 12,134,655</b>	<b>11,480,524</b>	<b>11,061,340</b>
<b>Expenditures:</b>			
<b>Operating:</b>			
Public safety and legal services	\$ 1,582,458	1,611,100	1,514,188
Physical health and social services	298,385	308,296	303,222
Mental health	1,187,643	1,130,674	1,349,910
County environment and education	1,531,174	1,331,955	1,183,855
Roads and transportation	3,834,536	4,008,318	3,295,372
Governmental services to residents	362,160	363,348	354,520
Administration	1,102,432	1,171,615	1,059,081
Non-program	1,004,990	740,436	338,381
Debt service	1,676,728	1,543,430	1,171,045
Capital projects	3,710,629	1,574,053	447,110
<b>Total</b>	<b>\$ 16,291,135</b>	<b>13,783,225</b>	<b>11,016,684</b>

See accompanying independent auditor's report.

Modified Accrual Basis						
2008	2007	2006	2005	2004	2003	2002
4,895,452	4,931,144	4,232,250	4,211,427	4,608,299	4,245,927	3,741,378
293,697	375,326	268,628	280,977	257,049	226,407	289,330
24,668	25,995	25,929	25,423	27,410	30,859	31,504
3,801,314	3,804,731	3,885,266	3,781,399	3,483,391	4,254,454	3,064,676
23,505	9,782	11,150	6,621	6,756	7,906	3,572
487,402	477,541	450,315	380,075	402,237	412,663	339,719
485,647	391,148	241,490	148,718	104,798	109,026	145,413
472,628	210,377	852,455	154,374	376,283	256,392	751,402
10,484,313	10,226,044	9,967,483	8,989,014	9,266,223	9,543,634	8,366,994
1,440,928	1,307,407	1,223,356	1,181,247	1,138,496	1,103,475	1,073,147
305,488	346,957	377,459	242,172	241,273	269,280	285,358
1,470,535	1,379,738	1,217,605	1,265,563	1,330,115	1,380,912	1,375,515
1,173,111	956,832	983,662	2,861,490	838,259	945,358	891,111
3,072,587	3,091,246	2,898,948	3,402,536	1,815,008	2,616,612	2,653,642
465,185	329,024	462,226	384,667	306,606	265,775	245,936
951,245	1,078,010	1,012,503	1,045,164	970,837	888,506	794,606
379,250	73,170	100,355	318,393	477,850	647,697	536,512
425,316	338,077	832,476	163,711	368,499	282,548	599,995
272,549	735,751	221,044	471,050	144,343	131,059	200,102
9,956,194	9,636,212	9,329,634	11,335,993	7,631,286	8,531,222	8,655,924

**Palo Alto County**



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

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

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Palo Alto County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Palo Alto County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Palo Alto County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Palo Alto County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (J) to be significant deficiencies.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

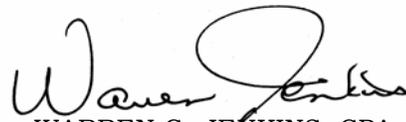
Palo Alto County's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit Palo Alto County's responses and, accordingly, we express no opinion on them.

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, and 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 31, 2012

Palo Alto County

Schedule of Findings

Year ended June 30, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. 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) Receipts – collecting, depositing, posting and daily reconciling.	County Sheriff and County Recorder
(2) Bank reconciliations are not prepared by someone who doesn't sign checks, handle or record cash.	County Sheriff and County Recorder
(3) Bank reconciliations are not reviewed periodically by an independent person for propriety.	County Recorder
(4) The person who signs checks is not independent of the individual who records cash receipts and prepares checks.	County Recorder

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. 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.

Responses –

County Recorder – It is difficult in an office of our size to segregate duties dealing with receipts, check writing and reconciliation. At the end of each day, we balance the cash register to the computer and Department of Natural Resources (DNR) website activity and any checks written are verified with the original transaction. Everything is balanced at the end of the month with checks written to the appropriate entities. We now have the Clerk do the bank reconciliation (she does not sign checks or prepare deposits) and will try to have another office start reviewing our bank reconciliations. We feel that between our daily balancing with the computer, DNR website and the cash register, and the monthly balancing ensuring we have paid out all the money received, we have a good system. We will continue to try to provide better procedures for checks and balances.

Palo Alto County

Schedule of Findings

Year ended June 30, 2011

County Sheriff – Each review is conducted by the office manager and the Sheriff. Both sign and date the review to show all balances are recorded properly.

Conclusions –

County Recorder - Response accepted.

County Sheriff – Response acknowledged. The listing of cash receipts should be compared to the bank deposit by a person not responsible for maintaining the accounting records. Bank reconciliations should be performed by a person not responsible for signing checks or handling and recording cash.

- (B) Financial Reporting – During our testing, we identified material amounts of receivables, payables and capital asset additions which were not properly recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all receivables, payables and capital asset additions are properly recorded and included in the County’s financial statements.

Response – In the future we will try to ensure material amounts are properly recorded.

Conclusion – Response accepted.

- (C) Supporting Documentation for Claims - The County has credit cards for use by various employees while on County business. The County has adopted a credit card policy which requires all credit card bills be supported by a statement and detailed itemized vendor receipts. The policy prohibits employee use of a County credit card for personal purchases. Of nine credit card transactions tested, four credit card billings totaling \$2,675 were not supported by detailed itemized vendor receipts. In addition, we identified two additional credit card claims totaling \$1,027 which were not supported by detailed itemized vendor receipts or other supporting documentation.

Recommendation - The Board should ensure credit card payments are properly supported by statements and detailed itemized vendor receipts as required by the credit card policy.

Response – The credit card policy will be distributed to all departments which have a credit card. A statement and detailed itemized receipts/invoices must be furnished. Additionally, all claims will be supported by detailed itemized vendor receipts or other supporting documentation to substantiate the amount paid.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2011

- (D) Capital Assets – Procedures do not exist to perform an independent review of the capital asset listing to determine whether assets on the listing exist or whether all existing assets are accounted for.

Recommendation – An independent review of the capital asset listing should be performed periodically to ensure the completeness of the listing and ensure the assets listed exist.

Response – An independent review of the capital assets listing will be performed periodically by the department heads to ensure the completeness of the listing and ensure assets listed exist.

Conclusion – Response accepted.

- (E) County Sheriff – Procedures do not exist to reconcile the cashbook balance for garnishments to the individual garnishment ledgers at month end. Garnishment receipts totaling \$958 were collected during the month of May 2011. However, these receipts were posted to the individual garnishment ledgers on July 15, 2011, but were backdated to May 18, 2011. In addition, the receipts were not recorded in the County’s cashbook until June 21, 2011 and were not deposited in the bank until July 15, 2011. Also, a garnishment receipt collected on August 13, 2010 for \$561 which should have been paid out prior to June 30, 2011 was still on hand as of June 30, 2011.

During the month of June 2011, receipts were not deposited timely. There were no deposits into the garnishment bank account, three deposits on two separate days into the fee bank account and one deposit into the commissary bank account on June 30, 2011. In addition, cash and checks collected are stored in an unlocked desk drawer.

Recommendation – Garnishments collected should be posted to the County’s cashbook and the individual garnishment ledgers when collected and should be deposited timely and intact. Additionally, the cashbook balance for garnishments should be reconciled to the individual garnishment ledgers at each month end.

All collections should be recorded and deposited timely and intact. In addition, cash and checks collected should be properly secured in a locked file or safe until deposited.

Response – Garnishments will be recorded on the day they are received and a receipt written to be deposited. Receipts will be deposited more timely to make the review of the ledger more accurate at the end of the fiscal year. Cash and checks collected are now properly secured in a locked file.

Conclusion – Response accepted.

- (F) County Attorney Petty Cash – A petty cash fund is maintained by the County Attorney for the purchase of postage and other miscellaneous items. However, the petty cash fund is not maintained on an imprest basis and is not reconciled on a regular basis. In addition, several refunds totaling \$82 were retained in the petty cash fund rather than being deposited with the County Treasurer and being recorded in the County’s accounting system. Also, disbursements from the petty cash fund included amounts for meals and mileage which should be paid with County funds through the submission of travel claims.

Palo Alto County

Schedule of Findings

Year ended June 30, 2011

Recommendation – The petty cash fund should be maintained on an imprest basis, having a set, established amount to ensure proper accountability and should be reconciled on a regular basis. All monies received should be deposited with the County Treasurer and recorded in the County’s accounting system. Petty cash funds should not be used to reimburse meals and mileage.

Response – At the time I (the County Attorney) took office, there was a substantial amount of petty cash. Since that time we have been working to spend down petty cash and have established \$200 as the limit for petty cash amounts. All employees have been advised the mileage and meals should be claimed for reimbursement through the monthly claim process.

Conclusion – Response accepted.

- (G) Vacation Accrual Maximum – Accrued vacation balances for certain County employees exceeded the maximum amount established by the County's personnel policies.

Recommendation – Department supervisors should review employee vacation balances to ensure the balances do not exceed the maximum amount established by the County's personnel policies. In addition, the County's payroll system should not allow for the accrual of vacation hours above the maximum amounts.

Response – Department heads will evaluate vacation balances in the future and will abide by the personnel policies and not allow for the accrual of vacation hours above the maximum amounts.

Conclusion – Response accepted.

- (H) Job Evaluations – Written job evaluations are not currently being completed. County personnel policies state, “Employees will be evaluated by the supervisor at such frequency as the supervisor may determine, but not less than annually. A conference shall be held between the employee and supervisor following the completion of a written evaluation. A copy signed by both parties shall be given to the employee, and a signed copy shall be placed in the employee’s personnel file.”

Recommendation – Written job evaluations should be completed in accordance with the County personnel policies.

Response – Department heads will be responsible for completing written job evaluations in the future.

Conclusion – Response accepted.

- (I) Electronic Data Processing System – The County does not have a written disaster recovery plan.

Recommendation – A written disaster recovery plan should be developed.

Response – The County will develop a written disaster recovery plan.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2011

- (J) County Extension Office Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a 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. Bank reconciliations are not prepared by an independent person.

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

Response – We are aware segregation of duties is very important and have developed the following strategy to help mitigate any losses in regards to the bank reconciliation preparation. As it is not feasible with the amount of staff available to have an independent person prepare the bank reconciliations, we will implement a review process. Monthly, the bank reconciliation reports along with the bank statements will be reviewed, initialed and dated by the Board Secretary at the Council meeting.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Palo Alto County  
 Schedule of Findings  
 Year ended June 30, 2011

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – Certain expenditures we believe 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 were noted. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Coffee King, Inc.	Bottled water for County Sheriff's Department employees	\$ 45

Recommendation - 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.

The Board of Supervisors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures, including the requirement for proper documentation.

Response – Bottled water purchases from Coffee King, Inc. were discontinued after August 2010.

Conclusion – Response accepted.

- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Terry Neary, spouse of Zoning and Sanitation employee, self-employed	Bookkeeping	\$ 1,284
Thomas Leonard, brother of County Auditor, self-employed	Jail transportation	828

In accordance with Chapter 331.342 of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since the total amounts by individual are less than \$1,500 during the fiscal year.

Palo Alto County

Schedule of Findings

Year ended June 30, 2011

- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

Recommendation –A compilation of County ordinances should be prepared and published as required by Section 331.302(10) of the Code of Iowa.

Response – A compilation of County ordinances will be prepared and published as required.

Conclusion – Response accepted.

- (10) Financial Condition - The Special Revenue, Five Island Trails Fund had a deficit fund balance (on a modified accrual basis) of \$82 at June 30, 2011.

Recommendation – Claims should not be approved for payment when funds are not available unless the debt is authorized by resolution of the Board of Supervisors and takes the form of anticipatory warrants, loans from other formal short-term debt instruments or obligations.

The County should investigate alternatives to eliminate the deficit fund balance in order to return this fund to a sound financial position.

Response – The County will comply in the future to eliminate deficit fund balances.

Conclusion – Response accepted.

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

Disbursements during the year ended June 30, 2011 for the County Extension Office did not exceed the amount budgeted.

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Palo Alto County

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Darryl J. Brumm, CPA, Senior Auditor II  
Justin M. Scherrman, Assistant Auditor  
Todd E. Pudenz, Assistant Auditor  
Alysha M. Ricke, Auditor Intern

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State