



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

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**NEWS RELEASE**

FOR RELEASE June 15, 2007

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 \$14,464,100 for the year ended June 30, 2006, which included \$876,657 in tax credits from the state. The County forwarded \$9,949,402 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,514,698 of the local tax revenue to finance County operations, an 8% decrease from the prior year. Other revenues included charges for service of \$1,261,174, operating grants, contributions and restricted interest of \$3,106,150, capital grants, contributions and restricted interest of \$1,196,690, local option sales tax of \$268,628, tax increment financing of \$10,155, unrestricted investment earnings of \$220,321 and other general revenues of \$68,053.

Expenses for County operations totaled \$10,121,880, a 3% decrease from the prior year. Expenses included \$3,020,767 for roads and transportation, \$1,217,605 for mental health and \$1,209,741 for public safety and legal services.

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, 2006**

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**Palo Alto County**

**Officials**

| <u>Name</u>        | <u>Title</u>         | <u>Term Expires</u> |
|--------------------|----------------------|---------------------|
| 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, 2006, 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.

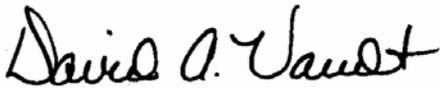
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

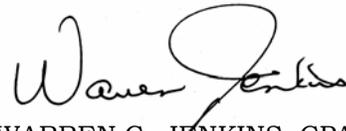
In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2006 on our consideration of Palo Alto County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 two years ended June 30, 2005 (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

December 1, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Palo Alto County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues decreased approximately \$1,271,000 from fiscal year 2005 (FY05). Property tax and other county tax decreased approximately \$384,000 from FY05.
- Palo Alto County's governmental activities expenses decreased approximately \$1,941,000 from FY05.
- The County's net assets increased 18%, or approximately \$2,155,000, from June 30, 2005 to June 30, 2006.

### 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, 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 \$11,845,263 to \$13,999,908. The analysis that follows focuses on the changes in the net assets of governmental activities.

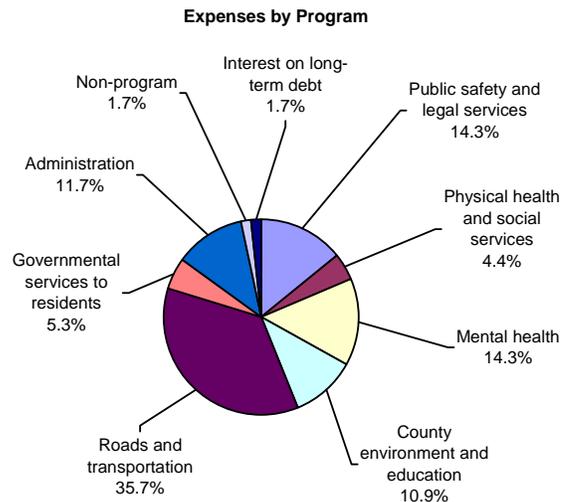
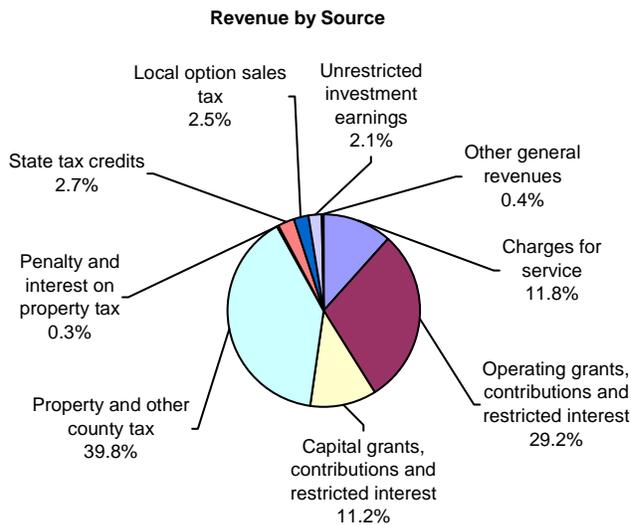
| Net Assets of Governmental Activities<br>(Expressed in Thousands) |                  |               |
|---|------------------|---------------|
|   | June 30,         |               |
|   | 2006             | 2005          |
| Current and other assets  | \$ 13,010        | 11,882        |
| Capital assets  | 9,011            | 7,831         |
| Total assets  | <u>22,021</u>    | <u>19,713</u> |
| Long-term liabilities   | 2,824            | 3,358         |
| Other liabilities   | 5,197            | 4,510         |
| Total liabilities   | <u>8,021</u>     | <u>7,868</u>  |
| Net assets:   |                  |               |
| Invested in capital assets, net of related debt                   | 8,999            | 7,831         |
| Restricted  | 4,710            | 3,899         |
| Unrestricted  | 291              | 115           |
| Total net assets  | <u>\$ 14,000</u> | <u>11,845</u> |

Net assets of Palo Alto County's governmental activities increased approximately \$2,155,000. 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 at approximately \$3,649,000. The County also reports net assets invested in capital assets (e.g., land, infrastructure, buildings and equipment) of approximately \$8,999,000. 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 increased from approximately \$115,000 at June 30, 2005 to approximately \$291,000 at June 30, 2006.

The largest change in net assets occurred in net assets invested in capital assets, which increased approximately \$1,168,000, due to capital asset additions. Restricted net assets increased approximately \$811,000 due to increased balances for the supplemental levies and the Mental Health and Secondary Road Funds.

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

|   | June 30,         |               |
|---|------------------|---------------|
|   | 2006             | 2005          |
| Revenues:   |                  |               |
| Program revenues:                                       |                  |               |
| Charges for service                                     | \$ 1,261         | 1,036         |
| Operating grants, contributions and restricted interest | 3,106            | 2,805         |
| Capital grants, contributions and restricted interest   | 1,197            | 2,664         |
| General revenues:                                       |                  |               |
| Property and other county tax                           | 4,233            | 4,617         |
| Penalty and interest on property tax                    | 27               | 26            |
| State tax credits                                       | 292              | 270           |
| Local option sales tax                                  | 269              | 281           |
| Unrestricted investment earnings                        | 220              | 132           |
| Other general revenues                                  | 41               | 86            |
| <b>Total revenues</b>                                   | <b>10,646</b>    | <b>11,917</b> |
| Program expenses:                                       |                  |               |
| Public safety and legal services                        | 1,210            | 1,195         |
| Physical health and social services                     | 377              | 240           |
| Mental health   | 1,218            | 1,266         |
| County environment and education                        | 925              | 2,892         |
| Roads and transportation                                | 3,021            | 2,934         |
| Governmental services to residents                      | 453              | 384           |
| Administration  | 996              | 1,038         |
| Non-program   | 143              | 367           |
| Interest on long-term debt                              | 148              | 116           |
| <b>Total expenses</b>                                   | <b>8,491</b>     | <b>10,432</b> |
| Increase in net assets                                  | 2,155            | 1,485         |
| Net assets beginning of year                            | 11,845           | 10,360        |
| Net assets end of year                                  | <b>\$ 14,000</b> | <b>11,845</b> |



The County decreased property tax rates approximately .2%. However, total taxable value increased approximately \$4.6 million, or 1%. Based on an increase in taxable valuation of approximately \$15.4 million and a slight decrease in property tax rates for fiscal year 2007, property tax is budgeted to increase approximately \$165,000.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$7,103,000, an increase of approximately \$747,000 above last year's total of approximately \$6,356,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance increased approximately \$240,000 from the prior year to approximately \$1,828,000. The increase in the ending fund balance was due to the County not spending all of the budgeted disbursements. General Fund revenues and expenditures increased \$319,584 and \$305,292, respectively. The increase in revenues was primarily due to funds received for the Help America Vote Act, increases in sheriff and recorder fees and increases in the amount of interest income received. The increase in expenditures was primarily due to expenditures for voting machines using Help America Vote Act funds received, increases in expenditures for family protective services and increases in conservation maintenance and operations expenditures due to work on the new nature center.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,218,000, a decrease of 4% from the prior year, and revenues increased approximately \$31,000. The Mental Health Fund balance at year end increased approximately \$191,000 to approximately \$295,000.
- Rural Services Fund expenditures increased approximately \$66,000 over the prior year. Increases in expenditures were primarily due to increases in solid waste and recycling expenditures. Transfers from the Rural Services Fund to the Secondary Roads Fund decreased approximately \$11,000. Revenues increased approximately \$46,000, which was primarily due to an increase in transfer station receipts. Local option sales tax revenue decreased approximately \$12,000. As a result, the Rural Services Fund balance decreased approximately \$22,000 to approximately \$1,011,000.
- Secondary Roads Fund expenditures decreased approximately \$747,000 from the prior year. This decrease in expenditures is due primarily due to a decrease in expenditures for new equipment of approximately \$690,000. Revenues only increased approximately \$57,000. Transfers from the Rural Services Fund decreased approximately \$11,000. As a result, there was an increase in the Secondary Roads Fund ending balance of approximately \$478,000, or 15%.
- The Drainage Districts Fund revenues increased approximately \$646,000 due to an increase in drainage assessments. Drainage warrants and interest paid increased approximately \$618,000, which was the result of assessments received to retire stamped warrants. Expenditures decreased approximately \$400,000 as a result of decreases in drainage work performed. This resulted in an increase in the Drainage District Fund balance of approximately \$35,000.
- The Tax Increment Financing Fund transferred approximately \$111,000 to the Debt Service Fund for payment of interest on the urban renewal tax increment revenue bonds for Voyager Ethanol (Broin). The balance in the fund at June 30, 2006 was approximately \$88,000, which is to pay interest on the bonds until tax dollars are received in September 2006.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget four times. The first amendment was made in August 9, 2005 and resulted in an increase in budgeted disbursements related to asbestos removal at the old Terra building, ADA voting equipment and the receipt and disbursement of grant money for the Conservation Department for the West Bend Riffle and for excavation work. The second amendment was made on October 11, 2005. This amendment was made to provide for additional disbursements for juvenile justice. The third amendment was made on November 29, 2005 to provide for additional disbursements for treatment services. The last amendment was made on May 30, 2006 for the purpose of receiving and spending grant money for Conservation and EMS and also for additional disbursements for public safety.

The County's receipts were \$363,038 more than budgeted, a variance of 4%. The most significant variance resulted from the County receiving more interest and charges for service than budgeted.

Total disbursements were \$1,386,955 less than the amended budget. Actual disbursements for the mental health, roads and transportation and capital projects functions were \$226,069, \$353,500 and \$582,465, respectively, less than budgeted. This was primarily due to a decrease in the number of mental health clients and changes in mental health services provided, a delay in purchasing Secondary Roads Department equipment and capital projects continuing into the next fiscal year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, Palo Alto County had \$12,481,789 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. During FY06, there was \$1,534,990 in additions. The County had depreciation expense of \$338,624 in FY06 and total accumulated depreciation of \$3,470,981 at June 30, 2006. 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<br>(Expressed in Thousands)         |          |       |
|---|----------|-------|
|   | June 30, |       |
|   | 2006     | 2005  |
| Land  | \$ 1,015 | 1,015 |
| Buildings and improvements  | 927      | 774   |
| Equipment and vehicles  | 3,086    | 3,132 |
| Infrastructure  | 3,982    | 2,909 |
| Total   | \$ 9,010 | 7,830 |
| This year's major additions included (in thousands):                                      |          |       |
| Capital assets contributed by the Iowa Department of Transportation                       | \$       | 1,079 |
| Infrastructure for Secondary Roads  |          | 84    |
| Four pickups, one car, one truck tractor, one trailer and one scraper for Secondary Roads |          | 122   |
| Tractor and loader, two pickups and one car for the Conservation Department               |          | 151   |
| Conservation building addition  |          | 76    |
| Capital assets contributed by the Palo Alto County Conservation Foundation                |          | 23    |
| Total   | \$       | 1,535 |

**Long-Term Debt**

At June 30, 2006, Palo Alto County had \$2,657,330 in outstanding long-term debt, which included \$2,276,898 in urban renewal tax increment revenue bonds, \$11,921 in a capital lease agreement, \$364,494 in drainage warrants and \$4,017 in drainage improvement certificates.

| Outstanding Debt of Governmental Activities at Year-End<br>(Expressed in Thousands) |                 |              |
|---|-----------------|--------------|
|   | June 30,        |              |
|   | 2006            | 2005         |
| Urban renewal TIF bonds   | \$ 2,277        | 2,285        |
| Drainage warrants and improvement certificates                                      | 368             | 888          |
| Capital lease purchase agreement  | 12              | -            |
| <b>Total</b>  | <b>\$ 2,657</b> | <b>3,173</b> |

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 \$20.5 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 2007 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) at November 30, 2006 is 5,100, the same as it was at November 30, 2005. Unemployment in the County at November 30, 2006 was 3.0% compared to 4.0% at November 30, 2005. This compares with the State’s unemployment rate of 3.4% and the national rate of 4.5% at November 30, 2006.

Inflation in the State paralleled the national Consumer Price Index increase. The national CPI increase was 4.3% for fiscal year 2006. Inflation has been modest here due, in part, to the slowing of the residential housing market and modest increases in energy prices in 2005-2006.

The above factors were all part of the considerations for the FY07 budget which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars)

|                     | 2007                | 2006             |             |
|---------------------|---------------------|------------------|-------------|
|                     | Dollars             | Dollars          | Percentage  |
|                     | Certified           | Certified        | Change      |
| General Fund        | \$ 2,714,855        | 2,617,087        | 3.7%        |
| Mental Health Fund  | 688,176             | 688,176          | 0%          |
| Rural Services Fund | 1,260,165           | 1,193,107        | .6%         |
| <b>Total</b>        | <b>\$ 4,663,196</b> | <b>4,498,370</b> | <b>3.7%</b> |

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 FY07 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for FY07 are as follows:

|                           | 2007        | 2006     | Percentage<br>Change |
|---------------------------|-------------|----------|----------------------|
| General basic levy        | \$ 3.90000  | 3.50000  | 11.4%                |
| General supplemental levy | 2.45552     | 2.85552  | (14.0%)              |
| Mental health levy        | 1.61103     | 1.67122  | (3.6%)               |
| Rural services basic levy | 3.95000     | 3.95000  | 0%                   |
| Total                     | \$ 11.91655 | 11.97674 | .5%                  |

These factors were taken into account when adopting the budget for fiscal year 2007. Amounts appropriated in the operating budget are \$9,733,915, a decrease of \$117,730, or 1.2%, from the final 2006 budget. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable value, except for special circumstances. Palo Alto County increased the general basic levy for 2007 from \$3.50 per \$1,000 of taxable value to \$3.90 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, 2006

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                       |                                    |
| Cash and pooled investments                         | \$ 6,633,363                       |
| Receivables:  |                                    |
| Property tax:                                       |                                    |
| Delinquent  | 2,779                              |
| Succeeding year                                     | 4,809,000                          |
| Interest and penalty on property tax                | 7,545                              |
| Accounts  | 139,630                            |
| Economic development loans                          | 18,615                             |
| Accrued interest                                    | 44,522                             |
| Drainage assessments                                | 369,103                            |
| Due from other governments                          | 258,057                            |
| Inventories   | 633,652                            |
| Prepaid insurance                                   | 94,031                             |
| Capital assets - nondepreciable                     | 4,539,544                          |
| Capital assets - depreciable - net                  | 4,471,264                          |
|   | <u>22,021,105</u>                  |
| <b>Total assets</b>                                 |                                    |
| <b>Liabilities</b>                                  |                                    |
| Accounts payable                                    | 121,972                            |
| Accrued interest payable                            | 76,049                             |
| Salaries and benefits payable                       | 30,581                             |
| Due to other governments                            | 159,367                            |
| Deferred revenue:                                   |                                    |
| Succeeding year property tax                        | 4,809,000                          |
| Long-term liabilities:                              |                                    |
| Portion due or payable within one year:             |                                    |
| Urban renewal tax increment revenue bonds           | 181,406                            |
| Capital lease purchase agreement                    | 11,921                             |
| Drainage warrants/drainage improvement certificates | 368,511                            |
| Compensated absences                                | 129,611                            |
| Portion due or payable after one year:              |                                    |
| Urban renewal tax increment revenue bonds           | 2,095,492                          |
| Compensated absences                                | 37,287                             |
|   | <u>8,021,197</u>                   |
| <b>Total liabilities</b>                            |                                    |
| <b>Net Assets</b>                                   |                                    |
| Invested in capital assets, net of related debt     | 8,998,887                          |
| Restricted for:                                     |                                    |
| Supplemental levy purposes                          | 657,296                            |
| Mental health                                       | 295,142                            |
| Secondary roads purposes                            | 3,649,124                          |
| Other purposes                                      | 108,316                            |
| Unrestricted  | 291,143                            |
|   | <u>13,999,908</u>                  |
| <b>Total net assets</b>                             | <u>\$ 13,999,908</u>               |

See notes to financial statements.

Palo Alto County  
 Statement of Activities  
 Year ended June 30, 2006

|   | Program Revenues    |                           |  | Net (Expense)<br>Revenue and<br>Changes<br>in Net Assets |  |
|---|---------------------|---------------------------|--|--|--|
|   | Expenses            | Charges<br>for<br>Service | Operating Grants,<br>Contributions<br>and Restricted<br>Interest |  | Capital Grants,<br>Contributions<br>and Restricted<br>Interest |
| <b>Functions/Programs:</b>                |                     |                           |  |  |  |
| Governmental activities:                  |                     |                           |  |  |  |
| Public safety and legal services          | \$ 1,209,741        | 126,423                   | 9,266  | -  | (1,074,052)  |
| Physical health and social services       | 377,054             | 85,868                    | 51,025   | -  | (240,161)  |
| Mental health                             | 1,217,605           | -                         | 719,009  | -  | (498,596)  |
| County environment and education          | 925,275             | 230,647                   | 106,818  | 23,453   | (564,357)  |
| Roads and transportation                  | 3,020,767           | 310,932                   | 2,149,020  | 1,078,762  | 517,947  |
| Governmental services to residents        | 452,720             | 188,572                   | -  | 94,475   | (169,673)  |
| Administration                            | 996,387             | 8,591                     | 71,012   | -  | (916,784)  |
| Non-program                               | 143,488             | 310,141                   | -  | -  | 166,653  |
| Interest on long-term debt                | 148,187             | -                         | -  | -  | (148,187)  |
| <b>Total</b>                              | <b>\$ 8,491,224</b> | <b>1,261,174</b>          | <b>3,106,150</b>   | <b>1,196,690</b>   | <b>(2,927,210)</b>   |
| <b>General Revenues:</b>                  |                     |                           |  |  |  |
| Property and other county tax levied for: |                     |                           |  |  |  |
| General purposes                          |                     |                           |  |  | 4,222,453  |
| Tax increment financing                   |                     |                           |  |  | 10,155   |
| Penalty and interest on property tax      |                     |                           |  |  | 27,286   |
| State tax credits                         |                     |                           |  |  | 292,245  |
| Local option sales tax                    |                     |                           |  |  | 268,628  |
| Unrestricted investment earnings          |                     |                           |  |  | 220,321  |
| Gain on disposition of capital assets     |                     |                           |  |  | 27,895   |
| Miscellaneous                             |                     |                           |  |  | 12,872   |
| <b>Total general revenues</b>             |                     |                           |  |  | <b>5,081,855</b>   |
| Change in net assets                      |                     |                           |  |  | 2,154,645  |
| Net assets beginning of year              |                     |                           |  |  | 11,845,263   |
| Net assets end of year                    |                     |                           |  |  | <b>\$ 13,999,908</b>   |

See notes to financial statements.

Palo Alto County  
Balance Sheet  
Governmental Funds

June 30, 2006

| <b>Assets</b>                                       | Special             |                  |                   |                    |
|---|---------------------|------------------|-------------------|--------------------|
|   | General             | Mental<br>Health | Rural<br>Services | Secondary<br>Roads |
| Cash and pooled investments                         | \$ 1,803,100        | 444,287          | 970,761           | 2,874,029          |
| Receivables:  |                     |                  |                   |                    |
| Property tax:                                       |                     |                  |                   |                    |
| Delinquent  | 1,897               | 480              | 402               | -                  |
| Succeeding year                                     | 2,551,000           | 646,000          | 1,193,000         | -                  |
| Interest and penalty on property tax                | 7,545               | -                | -                 | -                  |
| Accounts  | 6,833               | 820              | 20,024            | 111,953            |
| Economic developmental loans                        | -                   | -                | -                 | -                  |
| Accrued interest                                    | 44,485              | -                | -                 | -                  |
| Drainage assessments                                | -                   | -                | -                 | -                  |
| Due from other governments                          | 15,977              | 891              | 55,682            | 185,507            |
| Inventories   | -                   | -                | -                 | 633,652            |
| Prepaid insurance                                   | 20,832              | -                | -                 | 15,189             |
| <b>Total assets</b>                                 | <b>\$ 4,451,669</b> | <b>1,092,478</b> | <b>2,239,869</b>  | <b>3,820,330</b>   |
| <b>Liabilities and Fund Balances</b>                |                     |                  |                   |                    |
| Liabilities:  |                     |                  |                   |                    |
| Accounts payable                                    | \$ 37,752           | 31,283           | 4,468             | 32,011             |
| Salaries and benefits payable                       | 704                 | -                | -                 | 29,877             |
| Due to other governments                            | 18,068              | 120,053          | 20,899            | 347                |
| Deferred revenue:                                   |                     |                  |                   |                    |
| Succeeding year property tax                        | 2,551,000           | 646,000          | 1,193,000         | -                  |
| Other   | 16,317              | 458              | 10,936            | 101,683            |
| Total liabilities                                   | 2,623,841           | 797,794          | 1,229,303         | 163,918            |
| Fund balances:                                      |                     |                  |                   |                    |
| Reserved for:                                       |                     |                  |                   |                    |
| Supplemental levy purposes                          | 656,598             | -                | -                 | -                  |
| Drainage warrants/drainage improvement certificates | -                   | -                | -                 | -                  |
| Unreserved, reported in:                            |                     |                  |                   |                    |
| General fund  | 1,171,230           | -                | -                 | -                  |
| Special revenue funds                               | -                   | 294,684          | 1,010,566         | 3,656,412          |
| Total fund balances                                 | 1,827,828           | 294,684          | 1,010,566         | 3,656,412          |
| <b>Total liabilities and fund balances</b>          | <b>\$ 4,451,669</b> | <b>1,092,478</b> | <b>2,239,869</b>  | <b>3,820,330</b>   |

See notes to financial statements.

| Revenue               |                               |                |                   |
|-----------------------|-------------------------------|----------------|-------------------|
| Drainage<br>Districts | Tax<br>Increment<br>Financing | Nonmajor       | Total             |
| 150,336               | 87,749                        | 91,759         | 6,422,021         |
| -                     | -                             | -              | 2,779             |
| -                     | 419,000                       | -              | 4,809,000         |
| -                     | -                             | -              | 7,545             |
| -                     | -                             | -              | 139,630           |
| -                     | -                             | 18,615         | 18,615            |
| -                     | -                             | 37             | 44,522            |
| 369,103               | -                             | -              | 369,103           |
| -                     | -                             | -              | 258,057           |
| -                     | -                             | -              | 633,652           |
| -                     | -                             | -              | 36,021            |
| <b>519,439</b>        | <b>506,749</b>                | <b>110,411</b> | <b>12,740,945</b> |
| 14,363                | -                             | 2,095          | 121,972           |
| -                     | -                             | -              | 30,581            |
| -                     | -                             | -              | 159,367           |
| -                     | 419,000                       | -              | 4,809,000         |
| 369,103               | -                             | 18,615         | 517,112           |
| <b>383,466</b>        | <b>419,000</b>                | <b>20,710</b>  | <b>5,638,032</b>  |
| -                     | -                             | -              | 656,598           |
| 21,034                | -                             | -              | 21,034            |
| -                     | -                             | -              | 1,171,230         |
| 114,939               | 87,749                        | 89,701         | 5,254,051         |
| 135,973               | 87,749                        | 89,701         | 7,102,913         |
| <b>519,439</b>        | <b>506,749</b>                | <b>110,411</b> | <b>12,740,945</b> |

**Palo Alto County**

Palo Alto County

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

June 30, 2006

**Total governmental fund balances (page 19)** \$ 7,102,913

***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 \$12,481,789 and the accumulated depreciation is \$3,470,981. 9,010,808

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 517,112

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. 269,352

Long-term liabilities, including urban renewal tax increment revenue bonds payable, capital lease purchase agreement 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. (2,900,277)

**Net assets of governmental activities (page 16)** \$ 13,999,908

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2006

|   | Special             |                  |                   |                    |
|---|---------------------|------------------|-------------------|--------------------|
|   | General             | Mental<br>Health | Rural<br>Services | Secondary<br>Roads |
| Revenues:   |                     |                  |                   |                    |
| Property and other county tax                             | \$ 2,458,655        | 643,307          | 1,388,761         | -                  |
| Interest and penalty on property tax                      | 25,929              | -                | -                 | -                  |
| Intergovernmental   | 597,483             | 765,634          | 136,900           | 2,361,390          |
| Licenses and permits                                      | 9,280               | -                | -                 | 1,870              |
| Charges for service                                       | 226,523             | -                | 184,817           | 36,420             |
| Use of money and property                                 | 214,238             | -                | 23                | 16,927             |
| Miscellaneous   | 20,071              | 71               | 1,987             | 58,372             |
| Total revenues  | <u>3,552,179</u>    | <u>1,409,012</u> | <u>1,712,488</u>  | <u>2,474,979</u>   |
| Expenditures:   |                     |                  |                   |                    |
| Operating:  |                     |                  |                   |                    |
| Public safety and legal services                          | 1,048,249           | -                | 175,107           | -                  |
| Physical health and social services                       | 377,459             | -                | -                 | -                  |
| Mental health   | -                   | 1,217,605        | -                 | -                  |
| County environment and education                          | 515,370             | -                | 452,529           | -                  |
| Roads and transportation                                  | -                   | -                | 146,269           | 2,752,679          |
| Governmental services to residents                        | 444,870             | -                | -                 | -                  |
| Administration  | 945,507             | -                | 66,996            | -                  |
| Non-program   | -                   | -                | -                 | -                  |
| Debt service  | -                   | -                | -                 | -                  |
| Capital projects  | 10,772              | -                | 3,699             | 134,853            |
| Total expenditures  | <u>3,342,227</u>    | <u>1,217,605</u> | <u>844,600</u>    | <u>2,887,532</u>   |
| Excess (deficiency) of revenues over (under) expenditures | <u>209,952</u>      | <u>191,407</u>   | <u>867,888</u>    | <u>(412,553)</u>   |
| Other financing sources (uses):                           |                     |                  |                   |                    |
| Operating transfers in                                    | 15,000              | -                | -                 | 890,337            |
| Operating transfers out                                   | (10,000)            | -                | (890,337)         | -                  |
| Drainage warrants issued                                  | -                   | -                | -                 | -                  |
| Capital lease purchase agreement                          | 24,557              | -                | -                 | -                  |
| Total other financing sources (uses)                      | <u>29,557</u>       | <u>-</u>         | <u>(890,337)</u>  | <u>890,337</u>     |
| Net change in fund balances                               | 239,509             | 191,407          | (22,449)          | 477,784            |
| Fund balances beginning of year                           | <u>1,588,319</u>    | <u>103,277</u>   | <u>1,033,015</u>  | <u>3,178,628</u>   |
| Fund balances end of year                                 | <u>\$ 1,827,828</u> | <u>294,684</u>   | <u>1,010,566</u>  | <u>3,656,412</u>   |

See notes to financial statements.

| Revenue               |                               |           |             |
|-----------------------|-------------------------------|-----------|-------------|
| Drainage<br>Districts | Tax<br>Increment<br>Financing | Nonmajor  | Total       |
| -                     | 10,155                        | -         | 4,500,878   |
| -                     | -                             | -         | 25,929      |
| -                     | -                             | 23,859    | 3,885,266   |
| -                     | -                             | -         | 11,150      |
| -                     | -                             | 2,555     | 450,315     |
| -                     | -                             | 10,302    | 241,490     |
| 771,954               | -                             | -         | 852,455     |
| 771,954               | 10,155                        | 36,716    | 9,967,483   |
| -                     | -                             | -         | 1,223,356   |
| -                     | -                             | -         | 377,459     |
| -                     | -                             | -         | 1,217,605   |
| -                     | -                             | 15,763    | 983,662     |
| -                     | -                             | -         | 2,898,948   |
| -                     | -                             | 17,356    | 462,226     |
| -                     | -                             | -         | 1,012,503   |
| 100,355               | -                             | -         | 100,355     |
| 721,072               | -                             | 111,404   | 832,476     |
| -                     | -                             | 71,720    | 221,044     |
| 821,427               | -                             | 216,243   | 9,329,634   |
| (49,473)              | 10,155                        | (179,527) | 637,849     |
| -                     | -                             | 121,404   | 1,026,741   |
| -                     | (111,404)                     | (15,000)  | (1,026,741) |
| 84,880                | -                             | -         | 84,880      |
| -                     | -                             | -         | 24,557      |
| 84,880                | (111,404)                     | 106,404   | 109,437     |
| 35,407                | (101,249)                     | (73,123)  | 747,286     |
| 100,566               | 188,998                       | 162,824   | 6,355,627   |
| 135,973               | 87,749                        | 89,701    | 7,102,913   |

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, 2006

**Net change in fund balances - Total governmental funds (page 23)** \$ 747,286

**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  | \$ 388,808       |           |
| Capital assets contributed by the Iowa Department of Transportation        | 1,078,762        |           |
| Capital assets contributed by the Palo Alto County Conservation Foundation | 23,453           |           |
| Depreciation expense   | <u>(338,624)</u> | 1,152,399 |

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. 27,895

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 | 360              |           |
| Other        | <u>(504,650)</u> | (504,290) |

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 repayments exceeded issuances, as follows:

|        |                |         |
|--------|----------------|---------|
| Issued | (109,437)      |         |
| Repaid | <u>625,017</u> | 515,580 |

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

|                            |               |        |
|----------------------------|---------------|--------|
| Compensated absences       | 18,466        |        |
| Interest on long-term debt | <u>71,906</u> | 90,372 |

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. 125,403

**Change in net assets of governmental activities (page 17)** \$ 2,154,645

See notes to financial statements.

Palo Alto County  
 Statement of Net Assets  
 Proprietary Fund  
 June 30, 2006

|                           | Internal<br>Service -<br>Employee<br>Group<br>Health |
|---------------------------|--|
| <b>Assets</b>             |  |
| Cash and cash equivalents | \$ 211,342   |
| Prepaid insurance         | 58,010   |
| <b>Total assets</b>       | <u>269,352</u>                                       |
| <b>Liabilities</b>        |  |
| None                      | <u>-</u>   |
| <b>Net Assets</b>         |  |
| Unrestricted              | <u><u>\$ 269,352</u></u>                             |

See notes to financial statements.

**Exhibit H**

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

Year ended June 30, 2006

|                                     |               | <u>Internal<br/>Service -<br/>Employee<br/>Group<br/>Health</u> |
|-------------------------------------|---------------|---|
| Operating revenues:                 |               |   |
| Reimbursements from operating funds |               | \$ 923,050  |
| Reimbursements from employees       |               | 2,040   |
| Reimbursements from insurance       |               | 790   |
| Total operating revenues            |               | <u>925,880</u>  |
| Operating expenses:                 |               |   |
| Insurance premiums                  | \$ 721,694    |   |
| Medical claims                      | 62,871        |   |
| Administrative fees                 | <u>15,912</u> | <u>800,477</u>  |
| Operating income                    |               | 125,403   |
| Net assets beginning of year        |               | <u>143,949</u>  |
| Net assets end of year              |               | <u><u>\$ 269,352</u></u>  |

See notes to financial statements.

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

|   | Internal<br>Service -<br>Employee<br>Group<br>Health |
|---|--|
| Cash flows from operating activities:   |  |
| Cash received from operating fund reimbursements  | \$ 923,050   |
| Cash received from employees  | 2,040  |
| Cash received from insurance  | 790  |
| Cash paid to suppliers for services   | (786,243)  |
| Net cash provided by operating activities   | 139,637  |
| <br>  |  |
| Cash and cash equivalents beginning of year   | 71,705   |
| <br>  |  |
| Cash and cash equivalents end of year   | \$ 211,342   |
| <br>  |  |
| <b>Reconciliation of operating income to net cash<br/>provided by operating activities:</b> |  |
| Operating income  | \$ 125,403   |
| Adjustment to reconcile operating income to net cash<br>provided by operating activities:   |  |
| Decrease in prepaid insurance   | 14,234   |
| Net cash provided by operating activities   | \$ 139,637   |

See notes to financial statements.

Palo Alto County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2006

**Assets**

|                              |                  |
|------------------------------|------------------|
| Cash and pooled investments: |                  |
| County Treasurer             | \$ 601,663       |
| Other County officials       | 13,055           |
| Receivables:                 |                  |
| Property tax:                |                  |
| Delinquent                   | 7,893            |
| Succeeding year              | 8,876,000        |
| Accounts                     | 16,584           |
| Accrued interest             | 157              |
| Special assessments          | 135,743          |
| Due from other governments   | 7,083            |
| <b>Total assets</b>          | <u>9,658,178</u> |

**Liabilities**

|                          |                  |
|--------------------------|------------------|
| Accounts payable         | 2,750            |
| Due to other governments | 9,640,565        |
| Trusts payable           | 9,797            |
| Compensated absences     | 5,066            |
| <b>Total liabilities</b> | <u>9,658,178</u> |

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

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

Palo Alto County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance and general administrative services.

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

A. Reporting Entity

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

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

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

Five hundred 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 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 and reduced by outstanding balances of debt attributable to the acquisition of those assets.

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

The Tax Increment Financing Fund is used to account for the property tax revenue levied for the payment of urban renewal tax increment revenue 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 include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

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

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

| Asset Class                      | Amount    |
|----------------------------------|-----------|
| Infrastructure                   | \$ 65,000 |
| Land, buildings and improvements | 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, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Rural Services and Secondary Roads Funds.

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

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

Fund Equity – In the governmental fund financial statements, 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, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had 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, 2006 is as follows:

| <u>Transfer to</u>                  | <u>Transfer from</u>                              | <u>Amount</u>       |
|-------------------------------------|---|---------------------|
| General                             | Special Revenue:<br>Conservation Land Acquisition | \$ 15,000           |
| Special Revenue:<br>Secondary Roads | Special Revenue:<br>Rural Services                | 890,337             |
| Economic Development                | General   | 10,000              |
| Debt Service                        | Special Revenue:<br>Tax Increment Financing       | 111,404             |
| Total                               |   | <u>\$ 1,011,741</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, 2006 was as follows:

|   | Balance<br>Beginning<br>of Year | Increases        | Decreases        | Balance<br>End<br>of Year |
|---|---------------------------------|------------------|------------------|---------------------------|
| <b>Governmental activities:</b>             |                                 |                  |                  |                           |
| Capital assets not being depreciated:       |                                 |                  |                  |                           |
| Land  | \$ 1,015,425                    | -                | -                | 1,015,425                 |
| Construction in progress                    | 2,686,433                       | 1,262,425        | (424,739)        | 3,524,119                 |
| Total capital assets not being depreciated  | <u>3,701,858</u>                | <u>1,262,425</u> | <u>(424,739)</u> | <u>4,539,544</u>          |
| Capital assets being depreciated:           |                                 |                  |                  |                           |
| Buildings                                   | 1,318,221                       | 181,732          | -                | 1,499,953                 |
| Improvements other than buildings           | 55,096                          | -                | -                | 55,096                    |
| Equipment and vehicles                      | 5,717,996                       | 272,565          | (72,440)         | 5,918,121                 |
| Infrastructure, road network                | 226,068                         | 243,007          | -                | 469,075                   |
| Total capital assets being depreciated      | <u>7,317,381</u>                | <u>697,304</u>   | <u>(72,440)</u>  | <u>7,942,245</u>          |
| Less accumulated depreciation for:          |                                 |                  |                  |                           |
| Buildings                                   | 581,432                         | 26,659           | -                | 608,091                   |
| Improvements other than buildings           | 17,631                          | 1,972            | -                | 19,603                    |
| Equipment and vehicles                      | 2,585,889                       | 302,760          | (56,368)         | 2,832,281                 |
| Infrastructure, road network                | 3,773                           | 7,233            | -                | 11,006                    |
| Total accumulated depreciation              | <u>3,188,725</u>                | <u>338,624</u>   | <u>(56,368)</u>  | <u>3,470,981</u>          |
| Total capital assets being depreciated, net | <u>4,128,656</u>                | <u>358,680</u>   | <u>(16,072)</u>  | <u>4,471,264</u>          |
| Governmental activities capital assets, net | <u>\$ 7,830,514</u>             | <u>1,621,105</u> | <u>(440,811)</u> | <u>9,010,808</u>          |

Depreciation expense was charged to the following functions:

|  |                   |
|--|-------------------|
| Governmental activities:                             |                   |
| Public safety and legal services                     | \$ 21,959         |
| County environment and education                     | 40,508            |
| Roads and transportation                             | 273,457           |
| Administration                                       | <u>2,700</u>      |
| Total depreciation expense - governmental activities | <u>\$ 338,624</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    | \$ 18,068           |
| Special Revenue:                 |             |                     |
| Mental Health                    | Services    | 120,053             |
| Rural Services                   | Services    | 20,899              |
| Secondary Roads                  | Services    | 347                 |
|                                  |             | <u>141,299</u>      |
| Total for governmental funds     |             | <u>\$ 159,367</u>   |
| Agency:                          |             |                     |
| County Offices                   | Collections | \$ 8,515            |
| Agricultural Extension Education |             | 73,431              |
| County Assessor                  |             | 368,798             |
| Schools                          |             | 5,643,588           |
| Community Colleges               |             | 340,040             |
| Corporations                     |             | 1,780,331           |
| Townships                        |             | 101,979             |
| City Special Assessments         |             | 138,996             |
| Auto License and Use Tax         |             | 170,747             |
| All other                        |             | <u>1,014,140</u>    |
| Total for agency funds           |             | <u>\$ 9,640,565</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, 2006 |
|-------------------------------|--------------|---------------|------------------|---------------|--------------|----------------------------|
| Mike and Kim Gehrt            | Feb 24, 1998 | Jun 1, 2008   | \$ 10,000        | 5.0%          | 10 years     | \$ 4,813                   |
| Jason White                   | Jun 27, 2000 | Aug 1, 2003   | 2,500            | 6.0%          | 3 years      | 1,328                      |
| Jesse Wolf                    | Feb 17, 2004 | Feb 24, 2007  | 1,500            | 4.9%          | 3 years      | 502                        |
| Stanley Propane and Appliance | Mar 26, 2002 | Jul 1, 2012   | <u>20,000</u>    | 5.0%          | 10 years     | <u>11,972</u>              |
| Total                         |              |               | <u>\$ 34,000</u> |               |              | <u>\$ 18,615</u>           |

**(7) Changes in Long-Term Liabilities**

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

|                              | Urban Renewal<br>Tax Increment<br>Revenue<br>Bonds | Capital<br>Lease<br>Purchase<br>Agreement | Drainage<br>Warrants | Drainage<br>Improvement<br>Certificates | Compen-<br>sated<br>Absences | Total     |
|------------------------------|--|---|----------------------|---|------------------------------|-----------|
| Balance beginning<br>of year | \$ 2,284,791                                       | -   | 880,084              | 8,035                                   | 185,364                      | 3,358,274 |
| Increases                    | -  | 24,557                                    | 84,880               | -                                       | 190,492                      | 299,929   |
| Decreases                    | 7,893  | 12,636                                    | 600,470              | 4,018                                   | 208,958                      | 833,975   |
| Balance end of year          | \$ 2,276,898                                       | 11,921                                    | 364,494              | 4,017                                   | 166,898                      | 2,824,228 |
| Due within one year          | \$ 181,406   | 11,921                                    | 364,494              | 4,017                                   | 129,611                      | 691,449   |

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. During the year ended June 30, 2006, principal of \$7,893 and interest of \$2,261 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. During the year ended June 30, 2006, interest of \$101,250 was paid.

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

A summary of the County's June 30, 2006 annual debt service requirements to maturity are as follows:

| Year<br>ending<br>June 30, | Interest<br>Rates | October 15, 1998 Issue |          |        |
|----------------------------|-------------------|------------------------|----------|--------|
|                            |                   | Principal              | Interest | Total  |
| 2007                       | 6.50%             | \$ 8,406               | 1,748    | 10,154 |
| 2008                       | 6.50              | 8,952                  | 1,202    | 10,154 |
| 2009                       | 6.50              | 9,540                  | 619      | 10,159 |
| Total                      |                   | \$ 26,898              | 3,569    | 30,467 |

| Year<br>ending<br>June 30, | Interest<br>Rates | November 23, 2004 Issue |          |           | Total     |          |           |
|----------------------------|-------------------|-------------------------|----------|-----------|-----------|----------|-----------|
|                            |                   | Principal               | Interest | Total     | Principal | Interest | Total     |
| 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   |
| 2012-2016                  | 4.50              | 865,000                 | 224,045  | 1,089,044 | 865,000   | 224,045  | 1,089,044 |
| 2017-2019                  | 4.50              | 520,000                 | 41,006   | 561,007   | 520,000   | 41,006   | 561,007   |
| Total                      |                   | \$ 2,250,000            | 683,719  | 2,933,719 | 2,276,898 | 687,288  | 2,964,186 |

### Capital Lease Purchase Agreement

The County has entered into a capital lease purchase agreement for a conservation tractor and loader.

The following is a schedule of the future minimum lease payments, including interest at 6% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2006:

| Year<br>ending<br>June 30,                  | Amount    |
|---|-----------|
| 2007  | \$ 12,636 |
| Less amount representing interest           | (715)     |
| Present value of net minimum lease payments | \$ 11,921 |

Payments under the capital lease purchase agreement totaled \$12,636 for the year ended June 30, 2006.

### 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 is 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, 2006, 2005 and 2004 were \$180,355, \$177,624 and \$165,585, 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 531 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2006 were \$107,313.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim 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, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, 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 contributions for the year ended June 30, 2006 were \$721,694 and \$201,356 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 was required to repay \$85,000 as a result of its non-performance. The Company has been making loan repayments to the Iowa Department of Economic Development. Therefore, the liability for these loans is not included in the Statement of

Net Assets. The balances due at June 30, 2006 were \$85,000 on the forgivable loan and \$15,714 on the conventional loan. The loans were paid off by Skyjack Equipment, Inc. in August 2006.

**(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<br>Ending<br>June 30, | Interest<br>Rates | Principal    | Interest  | Total      |
|----------------------------|-------------------|--------------|-----------|------------|
| 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                       | 3.75              | 195,000      | 265,650   | 460,650    |
| 2012-2016                  | 4.00-4.60         | 1,095,000    | 1,198,467 | 2,293,467  |
| 2017-2021                  | 4.75-5.40         | 785,000      | 940,592   | 1,725,592  |
| 2022-2026                  | 5.40              | 1,240,000    | 647,346   | 1,887,346  |
| 2027-2029                  | 4.625             | 2,365,000    | 273,453   | 2,638,453  |
| Total                      |                   | \$ 6,400,000 | 4,448,742 | 10,848,742 |

**(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, 2006 have been estimated at \$4,856. 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, 2006.

**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, 2006

|   | Actual       | Less<br>Funds not<br>Required to<br>be Budgeted | Net       |
|---|--------------|---|-----------|
| <b>Receipts:</b>  |              |   |           |
| Property and other county tax   | \$ 4,502,070 | -   | 4,502,070 |
| Interest and penalty on property tax  | 25,881       | -   | 25,881    |
| Intergovernmental   | 3,835,442    | -   | 3,835,442 |
| Licenses and permits  | 11,165       | -   | 11,165    |
| Charges for service   | 453,766      | -   | 453,766   |
| Use of money and property   | 212,399      | -   | 212,399   |
| Miscellaneous   | 843,938      | 771,954   | 71,984    |
| Total receipts  | 9,884,661    | 771,954   | 9,112,707 |
| <b>Disbursements:</b>   |              |   |           |
| Public safety and legal services  | 1,213,672    | -   | 1,213,672 |
| Physical health and social services   | 289,368      | -   | 289,368   |
| Mental health   | 1,228,268    | -   | 1,228,268 |
| County environment and education  | 956,150      | -   | 956,150   |
| Roads and transportation  | 2,911,857    | -   | 2,911,857 |
| Governmental services to residents  | 461,079      | -   | 461,079   |
| Administration  | 1,048,212    | -   | 1,048,212 |
| Non-program   | 118,573      | 118,573   | -         |
| Debt service  | 832,476      | 721,072   | 111,404   |
| Capital projects  | 244,680      | -   | 244,680   |
| Total disbursements   | 9,304,335    | 839,645   | 8,464,690 |
| Excess (deficiency) of receipts over (under) disbursements  | 580,326      | (67,691)  | 648,017   |
| Other financing sources, net  | 84,880       | 84,880  | -         |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 665,206      | 17,189  | 648,017   |
| Balance beginning of year   | 5,756,815    | 133,147   | 5,623,668 |
| Balance end of year   | \$ 6,422,021 | 150,336   | 6,271,685 |

See accompanying independent auditor's report.

| Budgeted Amounts |                  | Final to<br>Net<br>Variance |
|------------------|------------------|-----------------------------|
| Original         | Final            |                             |
| 4,491,635        | 4,491,635        | 10,435                      |
| 7,200            | 7,200            | 18,681                      |
| 3,666,552        | 3,750,696        | 84,746                      |
| 3,970            | 3,970            | 7,195                       |
| 350,548          | 350,548          | 103,218                     |
| 105,845          | 105,845          | 106,554                     |
| 24,100           | 39,775           | 32,209                      |
| <u>8,649,850</u> | <u>8,749,669</u> | <u>363,038</u>              |
| 1,209,344        | 1,239,344        | 25,672                      |
| 293,418          | 354,418          | 65,050                      |
| 1,454,337        | 1,454,337        | 226,069                     |
| 953,362          | 1,028,425        | 72,275                      |
| 3,265,357        | 3,265,357        | 353,500                     |
| 429,384          | 468,402          | 7,323                       |
| 1,071,414        | 1,101,062        | 52,850                      |
| -                | -                | -                           |
| 113,154          | 113,154          | 1,750                       |
| 827,146          | 827,146          | 582,466                     |
| <u>9,616,916</u> | <u>9,851,645</u> | <u>1,386,955</u>            |
| (967,066)        | (1,101,976)      | 1,749,993                   |
| -                | -                | -                           |
| (967,066)        | (1,101,976)      | 1,749,993                   |
| 4,701,141        | 4,701,141        | 922,527                     |
| <u>3,734,075</u> | <u>3,599,165</u> | <u>2,672,520</u>            |

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Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2006

|                              | Governmental Funds |                             |                              |
|------------------------------|--------------------|-----------------------------|------------------------------|
|                              | Cash<br>Basis      | Accrual<br>Adjust-<br>ments | Modified<br>Accrual<br>Basis |
| Revenues                     | \$ 9,884,661       | 82,822                      | 9,967,483                    |
| Expenditures                 | 9,304,335          | 25,299                      | 9,329,634                    |
| Net                          | 580,326            | 57,523                      | 637,849                      |
| Other financing sources, net | 84,880             | 24,557                      | 109,437                      |
| Beginning fund balances      | 5,756,815          | 598,812                     | 6,355,627                    |
| Ending fund balances         | \$ 6,422,021       | 680,892                     | 7,102,913                    |

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds, 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, four budget amendments increased budgeted disbursements by \$234,729. 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, 2006

|  | Resource<br>Enhancement<br>and Protection | County<br>Recorder's<br>Records<br>Management | Special<br>County<br>Recorder's<br>Electronic<br>Transaction Fee |
|--|---|---|--|
| <b>Assets</b>                            |   |   |  |
| Cash and pooled investments              | \$ 18,570                                 | 4,415   | 83   |
| Receivables:                             |   |   |  |
| Economic development loans               | -   | -   | -  |
| Accrued Interest                         | 32  | 5   | -  |
| <b>Total assets</b>                      | <b>\$ 18,602</b>                          | <b>4,420</b>                                  | <b>83</b>  |
| <b>Liabilities and Fund Equity</b>       |   |   |  |
| Liabilities:                             |   |   |  |
| Accounts payable                         | \$ 2,095                                  | -   | -  |
| Deferred revenue                         | -   | -   | -  |
| Total liabilities                        | 2,095                                     | -   | -  |
| Fund equity:                             |   |   |  |
| Unreserved fund balances                 | 16,507                                    | 4,420   | 83   |
| <b>Total liabilities and fund equity</b> | <b>\$ 18,602</b>                          | <b>4,420</b>                                  | <b>83</b>  |

See accompanying independent auditor's report.

| Revenue  |                         |                                     |  |         |
|--|-------------------------|-------------------------------------|--|---------|
| Palo Alto<br>County<br>Economic<br>Development | Closure/<br>Postclosure | Conservation<br>Land<br>Acquisition |  | Total   |
| 11,726   | 5,000                   | 51,965                              |  | 91,759  |
| 18,615   | -                       | -                                   |  | 18,615  |
| -  | -                       | -                                   |  | 37      |
| 30,341   | 5,000                   | 51,965                              |  | 110,411 |
| -  | -                       | -                                   |  | 2,095   |
| 18,615   | -                       | -                                   |  | 18,615  |
| 18,615   | -                       | -                                   |  | 20,710  |
| 11,726   | 5,000                   | 51,965                              |  | 89,701  |
| 30,341   | 5,000                   | 51,965                              |  | 110,411 |

Palo Alto County

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

Year ended June 30, 2006

|   | Resource<br>Enhancement<br>and Protection | County<br>Recorder's<br>Records<br>Management | Special<br>County<br>Recorder's<br>Electronic<br>Transaction Fee |
|---|---|---|--|
| Revenues:   |   |   |  |
| Intergovernmental   | \$ 23,859                                 | -   | -  |
| Charges for service   | -   | 2,555   | -  |
| Use of money and property   | 468                                       | 42  | 12   |
| Total revenues  | <u>24,327</u>                             | <u>2,597</u>                                  | <u>12</u>  |
| Expenditures:   |   |   |  |
| Operating:  |   |   |  |
| County environment and education  | 5,763                                     | -   | -  |
| Governmental services to residents  | -   | 8,339   | 9,017  |
| Debt service  | -   | -   | -  |
| Capital projects  | 71,720                                    | -   | -  |
| Total expenditures  | <u>77,483</u>                             | <u>8,339</u>                                  | <u>9,017</u>   |
| Excess (deficiency) of revenues over (under) expenditures   | <u>(53,156)</u>                           | <u>(5,742)</u>                                | <u>(9,005)</u>   |
| Other financing sources (uses):   |   |   |  |
| Operating transfers in  | -   | -   | -  |
| Operating transfers out   | -   | -   | -  |
| Total other financing sources (uses)  | <u>-</u>                                  | <u>-</u>                                      | <u>-</u>   |
| Excess (deficiency) of revenues and other financing sources<br>over (under) expenditures and other financing uses | <u>(53,156)</u>                           | <u>(5,742)</u>                                | <u>(9,005)</u>   |
| Fund balances beginning of year   | 69,663                                    | 10,162  | 9,088  |
| Fund balances end of year   | <u>\$ 16,507</u>                          | <u>4,420</u>                                  | <u>83</u>  |

See accompanying independent auditor's report.

| Revenue  |                         |                                     |                 |   |           |
|--|-------------------------|-------------------------------------|-----------------|---|-----------|
| Palo Alto<br>County<br>Economic<br>Development | Closure/<br>Postclosure | Conservation<br>Land<br>Acquisition | Debt<br>Service |   | Total     |
| -  | -                       | -                                   | -               | - | 23,859    |
| -  | -                       | -                                   | -               | - | 2,555     |
| 5,122  | -                       | 4,658                               | -               | - | 10,302    |
| 5,122  | -                       | 4,658                               | -               | - | 36,716    |
| 10,000   | -                       | -                                   | -               | - | 15,763    |
| -  | -                       | -                                   | -               | - | 17,356    |
| -  | -                       | -                                   | 111,404         | - | 111,404   |
| -  | -                       | -                                   | -               | - | 71,720    |
| 10,000   | -                       | -                                   | 111,404         | - | 216,243   |
| (4,878)  | -                       | 4,658                               | (111,404)       | - | (179,527) |
| 10,000   | -                       | -                                   | 111,404         | - | 121,404   |
| -  | -                       | (15,000)                            | -               | - | (15,000)  |
| 10,000   | -                       | (15,000)                            | 111,404         | - | 106,404   |
| 5,122  | -                       | (10,342)                            | -               | - | (73,123)  |
| 6,604  | 5,000                   | 62,307                              | -               | - | 162,824   |
| 11,726   | 5,000                   | 51,965                              | -               | - | 89,701    |

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

June 30, 2006

|                              | County<br>Offices | Agricultural<br>Extension<br>Education | County<br>Assessor | Schools          | Community<br>Colleges |
|------------------------------|-------------------|--|--------------------|------------------|-----------------------|
| <b>Assets</b>                |                   |  |                    |                  |                       |
| Cash and pooled investments: |                   |  |                    |                  |                       |
| County Treasurer             | \$ -              | 1,378                                  | 133,932            | 100,703          | 5,794                 |
| Other County officials       | 13,055            | -                                      | -                  | -                | -                     |
| Receivables:                 |                   |  |                    |                  |                       |
| Property tax:                |                   |  |                    |                  |                       |
| Delinquent                   | -                 | 53                                     | 176                | 3,885            | 246                   |
| Succeeding year              | -                 | 72,000                                 | 239,000            | 5,539,000        | 334,000               |
| Accounts                     | 1,353             | -                                      | 123                | -                | -                     |
| Accrued interest             | -                 | -                                      | -                  | -                | -                     |
| Special assessments          | -                 | -                                      | -                  | -                | -                     |
| Due from other governments   | -                 | -                                      | -                  | -                | -                     |
| <b>Total assets</b>          | <b>\$ 14,408</b>  | <b>73,431</b>                          | <b>373,231</b>     | <b>5,643,588</b> | <b>340,040</b>        |
| <b>Liabilities</b>           |                   |  |                    |                  |                       |
| Accounts payable             | \$ -              | -                                      | 1,469              | -                | -                     |
| Due to other governments     | 8,515             | 73,431                                 | 368,798            | 5,643,588        | 340,040               |
| Trusts payable               | 5,893             | -                                      | -                  | -                | -                     |
| Compensated absences         | -                 | -                                      | 2,964              | -                | -                     |
| <b>Total liabilities</b>     | <b>\$ 14,408</b>  | <b>73,431</b>                          | <b>373,231</b>     | <b>5,643,588</b> | <b>340,040</b>        |

See accompanying independent auditor's report.

| Corporations     | Townships      | City Special Assessments | Auto License and Use Tax | Other            | Total            |
|------------------|----------------|--------------------------|--------------------------|------------------|------------------|
| 29,496           | 1,943          | 3,253                    | 170,747                  | 154,417          | 601,663          |
| -                | -              | -                        | -                        | -                | 13,055           |
| 2,835            | 36             | -                        | -                        | 662              | 7,893            |
| 1,748,000        | 100,000        | -                        | -                        | 844,000          | 8,876,000        |
| -                | -              | -                        | -                        | 15,108           | 16,584           |
| -                | -              | -                        | -                        | 157              | 157              |
| -                | -              | 135,743                  | -                        | -                | 135,743          |
| -                | -              | -                        | -                        | 7,083            | 7,083            |
| <u>1,780,331</u> | <u>101,979</u> | <u>138,996</u>           | <u>170,747</u>           | <u>1,021,427</u> | <u>9,658,178</u> |
| -                | -              | -                        | -                        | 1,281            | 2,750            |
| 1,780,331        | 101,979        | 138,996                  | 170,747                  | 1,014,140        | 9,640,565        |
| -                | -              | -                        | -                        | 3,904            | 9,797            |
| -                | -              | -                        | -                        | 2,102            | 5,066            |
| <u>1,780,331</u> | <u>101,979</u> | <u>138,996</u>           | <u>170,747</u>           | <u>1,021,427</u> | <u>9,658,178</u> |

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2006

|                                    | County<br>Offices | Agricultural<br>Extension<br>Education | County<br>Assessor | Schools   | Community<br>Colleges |
|------------------------------------|-------------------|--|--------------------|-----------|-----------------------|
| <b>Assets and Liabilities</b>      |                   |  |                    |           |                       |
| Balances beginning of year         | \$ 13,895         | 69,442                                 | 293,049            | 5,026,622 | 292,654               |
| Additions:                         |                   |  |                    |           |                       |
| Property and other county tax      | -                 | 75,590                                 | 246,038            | 5,847,758 | 348,094               |
| E911 surcharge                     | -                 | -                                      | -                  | -         | -                     |
| State tax credits                  | -                 | 5,074                                  | 16,089             | 370,571   | 21,320                |
| Drivers license fees               | -                 | -                                      | -                  | -         | -                     |
| Office fees and collections        | 212,994           | -                                      | -                  | -         | -                     |
| Electronic transaction fees        | -                 | -                                      | -                  | -         | -                     |
| Auto licenses, use tax and postage | -                 | -                                      | -                  | -         | -                     |
| Assessments                        | -                 | -                                      | -                  | -         | -                     |
| Trusts                             | 108,653           | -                                      | -                  | -         | -                     |
| Miscellaneous                      | -                 | 32                                     | 2,065              | 1,947     | 132                   |
| Total additions                    | 321,647           | 80,696                                 | 264,192            | 6,220,276 | 369,546               |
| Deductions:                        |                   |  |                    |           |                       |
| Agency remittances:                |                   |  |                    |           |                       |
| To other funds                     | 118,437           | -                                      | -                  | -         | -                     |
| To other governments               | 91,199            | 76,707                                 | 184,010            | 5,603,310 | 322,160               |
| Trusts paid out                    | 111,498           | -                                      | -                  | -         | -                     |
| Total deductions                   | 321,134           | 76,707                                 | 184,010            | 5,603,310 | 322,160               |
| Balances end of year               | \$ 14,408         | 73,431                                 | 373,231            | 5,643,588 | 340,040               |

See accompanying independent auditor's report.

| Corpora-<br>tions | Townships | City<br>Special<br>Assess-<br>ments | Auto<br>License<br>and<br>Use Tax | Other     | Total      |
|-------------------|-----------|-------------------------------------|-----------------------------------|-----------|------------|
| 1,602,563         | 89,935    | 217,202                             | 178,579                           | 591,663   | 8,375,604  |
| 1,872,724         | 104,868   | -                                   | -                                 | 869,918   | 9,364,990  |
| -                 | -         | -                                   | -                                 | 78,339    | 78,339     |
| 131,655           | 6,292     | -                                   | -                                 | 33,411    | 584,412    |
| -                 | -         | -                                   | 21,611                            | -         | 21,611     |
| -                 | -         | -                                   | -                                 | -         | 212,994    |
| -                 | -         | -                                   | -                                 | 2,555     | 2,555      |
| -                 | -         | -                                   | 2,267,249                         | -         | 2,267,249  |
| -                 | -         | 16,492                              | -                                 | -         | 16,492     |
| -                 | -         | -                                   | -                                 | -         | 108,653    |
| -                 | 70        | -                                   | -                                 | 141,057   | 145,303    |
| 2,004,379         | 111,230   | 16,492                              | 2,288,860                         | 1,125,280 | 12,802,598 |
| -                 | -         | -                                   | 85,514                            | -         | 203,951    |
| 1,826,611         | 99,186    | 94,698                              | 2,211,178                         | 627,374   | 11,136,433 |
| -                 | -         | -                                   | -                                 | 68,142    | 179,640    |
| 1,826,611         | 99,186    | 94,698                              | 2,296,692                         | 695,516   | 11,520,024 |
| 1,780,331         | 101,979   | 138,996                             | 170,747                           | 1,021,427 | 9,658,178  |

Palo Alto County  
 Schedule of Revenues By Source and Expenditures By Function -  
 All Governmental Funds  
 For the Last Six Years

|                                      | Modified Accrual    |                   |                  |
|--------------------------------------|---------------------|-------------------|------------------|
|                                      | 2006                | 2005              | 2004             |
| <b>Revenues:</b>                     |                     |                   |                  |
| Property and other county tax        | \$ 4,500,878        | 4,492,404         | 4,865,348        |
| Interest and penalty on property tax | 25,929              | 25,423            | 27,410           |
| Intergovernmental                    | 3,885,266           | 3,781,399         | 3,483,391        |
| Licenses and permits                 | 11,150              | 6,621             | 6,756            |
| Charges for service                  | 450,315             | 380,075           | 402,237          |
| Use of money and property            | 241,490             | 148,718           | 104,798          |
| Miscellaneous                        | 852,455             | 154,374           | 376,283          |
| Total                                | <u>\$ 9,967,483</u> | <u>8,989,014</u>  | <u>9,266,223</u> |
| <b>Expenditures:</b>                 |                     |                   |                  |
| <b>Operating:</b>                    |                     |                   |                  |
| Public safety and legal services     | \$ 1,223,356        | 1,181,247         | 1,138,496        |
| Physical health and social services  | 377,459             | 242,172           | 241,273          |
| Mental health                        | 1,217,605           | 1,265,563         | 1,330,115        |
| County environment and education     | 983,662             | 2,861,490         | 838,259          |
| Roads and transportation             | 2,898,948           | 3,402,536         | 1,815,008        |
| Governmental services to residents   | 462,226             | 384,667           | 306,606          |
| Administration                       | 1,012,503           | 1,045,164         | 970,837          |
| Non-program                          | 100,355             | 318,393           | 477,850          |
| Debt service                         | 832,476             | 163,711           | 368,499          |
| Capital projects                     | 221,044             | 471,050           | 144,343          |
| Total                                | <u>\$ 9,329,634</u> | <u>11,335,993</u> | <u>7,631,286</u> |

See accompanying independent auditor's report.

| Basis            |                  |                  |
|------------------|------------------|------------------|
| 2003             | 2002             | 2001             |
| 4,472,334        | 4,030,708        | 3,199,473        |
| 30,859           | 31,504           | 26,361           |
| 4,254,454        | 3,064,676        | 3,118,979        |
| 7,906            | 3,572            | 3,931            |
| 412,663          | 339,719          | 304,456          |
| 109,026          | 145,413          | 258,468          |
| 256,392          | 751,402          | 325,405          |
| <b>9,543,634</b> | <b>8,366,994</b> | <b>7,237,073</b> |
| 1,103,475        | 1,073,147        | 1,026,810        |
| 269,280          | 285,358          | 283,350          |
| 1,380,912        | 1,375,515        | 1,249,105        |
| 945,358          | 891,111          | 904,999          |
| 2,616,612        | 2,653,642        | 2,786,069        |
| 265,775          | 245,936          | 240,149          |
| 888,506          | 794,606          | 754,904          |
| 647,697          | 536,512          | 368,304          |
| 282,548          | 599,995          | 243,671          |
| 131,059          | 200,102          | 244,118          |
| <b>8,531,222</b> | <b>8,655,924</b> | <b>8,101,479</b> |

**Palo Alto County**



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

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated December 1, 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.

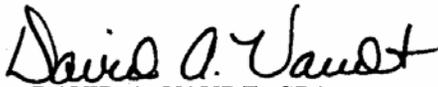
Compliance and Other Matters

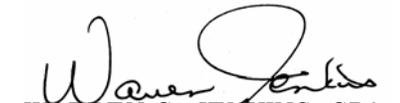
As part of obtaining reasonable assurance about whether Palo Alto County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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

December 1, 2006

Palo Alto County  
 Schedule of Findings  
 Year ended June 30, 2006

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

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

|  | <u>Applicable<br/>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 a listing can not be compared to the cash receipt records. | County Treasurer<br>and County Sheriff |
| (2) Receipts – collecting, depositing, posting and daily reconciling.  | 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                       |

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

Responses –

Treasurer – Sorry, but we do not have enough staff.

Sheriff – Recommendation complied with.

Conclusion – Sheriff’s response accepted. Treasurer’s response acknowledged. The Treasurer should utilize current office staff to segregate these duties or at least provide compensating controls sufficient to reduce control risk.

Palo Alto County

Schedule of Findings

Year ended June 30, 2006

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

Recommendation – A written disaster recovery plan should be developed.

Response – We hope to start on a disaster recovery plan this year. We also have a new emergency management director so it could be developed by him.

Conclusion – Response accepted.

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

Recommendation – Except for 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. If the original time sheet cannot be submitted because the department feels it shouldn't be, at least a copy should be submitted to the County Auditor to update the payroll records. 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.

Responses –

County Board of Supervisors – We would like time sheets to be used. They are a headache for many people because they wear many hats.

County Conservation Board – All salaried and hourly employees keep time sheets. Art Hampe initials all of the field crews' time sheets before they are turned into Mary. She reports the hours of the hourly staff to Duane in the Auditor's office. She also keeps records for overtime, vacation, comp time, etc. for the salaried staff.

We are under no obligation, legally, to provide this detailed information to the auditor's office. Chapter 350.6 of the Code of Iowa says "The county auditor shall keep a complete record of the appropriations and shall issue warrants on them only on requisition of the county conservation board." This is the only statute authority of the county auditor. We provide a summary when you request.

David Vestal, legal counsel for the Iowa State Association of Counties, has advised conservation boards that to voluntarily give up their authority in personnel matters can result in loss of that authority.

I plan to continue to keep records in our office and make them available to you when you request them.

Conclusion – Responses acknowledged. However, 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

Palo Alto County

Schedule of Findings

Year ended June 30, 2006

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 reported to the County Auditor so they can 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 four employees, including one public safety employee and three other employees to whom the County’s personnel policy apply, 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 contract.

Response – We will strive to hold these times to the contracts and policies, but once in awhile fulfilling the contract or weather can be a contributing factor to these hours.

Conclusion – Response accepted.

- (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 – We will try to start job evaluations this new calendar year.

Conclusion – Response accepted.

- (F) Landfill Transfer Station – We noted the following deficiencies:

- Accounts receivable ledgers were not properly retained by the Solid Waste Administrator after payments were received.
- A reconciliation of billings, collections and delinquent accounts was not prepared.

Palo Alto County

Schedule of Findings

Year ended June 30, 2006

- The County does not have written policies or procedures for collecting delinquent accounts.
- The County is not collecting all accounts in a timely manner. At June 30, 2006, one hauler had an outstanding balance of \$17,762, representing four months of charges.

Recommendation – The County should retain all accounts receivable ledgers. Procedures should be established to reconcile billings, collections and delinquent amounts each month. The Board of Supervisors should review the reconciliations and monitor delinquent accounts. The County should establish policies and procedures for collecting delinquent accounts including a provision for assessing penalties.

Response – An accounts receivable ledger will be maintained by the PAC Solid Waste Administrator. A reconciliation of billings, collections and delinquent accounts will be prepared and submitted to the Board of Supervisors for review monthly.

All accounts with Palo Alto County Transfer Station are due and payable thirty days from the last day of the month in which they are incurred. A penalty of 1.5% per month will be assessed on balance that is past due.

This policy will be displayed in the office of PAC Transfer Station and the office of the PAC Solid Waste Administrator.

Conclusion – Response accepted.

- (G) Board of Health Grants – Certain grants from the State to the Palo Alto County Board of Health have not been included in the County's financial records. For audit purposes, the grant activity has been included in the General Fund.

Recommendation – Palo Alto County Board of Health grants received from the State should be receipted by the County Treasurer and disbursed to the Palo Alto County Hospital by County warrant.

Response – I will contact the Iowa Department of Administrative Services and all future warrants will be received by the County Treasurer and the County Auditor's Office will issue warrants to the Palo Alto County Hospital. Receipts and disbursements will be included in the County's budgeted receipts and disbursements.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Palo Alto County  
Schedule of Findings  
Year ended June 30, 2006

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – No business transactions between the County and County officials were noted.
- (5) 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.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) 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 – We are now doing this.

Conclusion – Response accepted.

- (10) 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 – We will do this starting in the 2007 calendar year.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2006

- (11) Sheriff Reserve Officers – Chapter 80D.11 of the Code of Iowa defines County Sheriff reserve peace officers as employees of the County. The funds for the County Sheriff reserve officers are maintained in separate checking and savings accounts and are not accounted for in a Special Revenue Fund of the County.

Recommendation – The County should establish a Special Revenue Fund to account for the funds and activity of the County Sheriff reserve officers. The current checking and savings accounts maintained separately by the reserve officers should be closed and the funds should be deposited with the County Treasurer into the Special Revenue Fund.

Response – Recommendation complied with.

Conclusion – Response accepted.

- (12) Interest Earned on Self Insurance Fund – Interest earned on the Employee Group Health Fund is not being credited to the Employee Group Health Fund as required by Chapter 331.301(12) of the Code of Iowa.

Recommendation – Interest earned on the Employee Group Health Fund should be credited to the Employee Group Health Fund as required by Chapter 331.301(12) of the Code of Iowa.

Response – In April 2007, the County Treasurer purchased a certificate of deposit invested for the Employee Group Health Fund. All interest payments from the certificate of deposit will be credited to the Employee Group Health Fund and used only for the purpose for which they are intended.

Conclusion – Response accepted.

- (13) 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 – Recommendation complied with.

Conclusion – Response accepted.

- (14) 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.

Palo Alto County

Schedule of Findings

Year ended June 30, 2006

Response – Palo Alto County will comply after July 1, 2007.

Conclusion – Response accepted.

- (15) Mileage Reimbursements – The County paid mileage reimbursements of 50 cents per mile on certain claims paid to individuals for the transportation of veterans. This rate was approved by the Board on May 2, 2006. The rate approved does not comply with Chapter 70A.9 of the Code of Iowa since it exceeds the maximum allowable under federal Internal Revenue Service rules of 44½ cents per mile for 2006.

Recommendation – The County should establish a mileage reimbursement rate which complies with Chapter 70A.9 of the Code of Iowa.

Response – The Palo Alto County Board of Supervisors approved the mileage rate of 50¢ under home rule. This is not compensation for time; it is only for mileage.

Conclusion – Response acknowledged. The County may exercise its home rule authority when “not inconsistent with the laws of the general assembly.” Since the General Assembly has established a maximum mileage reimbursement rate in Chapter 70A.9 of the Code of Iowa, the County should not pay mileage at a rate in excess of the amount provided for in Chapter 70A.9 of the Code of Iowa.

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

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

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Palo Alto County

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
James L. Blekfeld, CPA, Senior Auditor  
Scott P. Boisen, Staff Auditor  
Gelu Sherpa, Assistant Auditor  
Andrew N. Pulford, 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