



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____ May 30, 2006

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$13,055,907 for the year ended June 30, 2005, which included \$852,995 in tax credits from the state. The County forwarded \$8,168,495 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,887,412 of the local tax revenue to finance County operations, a 7.9% decrease from the prior year. Other revenues included charges for service of \$770,636, operating grants, contributions and restricted interest of \$2,805,419, capital grants, contributions and restricted interest of \$2,663,549, local option sales tax of \$280,977, tax increment financing of \$10,163, unrestricted investment earnings of \$131,658 and other general revenues of \$377,711.

Expenses for County operations totaled \$10,431,780, a 41.5% increase over the prior year. Expenses included \$2,934,305 for roads and transportation, \$2,891,705 for county environment and education and \$1,265,563 for mental health.

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/reports.htm>.

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

JUNE 30, 2005

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Palo Alto County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2005)		
Leo Goeders	Board of Supervisors	Jan 2005
Ronald Graettinger	Board of Supervisors	Jan 2005
Philip Currans	Board of Supervisors	Jan 2007
Lannie Miller	Board of Supervisors	Jan 2007
Steven Nelson	Board of Supervisors	Jan 2007
Gary Leonard	County Auditor	Jan 2005
Kathleen Thompson	County Treasurer	Jan 2007
Lori Kliegl	County Recorder	Jan 2007
Russell B. Jergens	County Sheriff	Jan 2005
Peter C. Hart	County Attorney	Jan 2007
Lois Naig	County Assessor	Jan 2010
(After January 2005)		
Philip Currans	Board of Supervisors	Jan 2007
Lannie Miller	Board of Supervisors	Jan 2007
Steven Nelson	Board of Supervisors	Jan 2007
Leo Goeders	Board of Supervisors	Jan 2009
Ronald Graettinger	Board of Supervisors	Jan 2009
Gary Leonard	County Auditor	Jan 2009
Kathleen Thompson	County Treasurer	Jan 2007
Lori Kliegl	County Recorder	Jan 2007
Dennis Goeders	County Sheriff	Jan 2009
Peter C. Hart	County Attorney	Jan 2007
Lois Naig	County Assessor	Jan 2010

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, 2005, 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.

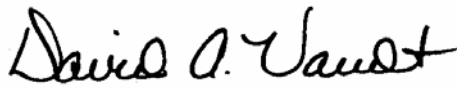
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2005, 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 24, 2006 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 and budgetary comparison information on pages 7 through 14 and 46 through 49 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 year ended June 30, 2004 (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 three 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 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues increased approximately \$2,444,000 from fiscal year 2004 (FY04). Property tax and other county tax decreased approximately \$415,000 from FY04.
- Palo Alto County's governmental activities expenses increased approximately \$3,062,000 from FY04.
- The County's net assets increased 14.3%, or approximately \$1,485,000, from June 30, 2004 to June 30, 2005.

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 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.

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

2) Proprietary funds account for the County's Internal Service, 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

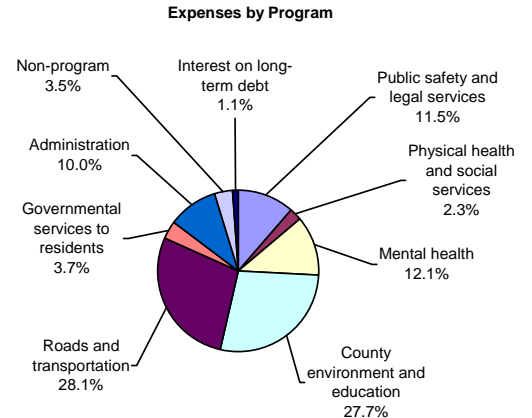
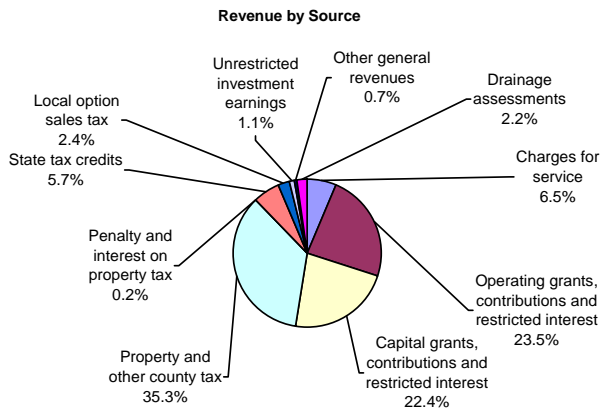
As noted earlier, net assets may serve over time as a useful indicator of financial position. Palo Alto County's combined net assets increased from \$10,359,681 to \$11,845,263. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2005	2004
Current and other assets	\$ 11,882	11,618
Capital assets	7,831	4,269
Total assets	<u>19,713</u>	<u>15,887</u>
Long-term liabilities	3,358	825
Other liabilities	4,510	4,703
Total liabilities	<u>7,868</u>	<u>5,528</u>
Net assets:		
Invested in capital assets	7,831	4,269
Restricted	3,899	4,755
Unrestricted	115	1,335
Total net assets	<u>\$ 11,845</u>	<u>10,359</u>

Net assets of Palo Alto County's governmental activities increased by approximately \$1,486,000. A large portion of the County's net assets are restricted net assets which represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Net assets restricted for Secondary Roads purposes is the largest portion of restricted net assets, due, in part, to approximately \$839,369 of transfer of jurisdiction funds for Ayrshire Road held at June 30, 2005. The County also reports net assets invested in capital assets (e.g., land, infrastructure, buildings and equipment). 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 have decreased from approximately \$1,335,000 at June 30, 2004 to approximately \$115,000 at June 30, 2005 due, in part, to the issuance of Tax Increment Financing (TIF) debt and subsequent disbursement of TIF debt proceeds to Broin Associates for construction of an ethanol plant. The debt will be repaid through subsequent TIF property tax revenues. A liability of \$2,250,000 has been recorded in the governmental activities long-term liabilities for which no corresponding asset has been reported.

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

	June 30,	
	2005	2004
Revenues:		
Program revenues:		
Charges for service	\$ 771	686
Operating grants, contributions and restricted interest	2,805	2,601
Capital grants, contributions and restricted interest	2,664	25
General revenues:		
Property and other county tax	4,212	4,627
Penalty and interest on property tax	26	27
State tax credits	675	677
Local option sales tax	281	257
Drainage assessments	265	450
Unrestricted investment earnings	132	92
Other general revenues	86	31
Total revenues	11,917	9,473
Program expenses:		
Public safety and legal services	1,195	1,141
Physical health and social services	240	241
Mental health	1,266	1,328
County environment and education	2,892	858
Roads and transportation	2,934	1,944
Governmental services to residents	384	304
Administration	1,038	1,012
Non-program	367	478
Interest on long-term debt	116	64
Total expenses	10,432	7,370
 Increase in net assets	 1,485	 2,103
Net assets beginning of year	10,360	8,257
 Net assets end of year	 \$ 11,845	 10,360



The County increased property tax rates by approximately 1.3 percent. However, this increase, coupled with a decrease in total taxable assessed value of 9.03 percent, or approximately \$40 million, resulted in a decrease in property tax revenues of approximately \$415,000 for fiscal year 2005. Based on an increase in taxable assessed valuation of approximately \$4.65 million and a slight decrease in property tax rates for fiscal year 2006, property tax is budgeted to increase by approximately \$38,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$6,356,000, an increase of approximately \$266,000 above last year's total of approximately \$6,090,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures decreased. The ending fund balance increased approximately \$192,000 from the prior year. The increase was due mostly to shifting various expenditures to the Rural Services Fund.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,266,000, a decrease of 4.9% from the prior year, and revenues increased approximately \$89,000. The Mental Health Fund balance at year end increased from a deficit fund balance of approximately \$9,000 to a positive fund balance of approximately \$103,000. The increase in revenues was primarily due to an increase in the tax levy and the decrease in expenditures was due to a shift of client services from total county funding to county, state and federal funding.
- Rural Services Fund expenditures increased approximately \$255,000 over the prior year. This was primarily due to a shift of expenditures from the General Fund. Transfers from the Rural Services Fund to the Secondary Roads Fund decreased approximately \$108,000. The revenues decreased approximately \$141,000, which was primarily due to a decrease in property tax levied of approximately \$162,000 and an increase in local option sales tax of approximately \$24,000. As a result, the Rural Services Fund balance decreased from approximately \$1,046,000 to approximately \$1,033,000.
- Secondary Roads Fund expenditures increased approximately \$1,825,000 from the prior year. This increase in expenditures is due primarily to the purchase of 5 new motor graders and a new mower tractor, which was the result of a 4 year savings plan to modernize key equipment, and replacement of the Depew Bridge paid for entirely with local funds from savings reaped in prior years. Revenues increased approximately \$143,000 due to an increase in road use tax and the payment by the City of Ayrshire for road construction services. Transfers from the Rural Services Fund decreased approximately \$108,000. As a result, there was a decrease in the Secondary Roads Fund ending balance of approximately \$316,000, or 9%.
- The Drainage Districts Fund revenues decreased approximately \$298,000 and drainage warrants and interest paid decreased \$255,000, which was the result of assessments received to retire stamped warrants last year. Expenditures decreased approximately \$414,000 as a result of decreased drainage warrants and interest paid and non-program expenditures for drainage work performed. This resulted in an increase in the Drainage District Fund balance of approximately \$67,000.
- The Tax Increment Financing Fund received proceeds of \$2,250,000 from the issuance of urban renewal tax increment revenue bonds for Voyager Ethanol (Broin). Expenditures from the fund included \$2,000,000 to Broin Associates. Also, interest of \$50,083 was paid on the revenue bond. The balance in the fund at June 30, 2005 was approximately \$189,000, which is to pay interest on the bonds until tax dollars are received in September 2006.

BUDGETARY HIGHLIGHTS

Palo Alto County amended its original budget three times during the fiscal year ended June 30, 2005. The first amendment was made September 4, 2004 for the receipt and subsequent disbursement of grant funds, purchase of new voting equipment, increased disbursements in Secondary Roads and the Recorder's office and to disburse the revenue bond proceeds to Voyager Ethanol (Broin). The second amendment was made November 23, 2004 to correct the Voyager Ethanol revenue bond from the September 4th amendment to long-term debt and to increase the amount of the bond. The third amendment was made May 10, 2005 for the receipt and disbursement of grant funds to increase payroll in the Sheriff's office and the communications center and increased disbursements for Secondary Roads.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, Palo Alto County had \$7,830,514 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. During FY05, there was \$3,937,219 in additions. The County had depreciation expense of \$348,274 in FY05 and total accumulated depreciation of \$3,188,725 at June 30, 2005. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Capital Assets of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2005	2004
Land	\$ 1,015	805
Buildings and improvements	774	800
Equipment and vehicles	3,132	2,535
Infrastructure	2,909	129
Total	\$ 7,830	4,269
This year's major additions included (in thousands):		
Capital assets and land contributed by the Iowa Department of Transportation	\$	2,629
Five motor graders, one mower tractor and one trailer for Secondary Roads		945
Conservation building addition		83
Total	\$	3,657

Long-Term Debt

At June 30, 2005, Palo Alto County had \$3,172,910 in outstanding long-term debt, which included \$2,284,791 in urban renewal tax increment revenue bonds, \$880,084 in drainage warrants and \$8,035 in drainage improvement certificates.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2005	2004
Urban Renewal TIF Bonds	\$ 2,285	42
Drainage warrants and improvement certificates	888	611
Total	\$ 3,173	653

During the fiscal year ended June 30, 2005, the County issued \$2,250,000 in urban renewal tax increment revenue bonds to defray a portion of the costs of carrying out an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area of the County.

These bonds are not a general obligation of the County, but are payable solely from the portion of the income and proceeds of the Special Revenue, Tax Increment Financing Fund established in the resolutions. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Palo Alto County's outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of \$20 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 2006 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) has increased to 5,150 in 2005 from 5,130 in 2004. Unemployment in the County now stands at 3.8 percent versus 4.6 percent a year ago. This compares with the State's unemployment rate of 3.8 percent and the national rate of 4.7 percent.

Inflation in the State paralleled the national Consumer Price Index increase. The State's CPI increase was 5.7% for fiscal year 2005 compared with the national rate increase of 6.50%. Inflation has been modest here due, in part, to the slowing of the residential housing market and modest increases in energy prices in 2004-2005.

The above factors were all part of the considerations for the FY06 budget which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars)

	2006	2005	
	Dollars	Dollars	Percentage
	Certified	Certified	Change
General Fund	\$ 2,617,087	2,587,518	1.1%
Mental Health Fund	688,176	688,176	0%
Rural Services Fund	1,193,107	1,184,900	.7%
Total	\$ 4,498,370	4,460,594	

Continued state revenue cutbacks and health insurance increases for the past few years are driving the increases in property tax. No new services were added in the FY06 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for FY06 are as follows:

	2006	2005	Percentage
			Change
General basic levy	\$ 3.50000	3.50000	0%
General supplemental levy	2.85552	2.85552	0%
Mental health levy	1.67122	1.69031	(1.1%)
Rural services basic levy	3.95000	3.95000	0%

These factors were taken into account when adopting the budget for fiscal year 2006. Amounts appropriated in the operating budget are \$9,616,916, a decrease of \$2,560,267, or 21%, from the final 2005 budget. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable value. A majority of Iowa counties have reached that limit and have a general supplemental levy which allows them to exceed the general basic levy for certain expenditures, which include employee benefits (i.e. health insurance, FICA and IPERS), county risk management expenditures, election costs and court ordered settlements. The rural basic levy rate limit is \$3.95 per \$1,000 of taxable value. Some Iowa counties have reached that level and have a rural supplemental levy for certain expenditures, similar to the general supplemental levy.

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, 2005

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 5,828,520
Receivables:	
Property tax:	
Delinquent	2,357
Succeeding year	3,989,000
Interest and penalty on property tax	6,140
Accounts	121,590
Economic development loans	22,547
Accrued interest	15,411
Drainage assessments	883,484
Due from other governments	291,583
Inventories	615,466
Prepaid insurance	106,957
Capital assets - nondepreciable	3,701,858
Capital assets - depreciable - net	4,128,656
Total assets	<u>19,713,569</u>
Liabilities	
Accounts payable	179,217
Accrued interest payable	147,955
Salaries and benefits payable	22,622
Due to other governments	171,238
Deferred revenue:	
Succeeding year property tax	3,989,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment revenue bonds	7,893
Drainage certificates	4,018
Compensated absences	93,567
Portion due or payable after one year:	
Urban renewal tax increment revenue bonds	2,276,898
Drainage warrants/drainage improvement certificates	884,101
Compensation absences	91,797
Total liabilities	<u>7,868,306</u>
Net Assets	
Invested in capital assets	7,830,514
Restricted for:	
Supplemental levy purposes	450,662
Mental health	103,674
Secondary roads purposes	3,164,887
Other purposes	180,371
Unrestricted	115,155
Total net assets	<u>\$ 11,845,263</u>

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/ Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,194,966	119,779	14,056	-	(1,061,131)
Physical health and social services	240,243	2,767	45,688	-	(191,788)
Mental health	1,265,563	-	282,542	-	(983,021)
County environment and education	2,891,705	172,619	195,312	-	(2,523,774)
Roads and transportation	2,934,305	222,971	2,194,504	2,628,889	2,112,059
Governmental services to residents	383,971	163,953	-	34,660	(185,358)
Administration	1,037,927	10,284	73,317	-	(954,326)
Non-program	366,873	78,263	-	-	(288,610)
Interest on long-term debt	116,227	-	-	-	(116,227)
Total	\$ 10,431,780	770,636	2,805,419	2,663,549	(4,192,176)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,606,751
Tax increment financing					10,163
Penalty and interest on property tax					26,192
State tax credits					270,498
Local option sales tax					280,977
Unrestricted investment earnings					131,658
Drainage assessments					265,276
Gain on sale of capital assets					75,708
Miscellaneous					10,535
Total general revenues					5,677,758
Change in net assets					1,485,582
Net assets beginning of year					10,359,681
Net assets end of year					\$ 11,845,263

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2005

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash and pooled investments	\$ 1,602,462	265,266	971,824	2,407,063
Receivables:				
Property tax:				
Delinquent	1,551	407	399	-
Succeeding year	2,313,000	608,000	1,067,000	-
Interest and penalty on property tax	6,140	-	-	-
Accounts	1,221	-	18,256	102,113
Economic developmental loans	-	-	-	-
Accrued interest	15,353	-	-	-
Drainage assessments	-	-	-	-
Due from other governments	43,081	-	54,796	193,706
Inventories	-	-	-	615,466
Prepaid insurance	20,335	-	-	14,378
	Total assets	873,673	2,112,275	3,332,726
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 60,217	27,077	2,110	31,943
Salaries and benefits payable	-	-	-	22,622
Due to other governments	26,297	134,922	9,753	266
Deferred revenue:				
Succeeding year property tax	2,313,000	608,000	1,067,000	-
Other	15,310	397	397	99,267
Total liabilities	2,414,824	770,396	1,079,260	154,098
Fund balances:				
Reserved for:				
Supplemental levy purposes	449,982	-	-	-
Drainage warrants/drainage improvement certificates	-	-	-	-
Unreserved, reported in:				
General fund	1,138,337	-	-	-
Special revenue funds	-	103,277	1,033,015	3,178,628
Total fund balances	1,588,319	103,277	1,033,015	3,178,628
	Total liabilities and fund balances	873,673	2,112,275	3,332,726

See notes to financial statements.

Revenue			
Drainage Districts	Tax Increment Financing	Nonmajor	Total
133,147	188,998	188,055	5,756,815
-	-	-	2,357
-	1,000	-	3,989,000
-	-	-	6,140
-	-	-	121,590
-	-	22,547	22,547
-	-	58	15,411
883,484	-	-	883,484
-	-	-	291,583
-	-	-	615,466
-	-	-	34,713
<u>1,016,631</u>	<u>189,998</u>	<u>210,660</u>	<u>11,739,106</u>
32,581	-	25,289	179,217
-	-	-	22,622
-	-	-	171,238
-	1,000	-	3,989,000
883,484	-	22,547	1,021,402
<u>916,065</u>	<u>1,000</u>	<u>47,836</u>	<u>5,383,479</u>
-	-	-	449,982
38,525	-	-	38,525
-	-	-	1,138,337
62,041	188,998	162,824	4,728,783
<u>100,566</u>	<u>188,998</u>	<u>162,824</u>	<u>6,355,627</u>
<u>1,016,631</u>	<u>189,998</u>	<u>210,660</u>	<u>11,739,106</u>

Palo Alto County

Palo Alto County

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

June 30, 2005s

Total governmental fund balances (page 19) \$ 6,355,627

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$11,019,239 and the accumulated depreciation is \$3,188,725. 7,830,514

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 1,021,402

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 143,949

Long-term liabilities, including bonds payable, drainage warrants/drainage improvement certificates payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (3,506,229)

Net assets of governmental activities (page 16) \$ 11,845,263

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2005

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,432,609	646,972	1,402,660	-
Interest and penalty on property tax	25,423	-	-	-
Intergovernmental	431,673	730,638	128,689	2,356,952
Licenses and permits	5,651	-	-	970
Charges for service	206,277	-	135,042	22,286
Use of money and property	116,263	-	39	22,998
Miscellaneous	14,699	122	-	14,932
Total revenues	<u>3,232,595</u>	<u>1,377,732</u>	<u>1,666,430</u>	<u>2,418,138</u>
Expenditures:				
Operating:				
Public safety and legal services	1,014,252	-	166,995	-
Physical health and social services	242,172	-	-	-
Mental health	-	1,265,563	-	-
County environment and education	437,471	-	396,103	-
Roads and transportation	-	-	145,755	3,256,781
Governmental services to residents	356,799	-	-	-
Administration	983,527	-	61,637	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	2,714	-	8,211	377,970
Total expenditures	<u>3,036,935</u>	<u>1,265,563</u>	<u>778,701</u>	<u>3,634,751</u>
Excess (deficiency) of revenues over (under) expenditures	<u>195,660</u>	<u>112,169</u>	<u>887,729</u>	<u>(1,216,613)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	901,049
Operating transfers out	(3,500)	-	(901,049)	-
Drainage warrants issued	-	-	-	-
Urban renewal tax increment revenue bonds issued	-	-	-	-
Total other financing sources (uses)	<u>(3,500)</u>	<u>-</u>	<u>(901,049)</u>	<u>901,049</u>
Net change in fund balances	192,160	112,169	(13,320)	(315,564)
Fund balances beginning of year	<u>1,396,159</u>	<u>(8,892)</u>	<u>1,046,335</u>	<u>3,494,192</u>
Fund balances end of year	<u>\$ 1,588,319</u>	<u>103,277</u>	<u>1,033,015</u>	<u>3,178,628</u>

See notes to financial statements.

Revenue			
Drainage Districts	Tax Increment Financing	Nonmajor	Total
-	10,163	-	4,492,404
-	-	-	25,423
1,105	-	132,342	3,781,399
-	-	-	6,621
-	-	16,470	380,075
-	-	9,418	148,718
124,621	-	-	154,374
125,726	10,163	158,230	8,989,014
-	-	-	1,181,247
-	-	-	242,172
-	-	-	1,265,563
-	2,011,000	16,916	2,861,490
-	-	-	3,402,536
-	-	27,868	384,667
-	-	-	1,045,164
318,393	-	-	318,393
103,474	50,083	10,154	163,711
-	-	82,155	471,050
421,867	2,061,083	137,093	11,335,993
(296,141)	(2,050,920)	21,137	(2,346,979)
-	-	13,654	914,703
-	(10,154)	-	(914,703)
363,042	-	-	363,042
-	2,250,000	-	2,250,000
363,042	2,239,846	13,654	2,613,042
66,901	188,926	34,791	266,063
33,665	72	128,033	6,089,564
100,566	188,998	162,824	6,355,627

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, 2005

Net change in fund balances - Total governmental funds (page 23) \$ 266,063

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

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

Expenditures for capital assets	\$ 1,205,330	
Capital assets contributed by the Iowa Department of Transportation	2,628,889	
Depreciation expense	<u>(348,274)</u>	3,485,945

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

75,708

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	535	
Other	<u>171,074</u>	171,609

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

Issued	(2,613,042)	
Repaid	<u>93,551</u>	(2,519,491)

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

Compensated absences	(13,740)	
Interest on long-term debt	<u>(46,067)</u>	(59,807)

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

65,555

Change in net assets of governmental activities (page 17)

\$ 1,485,582

See notes to financial statements.

Palo Alto County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2005

	Internal Service - Employee Group Health
Assets	
Cash and cash equivalents	\$ 71,705
Prepaid insurance	72,244
Total assets	<u>143,949</u>
Liabilities	
None	<u>-</u>
Net Assets	
Unrestricted	<u><u>\$ 143,949</u></u>

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2005

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 933,232
Operating expenses:		
Insurance premiums	\$ 771,834	
Medical claims	79,964	
Administrative fees	15,879	<u>867,677</u>
Operating income		<u>65,555</u>
Net assets beginning of year		<u>78,394</u>
Net assets end of year		<u><u>\$ 143,949</u></u>

See notes to financial statements.

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2005

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 933,232
Cash paid to suppliers for services	(864,317)
Net cash provided by operating activities	68,915
Cash and cash equivalents beginning of year	2,790
Cash and cash equivalents end of year	\$ 71,705
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 65,555
Adjustment to reconcile operating income to net cash provided by operating activities:	
Decrease in prepaid expense	3,360
Net cash provided by operating activities	\$ 68,915

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

Assets

Cash and pooled investments:	
County Treasurer	\$ 531,539
Other County officials	12,442
Receivables:	
Property tax:	
Delinquent	5,998
Succeeding year	7,595,000
Accounts	16,719
Special assessments	213,714
Due from other governments	192
Total assets	<u>8,375,604</u>

Liabilities

Accounts payable	1,937
Due to other governments	8,354,824
Trusts payable	12,749
Compensated absences	6,094
Total liabilities	<u>8,375,604</u>

Net assets \$ -

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2005

(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 that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Five hundred seventy-three 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, Palo Alto County Conservation Board 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 three categories.

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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 Bonds.

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for the Internal Service Fund includes 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2004.

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

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

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

Asset Class	Amount
Infrastructure	\$ 65,000
Land, buildings and improvements	50,000
Equipment and vehicles	10,000

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

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Infrastructure	10 - 65
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 period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

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

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2005 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) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 901,049
Economic Development	General	3,500
Debt Service	Special Revenue: Tax Increment Financing	10,154
Total		<u>\$ 914,703</u>

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

(4) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 805,312	210,113	-	1,015,425
Construction in progress	63,961	2,782,421	(159,949)	2,686,433
Total capital assets not being depreciated	869,273	2,992,534	(159,949)	3,701,858
Capital assets being depreciated:				
Buildings	1,318,221	-	-	1,318,221
Improvements other than buildings	55,096	-	-	55,096
Equipment and vehicles	5,172,194	944,685	(398,883)	5,717,996
Infrastructure, road network	66,119	159,949	-	226,068
Total capital assets being depreciated	6,611,630	1,104,634	(398,883)	7,317,381
Less accumulated depreciation for:				
Buildings	558,408	23,024	-	581,432
Improvements other than buildings	15,659	1,972	-	17,631
Equipment and vehicles	2,637,007	320,473	(371,591)	2,585,889
Infrastructure, road network	968	2,805	-	3,773
Total accumulated depreciation	3,212,042	348,274	(371,591)	3,188,725
Total capital assets being depreciated, net	3,399,588	756,360	(27,292)	4,128,656
Governmental activities capital assets, net	\$ 4,268,861	3,748,894	(187,241)	7,830,514

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 22,860
County environment and education	29,630
Roads and transportation	293,084
Administration	2,700
Total depreciation expense - governmental activities	<u>\$ 348,274</u>

(5) 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	\$ 26,297
Special Revenue:		
Mental Health	Services	134,922
Rural Services	Services	9,753
Secondary Roads	Services	266
		<u>144,941</u>
Total for governmental funds		<u>\$ 171,238</u>
Agency:		
County Offices	Collections	\$ 5,166
Agricultural Extension Education		69,442
County Assessor		289,684
Schools		5,026,622
Community Colleges		292,654
Corporations		1,602,563
Townships		89,935
City Special Assessments		217,202
Auto License and Use Tax		178,579
All other		582,977
Total for agency funds		<u>\$ 8,354,824</u>

(6) Economic Development Loans

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

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

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

Loaned to	Date of Loan	Maturity Date	Loan Amount	Interest Rate	Term of Loan	Loan Balance June 30, 2005
Mike and Kim Gehrt	Feb 24, 1998	Jun 1, 2008	\$ 10,000	5.0%	10 years	\$ 6,524
Jason White	Jun 27, 2000	Aug 1, 2003	2,500	6.0%	3 years	1,235
Jesse Wolf	Feb 17, 2004	Feb 24, 2007	1,500	4.9%	3 years	1,006
Stanley Propane and Appliance	Mar 26, 2002	Jul 1, 2012	<u>20,000</u>	5.0%	10 years	<u>13,782</u>
Total			<u>\$ 34,000</u>			<u>\$ 22,547</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Urban Renewal				
	Tax Increment		Drainage	Compen-	Total
	Revenue	Drainage	Improvement	sated	
Bonds	Warrants	Certificates	Absences		
Balance beginning of year	\$ 42,202	599,165	12,052	171,624	825,043
Increases	2,250,000	363,042	-	196,013	2,809,055
Decreases	7,411	82,123	4,017	182,273	275,824
Balance end of year	\$ 2,284,791	880,084	8,035	185,364	3,358,274
Due within one year	\$ 7,893	-	4,018	93,567	105,478

Urban Renewal Tax Increment Revenue Bonds

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

The bonds are not a general obligation of the County, but are payable only from the income and proceeds of the Special Revenue, Tax Increment Financing Fund established in the resolution. During the year ended June 30, 2005, principal of \$7,411 and interest of \$2,743 were paid.

On November 23, 2004, the County issued urban renewal tax increment revenue bonds of \$2,250,000. 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 of the County.

The bonds are not a general obligation of the County, but are payable only from the income and proceeds of the Special Revenue, Tax Increment Financing Fund established in the resolution. During the year ended June 30, 2005, interest of \$50,083 was paid.

Although the bonds are not a general obligation of the County, the debt is subject to the constitutional debt limitation of the County.

A summary of the County's June 30, 2005 annual debt service requirements to maturity are as follows:

Year ending June 30,	Interest Rates	October 15, 1998 Issue		
		Principal	Interest	Total
2006	6.5%	\$ 7,893	2,261	10,154
2007	6.5	8,406	1,748	10,154
2008	6.5	8,952	1,202	10,154
2009	6.5	9,540	619	10,159
Total		\$ 34,791	5,830	40,621

Year ending June 30,	Interest Rates	November 23, 2004 Issue			Total		
		Principal	Interest	Total	Principal	Interest	Total
2006	4.50%	\$ -	101,250	101,250	7,893	103,511	111,404
2007	4.50	173,000	99,303	272,303	181,406	101,051	282,457
2008	4.50	173,000	91,518	264,518	181,952	92,720	274,672
2009	4.50	173,000	83,734	256,734	182,540	84,353	266,893
2010	4.50	173,000	75,949	248,949	173,000	75,949	248,949
2011	4.50	173,000	68,164	241,164	173,000	68,164	241,164
2012	4.50	173,000	60,379	233,378	173,000	60,379	233,378
2013	4.50	173,000	52,594	225,594	173,000	52,594	225,594
2014	4.50	173,000	44,809	217,809	173,000	44,809	217,809
2015	4.50	173,000	37,024	210,024	173,000	37,024	210,024
2016	4.50	173,000	29,239	202,239	173,000	29,239	202,239
2017	4.50	173,000	21,454	194,454	173,000	21,454	194,454
2018	4.50	173,000	13,669	186,669	173,000	13,669	186,669
2019	4.50	174,000	5,883	179,884	174,000	5,883	179,884
Total		\$ 2,250,000	784,969	3,034,969	2,284,791	790,799	3,075,590

Drainage Warrants/Drainage Improvement Certificates Payable

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

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

Drainage warrants and drainage improvement certificates are paid from the Special Revenue 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 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$177,624, \$165,585 and \$164,396, respectively, equal to the required contributions for each year.

(9) Risk Management

Palo Alto County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2005 were \$102,902.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the County's financial statements. As of June 30, 2005, 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 \$600,000, 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.

(10) Employee Health Insurance Plan

The County established the Internal Service, Employee Group Health Fund to account for the partial self funding of the county's health insurance benefit plan which began July 1, 2004. 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 were 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, 2005 were \$771,834 and \$161,398 for insurance premiums and the self funded insurance plan, respectively.

(11) Community Economic Betterment Account Loan Program

Palo Alto County entered into a loan agreement dated May 20, 1999 for \$250,000. The proceeds were received during the year ended June 30, 2000 and were loaned to a local business, Skyjack Equipment, Inc., (the Company) to assist with economic development. The loan consists of an \$85,000 forgivable loan and a \$165,000 interest free conventional loan. The conditions of the forgivable loan were to be met by June 30, 2002.

Skyjack Equipment, Inc. did not meet the conditions to have the loan forgiven and the Company has been requested to repay \$149,821 as a result of its non-performance. This amount represents repaying the \$85,000 forgivable loan in its entirety and the remaining \$64,821 outstanding balance on the \$165,000 interest free conventional loan. The Company has been requested to make the repayment to the Iowa Department of Economic Development. The balances due on the loans at June 30, 2005 are \$85,000 and \$39,285, respectively. The County's liability for repayment of the loan is limited to the amounts collected from the Company. Therefore, the liability for these loans is not included in the Statement of Net Assets.

(12) Palo Alto County Hospital Revenue Bonds

On August 1, 2003, the County issued \$6,735,000 of hospital revenue refunding bonds in accordance with Chapters 331.402(3) and 384.24A of the Code of Iowa to renovate a substantial portion of the Palo Alto Hospital, construct a medical office building and construct and equip a 30 unit care retirement center.

The bonds are not a general obligation of the County, but are payable solely from the net revenues of the Palo Alto County Hospital. No resources of the County shall be required to be used, nor will the general credit of the County be pledged, for payment of the bonds. Since the County is not liable for the repayment of these bonds, the liability is not included in the Statement of Net Assets.

The bonds mature on August 1 of each year through 2018, with balloon payments of \$1,240,000 and \$2,365,000 due August 1, 2022 and August 1, 2028, respectively. The bonds bear interest payable semiannually on February 1 and August 1 of each year. A summary of annual debt service requirements to maturity are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2006	2.00%	\$ 170,000	292,146	462,146
2007	2.40	175,000	288,346	463,346
2008	2.80	175,000	283,796	458,796
2009	3.10	180,000	278,556	458,556
2010	3.40	190,000	272,536	462,536
2011-2015	3.75-4.50	1,050,000	1,244,158	2,294,158
2016-2020	4.60-4.95	1,025,000	984,210	2,009,210
2021-2025	5.40	1,240,000	714,306	1,954,306
2026-2029	4.63	2,365,000	382,834	2,747,834
Total		\$ 6,570,000	4,740,888	11,310,888

(13) Transfer Station Closure Care

To comply with the 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, 2005 have been estimated at \$4,810. A balance of \$5,000 has been deposited in the Closure/Postclosure Fund, the balance is restricted and the estimated costs are fully funded at June 30, 2005.

Palo Alto County

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, 2005

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 4,481,391	-	4,481,391
Interest and penalty on property tax	25,434	-	25,434
Intergovernmental	3,772,555	1,105	3,771,450
Licenses and permits	6,571	-	6,571
Charges for service	366,964	-	366,964
Use of money and property	135,613	-	135,613
Miscellaneous	156,721	124,621	32,100
Total receipts	<u>8,945,249</u>	<u>125,726</u>	<u>8,819,523</u>
Disbursements:			
Public safety and legal services	1,177,282	-	1,177,282
Physical health and social services	240,836	-	240,836
Mental health	1,244,964	-	1,244,964
County environment and education	2,899,542	-	2,899,542
Roads and transportation	3,362,281	-	3,362,281
Governmental services to residents	384,675	-	384,675
Administration	1,007,642	-	1,007,642
Non-program	383,340	383,340	-
Debt service	113,628	103,474	10,154
Capital projects	451,694	-	451,694
Total disbursements	<u>11,265,884</u>	<u>486,814</u>	<u>10,779,070</u>
Excess (deficiency) of receipts over (under) disbursements	(2,320,635)	(361,088)	(1,959,547)
Other financing sources, net	2,613,042	363,042	2,250,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	292,407	1,954	290,453
Balance beginning of year	5,464,408	131,193	5,333,215
Balance end of year	<u>\$ 5,756,815</u>	<u>133,147</u>	<u>5,623,668</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
4,448,559	4,448,559	32,832
5,200	5,200	20,234
3,362,442	3,577,442	194,008
4,470	4,470	2,101
362,580	362,580	4,384
87,145	248,963	(113,350)
28,150	40,150	(8,050)
<u>8,298,546</u>	<u>8,687,364</u>	<u>132,159</u>
1,195,212	1,224,712	47,430
286,440	286,440	45,604
1,489,500	1,489,500	244,536
897,985	3,238,303	338,761
3,474,498	3,626,104	263,823
343,576	403,576	18,901
1,015,113	1,095,113	87,471
-	12,000	12,000
10,155	10,155	1
333,710	791,280	339,586
<u>9,046,189</u>	<u>12,177,183</u>	<u>1,398,113</u>
(747,643)	(3,489,819)	1,530,272
-	2,250,000	-
(747,643)	(1,239,819)	1,530,272
<u>3,948,289</u>	<u>5,294,730</u>	<u>38,485</u>
<u>3,200,646</u>	<u>4,054,911</u>	<u>1,568,757</u>

Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 8,945,249	43,765	8,989,014
Expenditures	11,265,884	70,109	11,335,993
Net	(2,320,635)	(26,344)	(2,346,979)
Other financing sources, net	2,613,042	-	2,613,042
Beginning fund balances	5,464,408	625,156	6,089,564
Ending fund balances	\$ 5,756,815	598,812	6,355,627

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$3,130,994. The budget amendments are reflected in the final budgeted amounts.

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

Disbursements during the year did not exceed the amounts budgeted.

Palo Alto County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2005

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Assets			
Cash and pooled investments	\$ 94,903	10,159	9,082
Receivables:			
Economic development loans	-	-	-
Accrued Interest	49	3	6
Total assets	\$ 94,952	10,162	9,088
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 25,289	-	-
Deferred revenue	-	-	-
Total liabilities	25,289	-	-
Fund equity:			
Unreserved fund balances	69,663	10,162	9,088
Total liabilities and fund equity	\$ 94,952	10,162	9,088

See accompanying independent auditor's report.

Revenue				
Palo Alto County Economic Development	Closure/ Postclosure	Conservation Land Acquisition		Total
6,604	5,000	62,307		188,055
22,547	-	-		22,547
-	-	-		58
29,151	5,000	62,307		210,660
-	-	-		25,289
22,547	-	-		22,547
22,547	-	-		47,836
6,604	5,000	62,307		162,824
29,151	5,000	62,307		210,660

Palo Alto County

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

Year ended June 30, 2005

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Revenues:			
Intergovernmental	\$ 132,342	-	-
Charges for service	-	2,274	14,196
Use of money and property	269	10	67
Total revenues	<u>132,611</u>	<u>2,284</u>	<u>14,263</u>
Expenditures:			
Operating:			
County environment and education	6,916	-	-
Governmental services to residents	-	-	27,868
Debt service	-	-	-
Capital projects	82,155	-	-
Total expenditures	<u>89,071</u>	<u>-</u>	<u>27,868</u>
Excess (deficiency) of revenues over (under) expenditures	43,540	2,284	(13,605)
Other financing sources:			
Operating transfers in	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	43,540	2,284	(13,605)
Fund balances beginning of year	26,123	7,878	22,693
Fund balances end of year	<u>\$ 69,663</u>	<u>10,162</u>	<u>9,088</u>

See accompanying independent auditor's report.

Revenue					
Palo Alto County Economic Development	Closure/ Postclosure	Conservation Land Acquisition	Debt Service	Total	
-	-	-	-	132,342	
-	-	-	-	16,470	
4,414	-	4,658	-	9,418	
4,414	-	4,658	-	158,230	
10,000	-	-	-	16,916	
-	-	-	-	27,868	
-	-	-	10,154	10,154	
-	-	-	-	82,155	
10,000	-	-	10,154	137,093	
(5,586)	-	4,658	(10,154)	21,137	
3,500	-	-	10,154	13,654	
(2,086)	-	4,658	-	34,791	
8,690	5,000	57,649	-	128,033	
6,604	5,000	62,307	-	162,824	

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

June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	1,398	72,617	108,443	5,463
Other County officials	12,442	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	44	144	3,179	191
Succeeding year	-	68,000	220,000	4,915,000	287,000
Accounts	1,453	-	288	-	-
Special assessments	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ 13,895	69,442	293,049	5,026,622	292,654
Liabilities					
Accounts payable	\$ -	-	39	-	-
Due to other governments	5,166	69,442	289,684	5,026,622	292,654
Trusts payable	8,729	-	-	-	-
Compensated absences	-	-	3,326	-	-
Total liabilities	\$ 13,895	69,442	293,049	5,026,622	292,654

See accompanying independent auditor's report.

Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
32,483	1,895	3,488	178,579	127,173	531,539
-	-	-	-	-	12,442
2,080	40	-	-	320	5,998
1,568,000	88,000	-	-	449,000	7,595,000
-	-	-	-	14,978	16,719
-	-	213,714	-	-	213,714
-	-	-	-	192	192
1,602,563	89,935	217,202	178,579	591,663	8,375,604
-	-	-	-	1,898	1,937
1,602,563	89,935	217,202	178,579	582,977	8,354,824
-	-	-	-	4,020	12,749
-	-	-	-	2,768	6,094
1,602,563	89,935	217,202	178,579	591,663	8,375,604

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets and Liabilities					
Balances beginning of year	\$ 34,343	71,190	238,831	5,540,644	280,212
Additions:					
Property and other county tax	-	68,519	219,894	4,924,209	287,760
E911 surcharge	-	-	-	-	-
State tax credits	-	4,698	11,407	364,911	18,435
Drivers license fees	-	-	-	-	-
Office fees and collections	186,896	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	154,373	-	-	-	-
Miscellaneous	-	18	2,237	-	-
Total additions	341,269	73,235	233,538	5,289,120	306,195
Deductions:					
Agency remittances:					
To other funds	99,129	74,983	-	-	-
To other governments	85,200	-	179,320	5,803,142	293,753
Trusts paid out	177,388	-	-	-	-
Total deductions	361,717	74,983	179,320	5,803,142	293,753
Balances end of year	\$ 13,895	69,442	293,049	5,026,622	292,654

See accompanying independent auditor's report.

Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
1,816,916	100,878	169,158	208,013	611,707	9,071,892
1,548,996	87,911	-	-	448,709	7,585,998
-	-	-	-	62,633	62,633
145,571	6,166	-	-	31,309	582,497
-	-	-	35,498	-	35,498
-	-	-	-	-	186,896
-	-	-	-	3,030	3,030
-	-	-	2,194,291	-	2,194,291
-	-	101,854	-	-	101,854
-	-	-	-	-	154,373
-	-	-	-	241,565	243,820
1,694,567	94,077	101,854	2,229,789	787,246	11,150,890
-	-	-	121,841	-	295,953
1,908,920	105,020	53,810	2,129,790	641,044	11,199,999
-	-	-	7,592	166,246	351,226
1,908,920	105,020	53,810	2,259,223	807,290	11,847,178
1,602,563	89,935	217,202	178,579	591,663	8,375,604

Schedule 5

Palo Alto County

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

For the Last Five Years

	Modified Accrual Basis				
	2005	2004	2003	2002	2001
Revenues:					
Property and other county tax	\$ 4,492,404	4,865,348	4,472,334	4,030,708	3,199,473
Interest and penalty on property tax	25,423	27,410	30,859	31,504	26,361
Intergovernmental	3,781,399	3,483,391	4,254,454	3,064,676	3,118,979
Licenses and permits	6,621	6,756	7,906	3,572	3,931
Charges for service	380,075	402,237	412,663	339,719	304,456
Use of money and property	148,718	104,798	109,026	145,413	258,468
Miscellaneous	154,374	376,283	256,392	751,402	325,405
Total	\$ 8,989,014	9,266,223	9,543,634	8,366,994	7,237,073
Expenditures:					
Operating:					
Public safety and legal services	\$ 1,181,247	1,138,496	1,103,475	1,073,147	1,026,810
Physical health and social services	242,172	241,273	269,280	285,358	283,350
Mental health	1,265,563	1,330,115	1,380,912	1,375,515	1,249,105
County environment and education	2,861,490	838,259	945,358	891,111	904,999
Roads and transportation	3,402,536	1,815,008	2,616,612	2,653,642	2,786,069
Governmental services to residents	384,667	306,606	265,775	245,936	240,149
Administration	1,045,164	970,837	888,506	794,606	754,904
Non-program	318,393	477,850	647,697	536,512	368,304
Debt service	163,711	368,499	282,548	599,995	243,671
Capital projects	471,050	144,343	131,059	200,102	244,118
Total	\$ 11,335,993	7,631,286	8,531,222	8,655,924	8,101,479

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on 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, 2005, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated January 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

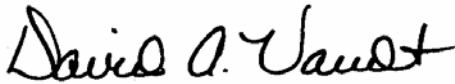
Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 that are described in the accompanying Schedule of Findings.


Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Palo Alto County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 24, 2006

Palo Alto County
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

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

Also, one individual in the County Treasurer’s office has custody of receipts and performs all record-keeping and reconciling functions for the office.

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.

Palo Alto County

Schedule of Findings

Year ended June 30, 2005

Responses –

Treasurer – I will try to comply.

County Extension – Following a County Employee meeting it was agreed that Julie, Bob, and /or Merrylea Clasing (Council Treasurer) would do some of the receipting, reviewing of financial reports and alternate on the banking portion of the office. The bank statements and reconciliation reports would be initialed monthly by the Palo Alto County Treasurer.

Sheriff – I open the mail myself and record the incoming checks on a tablet. I will trace mail receipts to actual receipts on a test basis. I do reconcile the monthly bank reconciliations and initial them. I will reconcile actual receipts to deposits on a test basis.

Conclusion – Responses accepted for the County Treasurer and County Extension offices. Response acknowledged for the County Sheriff. To the extent possible, an employee independent of the receipt process should reconcile the initial listing to amounts deposited.

- (B) Electronic Data Processing Systems – The County does not have a written disaster recovery plan. Backup tapes are not currently stored off site in a fire proof safe monthly. In addition, the County does not have a written policy requiring password changes because software does not require the user to change log-ins/passwords periodically.

Recommendation – A written disaster recovery plan should be developed and back up tapes should be stored off site in a fire proof vault or safe more frequently. The County should require each individual to change their passwords every 60 or 90 days.

Response – A written disaster recovery plan is partially completed and is in the process of being finished. It will become a matter of policy that passwords will be changed every 90 days. Solutions has been contacted and will set it up so each user is prompted to change their passwords before proceeding on a regular 90 day basis.

Conclusion – Response acknowledged. In addition, back up tapes should be stored off site more frequently than on a monthly basis.

- (C) Time Sheets – Department heads and other salaried personnel of the County do not prepare and file timesheets.

Recommendation – Except for County elected officials, timesheets should be prepared by all personnel in all departments, salaried as well as hourly, and should be submitted to the County Auditor's office prior to the processing of payroll each pay period. The timesheets should be signed by the employee and should be reviewed and signed by the employee's immediate supervisor or the County officer or department head prior to submission. The timesheets should support all hours worked, earned and taken as vacation, sick leave, compensatory time, holiday hours and personal days. In addition, all hours earned, used and the balance at the end of the pay period should be included in the County's payroll records and included on the pay stub.

Palo Alto County

Schedule of Findings

Year ended June 30, 2005

Responses –

County Board of Supervisors – Due to past practice, we have never had time sheets because of the many hats our employees wear in the course of a days work. We feel at this time it is not justified to increase the paper work of the job as many of these employees do work at meetings after hours.

County Conservation Board – The County Conservation Board is governed by Chapter 350 of the Iowa Code. Chapter 350.4 describes the powers and duties of the Board. Among those duties is the duty “To employ and fix the compensation of a director who shall be responsible to the County Conservation Board for the carrying out of its policies. The director, subject to the approval of the board, may employ and fix the compensation of assistants and employees as necessary for carrying out this chapter.” The County Conservation Board has its own policies that are not necessarily the same as those of secondary roads personnel, the sheriff’s department or the courthouse employees. We keep our own work records, records of overtime and vacation. We supply them annually as requested by the County Auditor’s office. The County Conservation Board is not willing to transfer any of its responsibilities to another county office. We have been advised by legal counsel for the Iowa State Association of Counties that to give away authority that is the County Conservation Boards’ leads to permanent loss of that authority.

County Assessor – As the present time the Assessor’s Office does prepare time sheets and these time sheets are filed at the Assessor’s Office. From here on out time sheets will be filled out and turned in prior to payroll of each pay period to the County Auditor’s office.

Conclusion – Responses acknowledged. Leave balances and compensatory time should be maintained on a consistent and uniform basis on the centralized payroll system to accurately document potential liabilities of the County. Requiring a copy of all time sheets be submitted to the County Auditor before payroll is computed is not an intrusion into the authority of the County Conservation Board as outlined in the Code of Iowa. For internal control, as well as for potential legal claims (payroll dispute/grievance), timesheets provide a record of hours worked and provide appropriate documentation for the payroll records. Vacation, sick leave and compensatory time used and earned, as well as the balances, should be shown on the payroll records and check stubs.

- (D) Compensatory Time – The County’s personnel policy states employees may accumulate up to 40 hours of compensatory time. The Secondary Roads Union Contract allows for a carry over of 80 hours of compensatory time. There were five employees, which included four public safety employees and one other employee to whom the County’s personnel policy applied, whose compensatory time exceeded the carry over limit of 40 hours. Two Secondary Roads non-union employees had compensatory time exceeding 80 hours.

Recommendation – The County should limit the amount of carry over to the maximum amount allowed by the County’s personnel policy or the Secondary Roads Union agreement.

Response – Palo Alto County will comply with this in the future.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2005

- (E) Job Evaluation – 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 at least annually. A conference should be held between the employee and supervisor following the completion of a written evaluation. A copy signed by both parties should be given to the employee and a signed copy should be placed in the employee’s personnel file.

Response – Different formats of job evaluations are being reviewed. It is anticipated that Palo Alto County will implement this in the future.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.
- (3) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – Business transactions between the County and County officials are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ryan Jergens, son of Russell Jergens, County Sheriff	Transport expense	\$ 128
Harvey Jergens, father of Russell Jergens, County Sheriff	Transport expense	143

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

- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments – 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.
- (9) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

Palo Alto County

Schedule of Findings

Year ended June 30, 2005

- (10) Economic Development – During the year ended June 30, 2005, the County made payments for economic development of \$10,000 out of the Palo Alto County Economic Development Fund to the Graettinger Economic Development Board.

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

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

Recommendation – The Board should evaluate and document the public purpose served by these expenditures before authorizing further payments and should require the Graettinger Economic Development Board to document at the end of each fiscal year how the funds were used to accomplish economic development activities.

Response – The Board will evaluate the public purpose served by these expenditures. The Graettinger Economic Development Board will be instructed to document the economic development gains as a result of these payments.

Conclusion – Response accepted.

- (11) Inmate Room and Board Collections – Inmate room and board collections are credited to the General Fund. However, adequate records are not maintained of the use of the funds to document compliance with Chapter 356.7(5) of the Code of Iowa.

Recommendation – Unspent balances, if any, should be tracked by the County Sheriff and the Board of Supervisors since the use of the funds is restricted.

Response – The recommendation will be complied with by establishing a special revenue fund for the 60% of the receipts.

Conclusion – Response accepted.

- (12) Outstanding Warrants – The County Auditor did not cancel warrants outstanding more than one year as required by Chapter 331.554(7) of the Code of Iowa.

Recommendation – County warrants outstanding more than one year should be cancelled as required.

Response – The County Auditor's office has run a report showing outstanding warrants. Those that have been outstanding for more than one year will be voided. The County Auditor's office has also been sent out letters in an attempt to clear up other outstanding warrants and has replaced warrants after the appropriate indemnity bonds have been prepared, signed and notarized.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2005

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

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

Response – Palo Alto County will comply in the future and is in the process for FY06/07 of complying with the recommendation.

Conclusion – Response accepted.

- (14) Special Appraiser's Levy – Chapter 441.50 of the Code of Iowa states:

“The conference board shall have power to employ appraisers or other technical or expert help to assist in the valuation of property, the cost thereof to be paid in the same manner as other expenses of the assessor's office. The conference board may certify for levy annually an amount not to exceed forty and one-half cents per thousand dollars for the purpose of establishing a special appraiser's fund, to be used only for such purposes. From time to time the conference board may direct the transfer of any unexpended balance in the special appraiser's fund to the assessment expense fund.”

Pursuant to an Attorney General's letter of memorandum dated January 4, 2006, the “...salary, benefits, and other costs associated with employing appraisers and other personnel with a county assessor's office may be paid from the special appraiser's fund, as long as the employees provide “technical or expert help to assist in the valuation of property.”

The County Assessor's Conference Board annually levies for the special appraiser's levy and transfers the amount received to the Assessment Expense Fund to supplement operations. Pursuant to an Attorney General's letter of memorandum dated January 4, 2006, “Given that the special appraiser's fund is a limited use fund, I do not believe that this is a reasonable interpretation of section 441.50. Nor would I advise the State Appeal Board approve special appraiser fund levy which was not based upon a good faith estimate of anticipated costs which could legitimately be paid for with this fund.”

Recommendation – The Conference Board should discontinue budgeting and levying special appraiser's levy to supplement the Assessment Expense Fund.

The County Assessor and Conference Board should consult the County Attorney to determine the proper disposition of the amounts levied for the Special Appraiser's Fund for fiscal 2006 and prior years.

Response – The Conference Board no longer is using the Special Appraiser's Fund to supplement the Assessment Expense Fund. The Special Appraiser's Levy will be used only for appraiser's expense from here on out. The County Attorney and Conference Board will be consulted on the prior years funds used for the Special Appraisers Levy.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2005

- (15) Proper Documentation for Credit Card Expenditures – Four claims were identified where detailed itemized receipts for lodging and the purchase of gasoline, a digital camera and printer did not accompany the claim for reimbursement.

Recommendation – The County should ensure all credit card statements are supported by detailed itemized receipts.

Response – The Board established a credit card policy which addresses these situations on August 16, 2005.

Conclusion – Response accepted.

- (16) Employee Group Health Fund – The County provides employee health insurance through a partially funded self-insured benefit plan. Chapter 509A.15 of the Code of Iowa requires the County to obtain an actuarial opinion issued by a fellow of the Society of Actuaries which attests to the adequacy of reserves, rates and the financial condition of the plan.

Recommendation – The County should obtain an actuarial opinion issued by a fellow of the Society of Actuaries, as required.

Response – We will contact Wellmark, Group Services and the Iowa Insurance Commissioner to determine if an actuarial opinion is necessary for our Employee Group Health Fund.

Conclusion – Response accepted.

- (17) 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, 2005 for the County Extension Office did not exceed the amount budgeted.

Chapter 554D.114.5 of the Code of Iowa allows officials to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check.

Recommendation – The County Extension Office should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The Office Manager has already contacted the Iowa Trust & Savings Bank in Emmetsburg, Iowa and the situation has been resolved. They have started sending photo copies of both sides of the checks for our files.

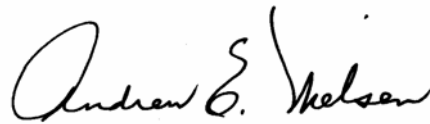
Conclusion – Response accepted.

Palo Alto County

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
James L. Blekfeld, CPA, Senior Auditor
Scott P. Boisen, Staff Auditor
Michael J. Hackett, Assistant Auditor
Donald J. Lewis, Assistant Auditor
Dorothy O. Stover, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State