



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 13, 2009

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

The County had local tax revenue of \$15,030,732 for the year ended June 30, 2008, which included \$895,476 in tax credits from the state. The County forwarded \$10,258,716 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,772,016 of the local tax revenue to finance County operations, a 2.2 percent increase over the prior year. Other revenues included charges for service of \$1,496,779, operating grants, contributions and restricted interest of \$3,250,839, capital grants, contributions and restricted interest of \$3,088,237, local option sales tax of \$293,697, tax increment financing of \$268,345, gaming tax of \$136,480, unrestricted investment earnings of \$344,341 and other general revenues of \$28,864.

Expenses for County operations totaled \$10,428,115, a 13.9 percent increase over the prior year. Expenses included \$3,797,850 for roads and transportation, \$1,470,615 for mental health and \$1,424,372 for public safety and legal services.

The significant increase in expenses is due primarily to the receipt and disbursement of general obligation bond proceeds for constructing County road improvements to assist in economic development. In addition, costs increased due to a greater number of drainage district projects during the year, as well as significant increases in costs associated with health insurance, payroll, fuel and local option sales tax disbursements.

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, 2008

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	28
Notes to Financial Statements		29-43
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		46-47
Budget to GAAP Reconciliation		48
Notes to Required Supplementary Information – Budgetary Reporting		49
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	50-51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	52-53
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	54-55
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4	56-57
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	5	58-59
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		61-62
Schedule of Findings		63-70
Staff		71

Palo Alto County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Leo Goeders	Board of Supervisors	Jan 2009
Ronald Graettinger	Board of Supervisors	Jan 2009
Edward Noonan	Board of Supervisors	Jan 2011
Keith Wirtz	Board of Supervisors	Jan 2011
Jerry Hofstad	Board of Supervisors	Jan 2011
Gary Leonard	County Auditor	Jan 2009
Mary Hilfiker	County Treasurer	Jan 2011
Lori Kliegl	County Recorder	(Resigned Jul 2007)
Sue Ruppert (Appointed)	County Recorder	Nov 2007
Bonnie Whitney (Elected)	County Recorder	Jan 2011
Dennis Goeders	County Sheriff	Jan 2009
Peter C. Hart	County Attorney	Jan 2011
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, 2008, 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, 2008, 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 February 24, 2009 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 four years ended June 30, 2007 (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

February 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Palo Alto County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues increased approximately \$3,145,000 from fiscal year 2007 (FY07). Property tax and other county tax, including tax increment financing, decreased approximately \$44,000 from FY07.
- Palo Alto County's governmental activities expenses increased approximately \$1,270,000 over FY07.
- The County's net assets increased 21%, or approximately \$3,252,000, from June 30, 2007 to June 30, 2008.

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, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

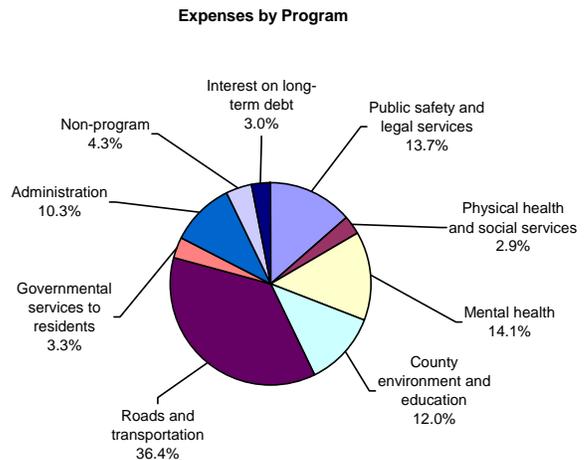
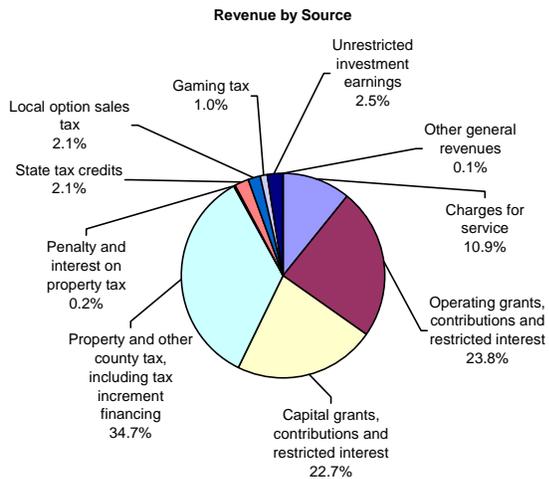
As noted earlier, net assets may serve over time as a useful indicator of financial position. Palo Alto County's combined net assets increased from approximately \$15,377,000 to approximately \$18,629,000. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2008	2007
Current and other assets	\$ 25,134	13,783
Capital assets	12,187	9,552
Total assets	<u>37,321</u>	<u>23,335</u>
Long-term liabilities	12,555	2,636
Other liabilities	6,137	5,322
Total liabilities	<u>18,692</u>	<u>7,958</u>
Net assets:		
Invested in capital assets, net of related debt	12,039	9,552
Restricted	5,585	4,951
Unrestricted	1,005	874
Total net assets	<u>\$ 18,629</u>	<u>15,377</u>

Net assets of Palo Alto County's governmental activities increased approximately \$3,252,000. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment) less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Unrestricted net assets have increased from approximately \$874,000 at June 30, 2007 to approximately \$1,005,000 at June 30, 2008. This increase of approximately \$131,000 in unrestricted net assets was a result of increased operating grants and contributions.

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

	June 30,	
	2008	2007
Revenues:		
Program revenues:		
Charges for service	\$ 1,497	1,223
Operating grants, contributions and restricted interest	3,251	3,053
Capital grants, contributions and restricted interest	3,088	250
General revenues:		
Property and other county tax, including tax increment financing	4,759	4,803
Penalty and interest on property tax	26	27
State tax credits	282	276
Local option sales tax	294	375
Gaming tax	136	129
Unrestricted investment earnings	344	356
Other general revenues	3	43
Total revenues	13,680	10,535
Program expenses:		
Public safety and legal services	1,424	1,312
Physical health and social services	305	347
Mental health	1,471	1,380
County environment and education	1,256	1,005
Roads and transportation	3,798	3,443
Governmental services to residents	344	325
Administration	1,071	1,071
Non-program	443	149
Interest on long-term debt	316	126
Total expenses	10,428	9,158
Increase in net assets	3,252	1,377
Net assets beginning of year	15,377	14,000
Net assets end of year	\$ 18,629	15,377



Palo Alto County's net assets of governmental activities increased approximately \$3,252,000 during the year. Revenues for governmental activities increased approximately \$3,145,000 over the prior year, with property tax revenue, including tax increment financing, down from the prior year approximately \$44,000, or .9%.

The County decreased property tax rates for 2008 an average of .3%. However, total taxable value increased approximately \$12.3 million, or 2.9%. Based on an increase in taxable valuation of approximately \$43.8 million and a slight decrease in property tax rates for fiscal year 2009, property tax is budgeted to increase approximately \$387,000 next year.

The cost of all governmental activities this year was \$10.4 million compared to \$9.2 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was only \$2.6 million because some of the cost was paid by those directly benefited from the programs (\$1,497,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,339,076). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased in 2008 from approximately \$4,526,000 to approximately \$7,836,000, principally due to receiving grant proceeds for constructing improvements to county roads. The County paid for the remaining "public benefit" portion of governmental activities (\$2,592,000) with taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$18.2 million, an increase of approximately \$10.5 million over last year's total of approximately \$7.7 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance increased approximately \$369,000 over the prior year to approximately \$2,690,000. The increase in the ending fund balance was due to the County limiting expenditures for the budget year. General Fund revenues increased approximately \$29,000 and expenditures increased approximately \$141,000. The increase in expenditures was primarily due to an increase in data processing disbursements and the cost of fuel for the conservation department of over \$23,000. In addition, the County received an Economic Development Set Aside (EDSA) grant of \$40,000 which was run through the county budget for Skyjack Manufacturing.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,471,000, an increase of 6.6% over the prior year, and revenues decreased approximately \$53,000. The Mental Health Fund balance at year end decreased approximately \$99,000 to approximately \$221,000. Expenditures increased due to an increase in mental health care provider rates over the previous year. Revenues did not increase due to the loss of mental health growth dollars as a result of the fund balance exceeding 20% of total expenditures for FY 2007.
- Rural Services Fund expenditures increased approximately \$135,000 over the prior year. The increase in expenditures was primarily due to an increase in workers' compensation insurance and utilizing more local option sales tax funding for community betterment. Revenues decreased approximately \$47,000, which was primarily due to a reduction in property tax receipts. As a result, the Rural Services Fund balance decreased approximately \$158,000 to approximately \$895,000.
- Secondary Roads Fund expenditures decreased approximately \$676,000 from the prior year. This decrease in expenditures is due primarily to the following factors. The County's gravel crusher could not work the County pits prior to the close of the fiscal year. Since the County still needs the gravel, the 2008-09 budget was modified to pay

for the crushing. Also, due to the unprecedented and unpredictable rise in fuel prices, new equipment purchases were deferred to ensure the Secondary Road Fund's future solvency. In addition, a \$550,000 transfer from the Secondary Roads Fund to the County's farm-to-market State account for an additional mile of construction on the highway B14 project occurred in the prior year. Revenues increased approximately \$36,000. As a result, there was an increase in the Secondary Roads Fund ending balance of approximately \$614,000, or 17.3%.

- The Drainage Districts Fund revenues increased approximately \$288,000 due to an increase in drainage assessments. Expenditures increased approximately \$401,000, due primarily to repairs and projects being completed. This resulted in a decrease in the Drainage Districts Fund balance of approximately \$102,000.
- The Tax Increment Financing Fund expended approximately \$275,000 for the payment of bond principal and interest. The balance in the fund at June 30, 2008 was approximately \$209,000, which is to pay principal and interest on the bonds through September 2008.
- The Debt Service Fund levied property taxes in fiscal year 2008 to be collected in fiscal year 2009. The Debt Service Fund will be used to pay for the general obligation bond principal and interest for the road projects.
- The Capital Projects Fund is a newly reported fund for fiscal year 2008 due to the receipt of general obligation bond proceeds for secondary road projects. One bond was issued on December 31, 2007 and the other on May 1, 2008. All expenditures for the projects are charged to this fund, except for the principal and interest payments which will be paid from the Debt Service Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget two times. The first amendment was made on February 5, 2008 and resulted in an increase in budgeted disbursements of \$1,635,299, which increased all functions except mental health and debt service. The second amendment was made on May 27, 2008. This amendment was made for the purpose of increasing public safety and legal services \$41,000 and increasing county environment and education \$34,000. The \$34,000 was budgeted for repairs at the transfer station.

The County's receipts were \$345,691 less than budgeted, a variance of -3.3%. The most significant variance resulted from the County not receiving grants that were budgeted for.

Total disbursements were \$2,813,073 less than the amended budget. Actual disbursements for the capital projects, non-program, and roads and transportation functions were \$1,064,499, \$525,000 and \$418,539, respectively, less than budgeted. This was primarily due to only spending \$103,846 of the \$1,000,000 budgeted for the road project. Also, there was \$151,977 left in roadway construction at June 30, 2008. The \$525,000 non-program expenditures were not spent because grants were not received. The rest is for disbursements budgeted and not used by June 30, 2008.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, Palo Alto County had approximately \$12.2 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$2.6 million, or \$27.6%, over last year.

Capital Assets of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2008	2007
Land	\$ 1,144	1,015
Buildings and improvements	906	935
Equipment and vehicles	2,875	2,996
Infrastructure	7,262	4,607
Total	\$ 12,187	9,553
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$	2,829
Land		129
Five vehicles		104
Total	\$	3,062

The County had depreciation expense of approximately \$564,000 in FY08 and total accumulated depreciation of approximately \$4.5 million at June 30, 2008. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2008, Palo Alto County had approximately \$12.3 million in outstanding long-term debt, which included \$1,913,540 in urban renewal tax increment revenue bonds, \$10,000,000 in general obligation bonds and \$363,127 in drainage warrants.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2008	2007
Urban renewal TIF bonds	\$ 1,914	2,095
General obligation bonds	10,000	-
Drainage warrants and improvement certificates	363	374
Total	\$ 12,277	2,469

Debt increased as a result of issuing general obligation bonds for County road improvements.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 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 \$29 million. Additional information about the County's long-term debt is presented in Note 8 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 2009 budget, tax rates and fees for various County activities. One of those factors is the economy. Palo Alto County's employment (number of persons working) during October 2008 was 5,520, which is up from 5,320 during October 2007. Unemployment in the County during October 2008 was 5.8% compared to 3.0% during October 2007. This compares with the State's unemployment rate of 4.4% and the national rate of 6.5% during October 2008.

The national Consumer Price Index increased 5.6% for the twelve months ending July 2008. However, for the twelve months ending November 2008, the increase was 1.1%. Falling energy prices, particularly gasoline, drove this decline.

The above factors were all part of the considerations for the FY09 budget which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars)

	2009 Dollars Certified	2008 Dollars Certified	Percentage Change
General Fund	\$ 2,343,675	2,799,620	-16.29%
Mental Health Fund	685,598	688,176	(.37%)
Debt Service Fund	824,401	-	100%
Rural Services Fund	1,306,435	1,285,052	1.66%
Total	\$ 5,160,109	4,772,848	8.11%

Continued state revenue cutbacks the past few years are driving the increases in property tax. No new services were added in the FY09 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for FY09 are as follows:

	2009	2008	Percentage Change
General basic levy	\$ 3.75000	4.50000	(16.67%)
General supplemental levy	1.10000	1.87039	(41.19%)
Mental health levy	1.41878	1.56591	(9.40%)
Debt service levy	1.61591	-	100.00%
Rural services basic levy	3.95000	3.95000	0%
Total	\$ 11.83469	11.88630	(.43%)

These factors were taken into account when adopting the budget for fiscal year 2009. Amounts appropriated in the operating budget are \$17,955,695, an increase of \$5,787,790, or 47.6%, over the final 2008 budget. The majority of this increase is budgeted for capital projects as road improvements continue during FY09. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable value, except for special circumstances. Palo Alto County decreased the general basic levy for FY09 from \$4.50 per \$1,000 of taxable value to \$3.75 per \$1,000 of taxable value. Palo Alto County also decreased the general supplemental levy for FY09 from \$1.87 per \$1,000 of taxable value to \$1.10 per \$1,000 of taxable value. The rural basic levy rate remained at the limit of \$3.95 per \$1,000 of taxable value.

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, 2008

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 18,078,707
Receivables:	
Property tax:	
Delinquent	2,687
Succeeding year	5,162,000
Interest and penalty on property tax	10,243
Accounts	154,152
Economic development loans	12,433
Accrued interest	111,505
Drainage assessments	459,135
Due from other governments	351,323
Inventories	688,701
Prepaid insurance	102,776
Capital assets (net of accumulated depreciation)	12,186,884
Total assets	<u>37,320,546</u>
Liabilities	
Accounts payable	579,108
Accrued interest payable	215,689
Salaries and benefits payable	32,418
Due to other governments	148,021
Deferred revenue:	
Succeeding year property tax	5,162,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment revenue bonds	182,540
General obligation bonds	350,000
Drainage warrants	363,127
Compensated absences	225,929
Portion due or payable after one year:	
Urban renewal tax increment revenue bonds	1,731,000
General obligation bonds	9,650,000
Compensated absences	52,053
Total liabilities	<u>18,691,885</u>
Net Assets	
Invested in capital assets, net of related debt	12,038,995
Restricted for:	
Supplemental levy purposes	943,333
Mental health purposes	223,960
Secondary roads purposes	4,128,104
Drainage district purposes	140,475
Other purposes	148,711
Unrestricted	1,005,083
Total net assets	<u>\$ 18,628,661</u>

See notes to financial statements.

Palo Alto County
 Statement of Activities
 Year ended June 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,424,372	202,003	13,620	-	(1,208,749)
Physical health and social services	304,644	123,122	27,941	-	(153,581)
Mental health	1,470,615	5,038	660,954	-	(804,623)
County environment and education	1,256,310	214,625	89,511	128,599	(823,575)
Roads and transportation	3,797,850	149,018	2,433,510	2,959,638	1,744,316
Governmental services to residents	344,328	176,850	13,224	-	(154,254)
Administration	1,071,147	23,310	271	-	(1,047,566)
Non-program	443,030	602,813	11,808	-	171,591
Interest on long-term debt	315,819	-	-	-	(315,819)
Total	\$ 10,428,115	1,496,779	3,250,839	3,088,237	(2,592,260)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,490,225
Tax increment financing					268,345
Penalty and interest on property tax					25,995
State tax credits					281,791
Local option sales tax					293,697
Gaming tax					136,480
Unrestricted investment earnings					344,341
Miscellaneous					2,869
Total general revenues					5,843,743
Change in net assets					3,251,483
Net assets beginning of year					15,377,178
Net assets end of year					\$ 18,628,661

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2008

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash and pooled investments	\$ 2,723,319	384,822	912,540	3,367,763
Receivables:				
Property tax:				
Delinquent	1,695	496	496	-
Succeeding year	2,171,000	635,000	1,233,000	-
Interest and penalty on property tax	10,243	-	-	-
Accounts	5,772	-	21,224	108,277
Economic developmental loans	-	-	-	-
Accrued interest	17,036	-	-	5,321
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	20,715
Due from other governments	14,866	9,833	25,114	214,367
Inventories	-	-	-	688,701
Prepaid insurance	23,194	-	629	17,521
	Total assets	1,030,151	2,193,003	4,422,665
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 75,399	59,447	27,090	129,161
Salaries and benefits payable	-	-	-	32,418
Due to other funds	-	-	20,715	-
Due to other governments	19,150	111,664	16,726	481
Deferred revenue:				
Succeeding year property tax	2,171,000	635,000	1,233,000	-
Other	11,938	2,918	496	106,382
Total liabilities	2,277,487	809,029	1,298,027	268,442
Fund balances:				
Reserved for:				
Supplemental levy purposes	942,949	-	-	-
Drainage warrants/drainage improvement certificates	-	-	-	-
Transfer station closure care	-	-	-	-
Unreserved, reported in:				
General fund	1,746,689	-	-	-
Special revenue funds	-	221,122	894,976	4,154,223
Capital projects fund	-	-	-	-
Total fund balances	2,689,638	221,122	894,976	4,154,223
	Total liabilities and fund balances	1,030,151	2,193,003	4,422,665

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
137,641	208,701	-	9,823,631	138,381	17,696,798
-	-	-	-	-	2,687
-	356,000	767,000	-	-	5,162,000
-	-	-	-	-	10,243
-	-	-	18,844	35	154,152
-	-	-	-	12,433	12,433
-	-	-	89,103	45	111,505
459,135	-	-	-	-	459,135
-	-	-	-	-	20,715
87,143	-	-	-	-	351,323
-	-	-	-	-	688,701
-	-	-	-	-	41,344
683,919	564,701	767,000	9,931,578	150,894	24,711,036
105,361	-	-	79,467	2,183	478,108
-	-	-	-	-	32,418
-	-	-	-	-	20,715
-	-	-	-	-	148,021
-	356,000	767,000	-	-	5,162,000
546,278	-	-	-	12,433	680,445
651,639	356,000	767,000	79,467	14,616	6,521,707
-	-	-	-	-	942,949
27,514	-	-	-	-	27,514
-	-	-	-	5,000	5,000
-	-	-	-	-	1,746,689
4,766	208,701	-	-	131,278	5,615,066
-	-	-	9,852,111	-	9,852,111
32,280	208,701	-	9,852,111	136,278	18,189,329
683,919	564,701	767,000	9,931,578	150,894	24,711,036

Palo Alto County

Palo Alto County

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

June 30, 2008

Total governmental fund balances (page 19) \$ 18,189,329

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$16,715,577 and the accumulated depreciation is \$4,528,693. 12,186,884

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 680,445

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. 342,341

Long-term liabilities, including urban renewal tax increment revenue bonds payable, general obligation bonds payable, drainage warrants payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. (12,770,338)

Net assets of governmental activities (page 16) \$ 18,628,661

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2008

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,768,316	646,930	1,505,558	-
Interest and penalty on property tax	24,668	-	-	-
Intergovernmental	458,293	699,805	136,782	2,476,671
Licenses and permits	6,380	-	-	17,125
Charges for service	244,671	-	198,950	37,554
Use of money and property	303,557	-	26	46,310
Miscellaneous	56,946	5,037	538	34,438
Total revenues	<u>3,862,831</u>	<u>1,351,772</u>	<u>1,841,854</u>	<u>2,612,098</u>
Expenditures:				
Operating:				
Public safety and legal services	1,255,685	-	185,243	-
Physical health and social services	305,488	-	-	-
Mental health	-	1,470,535	-	-
County environment and education	578,364	-	554,835	-
Roads and transportation	-	-	166,889	2,905,698
Governmental services to residents	338,306	-	-	-
Administration	951,245	-	112,684	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	16,726	-	3,507	69,003
Total expenditures	<u>3,445,814</u>	<u>1,470,535</u>	<u>1,023,158</u>	<u>2,974,701</u>
Excess (deficiency) of revenues over (under) expenditures	417,017	(118,763)	818,696	(362,603)
Other financing sources (uses):				
Operating transfers in	-	20,000	-	976,791
Operating transfers out	(48,500)	-	(976,791)	-
Drainage warrants issued	-	-	-	-
General obligation bonds issued	-	-	-	-
Discount on general obligation bonds	-	-	-	-
Total other financing sources (uses)	<u>(48,500)</u>	<u>20,000</u>	<u>(976,791)</u>	<u>976,791</u>
Net change in fund balances	368,517	(98,763)	(158,095)	614,188
Fund balances beginning of year	2,321,121	319,885	1,053,071	3,540,035
Fund balances end of year	<u>\$ 2,689,638</u>	<u>221,122</u>	<u>894,976</u>	<u>4,154,223</u>

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	268,345	-	-	-	5,189,149
-	-	-	-	-	24,668
11,808	-	-	-	17,955	3,801,314
-	-	-	-	-	23,505
-	-	-	-	6,227	487,402
-	-	-	130,553	5,201	485,647
363,284	-	-	-	12,385	472,628
375,092	268,345	-	130,553	41,768	10,484,313
-	-	-	-	-	1,440,928
-	-	-	-	-	305,488
-	-	-	-	-	1,470,535
-	-	-	-	39,912	1,173,111
-	-	-	-	-	3,072,587
-	-	-	-	14,195	352,501
-	-	-	-	-	1,063,929
379,250	-	-	-	-	379,250
150,643	274,673	-	-	-	425,316
-	-	-	183,313	-	272,549
529,893	274,673	-	183,313	54,107	9,956,194
(154,801)	(6,328)	-	(52,760)	(12,339)	528,119
-	-	-	-	28,500	1,025,291
-	-	-	-	-	(1,025,291)
52,324	-	-	-	-	52,324
-	-	-	10,000,000	-	10,000,000
-	-	-	(95,129)	-	(95,129)
52,324	-	-	9,904,871	28,500	9,957,195
(102,477)	(6,328)	-	9,852,111	16,161	10,485,314
134,757	215,029	-	-	120,117	7,704,015
32,280	208,701	-	9,852,111	136,278	18,189,329

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, 2008

Net change in fund balances - Total governmental funds (page 23) \$ 10,485,314

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	\$ 238,689	
Capital assets contributed by Iowa Department of Transportation and others	2,957,684	
Depreciation expense	<u>(564,220)</u>	2,632,153

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.

2,400

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	(402)	
Other	<u>169,437</u>	169,035

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 issues exceeded repayments, as follows:

Issued	(10,052,324)	
Repaid	<u>245,033</u>	(9,807,291)

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	(111,527)	
Interest on long-term debt	<u>(135,536)</u>	(247,063)

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

16,935

Change in net assets of governmental activities (page 17) \$ 3,251,483

See notes to financial statements.

Palo Alto County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2008

	Internal Service - Employee Group Health
Assets	
Cash and cash equivalents	\$ 381,909
Prepaid insurance	61,432
Total assets	443,341
Liabilities	
Accounts payable	101,000
Net Assets	
Unrestricted	<u>\$ 342,341</u>

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2008

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 858,536
Reimbursements from employees		23,708
Total operating revenues		<u>882,244</u>
Operating expenses:		
Insurance premiums	\$ 824,335	
Medical claims	26,200	
Administrative fees	14,774	865,309
Operating income		<u>16,935</u>
Net assets beginning of year		<u>325,406</u>
Net assets end of year		<u><u>\$ 342,341</u></u>

See notes to financial statements.

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2008

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 858,536
Cash received from employees	23,708
Cash paid to suppliers for services	(842,401)
Net cash provided by operating activities	39,843
Cash flows from investing activities:	
Interest on investments	1,836
Net increase in cash and cash equivalents	41,679
Cash and cash equivalents beginning of year	340,230
Cash and cash equivalents end of year	\$ 381,909
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 16,935
Adjustment to reconcile operating income to net cash provided by operating activities:	
Increase in accounts payable	19,000
Decrease in prepaid insurance	3,908
Net cash provided by operating activities	\$ 39,843

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008

Assets

Cash and pooled investments:

County Treasurer	\$ 925,997
Other County officials	33,761

Receivables:

Property tax:

Delinquent	8,440
Succeeding year	9,645,000

Accounts	15,451
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Accrued interest	274
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Special assessments	71,824
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Total assets	<u>10,700,747</u>
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Liabilities

Accounts payable	11,683
------------------	--------

Due to other governments	10,574,677
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Trusts payable	100,991
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Compensated absences	13,396
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Total liabilities	<u>10,700,747</u>
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Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2007.

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

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2008, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

During fiscal year 2008, the County changed the capital asset threshold for infrastructure assets from \$65,000 to \$75,000. This change had no effect on the prior year beginning balance.

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, 2008. 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 Internal Service, 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. During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 20,715</u>

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 976,791</u>
Economic Development	General	28,500
Mental Health		<u>20,000</u>
Total		<u>\$ 1,025,291</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,015,425	128,600	-	1,144,025
Construction in progress	436,362	2,890,549	(3,326,911)	-
Total capital assets not being depreciated	1,451,787	3,019,149	(3,326,911)	1,144,025
Capital assets being depreciated:				
Buildings	1,499,953	-	-	1,499,953
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	6,122,277	179,624	(53,268)	6,248,633
Infrastructure, road network	4,402,656	3,326,911	-	7,729,567
Total capital assets being depreciated	12,118,285	3,506,535	(53,268)	15,571,552
Less accumulated depreciation for:				
Buildings	634,750	26,659	-	661,409
Improvements other than buildings	23,107	3,504	-	26,611
Equipment and vehicles	3,125,994	300,578	(53,268)	3,373,304
Infrastructure, road network	233,890	233,479	-	467,369
Total accumulated depreciation	4,017,741	564,220	(53,268)	4,528,693
Total capital assets being depreciated, net	8,100,544	2,942,315	-	11,042,859
Governmental activities capital assets, net	\$ 9,552,331	5,961,464	(3,326,911)	12,186,884

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 15,756
County environment and education	39,891
Roads and transportation	505,873
Administration	2,700
Total depreciation expense - governmental activities	\$ 564,220

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	\$ 19,150
Special Revenue:		
Mental Health	Services	111,664
Rural Services	Services	16,726
Secondary Roads	Services	481
		<u>128,871</u>
Total for governmental funds		<u>\$ 148,021</u>
Agency:		
County Offices	Collections	\$ 7,503
Agricultural Extension Education		72,624
County Assessor		465,645
Schools		5,801,712
Community Colleges		349,917
Corporations		2,310,679
Townships		117,506
City Special Assessments		73,993
Auto License and Use Tax		181,484
All other		<u>1,193,614</u>
Total for agency funds		<u>\$ 10,574,677</u>

(7) 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 loan recipients, 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, 2008
Mike and Kim Gehrt	Feb 24, 1998	Jun 1, 2008	\$ 10,000	5.0%	10 years	\$ 3,479
Jason White	Jun 27, 2000	Aug 1, 2003	2,500	6.0%	3 years	1,141
Stanley Propane and Appliance	Mar 26, 2002	Jul 1, 2012	<u>20,000</u>	5.0%	10 years	<u>7,813</u>
Total			<u>\$ 32,500</u>			<u>\$ 12,433</u>

(8) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Urban Renewal				
	Tax Increment	General		Compen-	Total
	Revenue	Obligation	Drainage	sated	
Bonds	Bonds	Warrants	Absences		
Balance beginning of year	\$ 2,095,492	-	373,884	166,455	2,635,831
Increases	-	10,000,000	52,324	311,430	10,363,754
Decreases	181,952	-	63,081	199,903	444,936
Balance end of year	\$ 1,913,540	10,000,000	363,127	277,982	12,554,649
Due within one year	\$ 182,540	350,000	363,127	225,929	1,121,596

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, 2008, principal of \$8,952 and interest of \$1,202 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, 2008, principal of \$173,000 and interest of \$91,519 were paid.

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

A summary of the County's June 30, 2008 annual debt service requirements to maturity for urban renewal tax increment revenue bonds is as follows:

Year ending June 30,	Interest Rates	October 15, 1998 Issue			Total		
		Principal	Interest	Total	Principal	Interest	Total
2009	6.50%	\$ 9,540	619	10,159			
Year ending June 30,	Interest Rates	November 23, 2004 Issue			Total		
		Principal	Interest	Total	Principal	Interest	Total
2009	4.50%	\$ 173,000	83,734	256,734	173,000	84,353	266,893
2010	4.50	173,000	75,949	248,949	173,000	75,949	248,949
2011	4.50	173,000	68,164	241,164	173,000	68,164	241,164
2012	4.50	173,000	60,379	233,378	173,000	60,379	233,378
2013	4.50	173,000	52,594	225,594	173,000	52,594	225,594
2014-2018	4.50	865,000	146,195	1,011,195	865,000	146,195	1,011,195
2019	4.50	174,000	5,883	179,884	174,000	5,883	179,884
Total		\$ 1,904,000	492,898	2,396,898	1,913,540	493,517	2,407,057

General Obligation Bonds

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

Year Ending June 30,	Series 2007B			
	Issued December 31, 2007			
	Interest Rates	Principal	Interest	Total
2009	4.25%	\$ -	301,632	301,632
2010	4.25	-	212,500	212,500
2011	4.25	-	212,500	212,500
2012	4.25	-	212,500	212,500
2013	4.25	-	212,500	212,500
2014-2018	4.25	-	1,062,500	1,062,500
2019-2023	4.25	2,095,000	959,438	3,054,438
2024-2027	4.25	2,905,000	314,712	3,219,712
Total		\$ 5,000,000	3,488,282	8,488,282

Year Ending June 30,	Series 2008						
	Issued May 1, 2008				Total		
	Interest Rates	Principal	Interest	Total	Principal	Interest	Total
2009	2.50%	\$ 350,000	175,297	525,297	350,000	476,929	826,929
2010	2.60	460,000	153,062	613,062	460,000	365,562	825,562
2011	2.75	470,000	141,103	611,103	470,000	353,603	823,603
2012	3.00	485,000	128,177	613,177	485,000	340,677	825,677
2013	3.15	495,000	113,627	608,627	495,000	326,127	821,127
2014-2018	3.30-3.80	2,740,000	307,195	3,047,195	2,740,000	1,369,695	4,109,695
2019-2023		-	-	-	2,095,000	959,438	3,054,438
2024-2027		-	-	-	2,905,000	314,712	3,219,712
Total		\$ 5,000,000	1,018,461	6,018,461	10,000,000	4,506,743	14,506,743

Drainage Warrants

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

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

(9) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the County is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$202,102, \$186,299 and \$180,355, respectively, equal to the required contributions for each year.

(10) 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 whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 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, 2008 were \$124,730.

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 \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 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, 2008, no liability has been recorded in the County's financial statements. As of June 30, 2008,

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 \$60,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employee Group Health Insurance Plan

The County established the Internal Service, Employee Group Health Fund to account for the partial self funding of the County's health insurance benefit plan which began July 1, 2004. The plan is funded by County contributions and is administered by Group Services, Inc. The County assumes liability for claims between \$750 and \$2,000 for single coverage and \$1,500 and \$4,000 for family coverage. Claims in excess of the deductible are insured through the purchase of insurance.

Payments to the Employee Group Health Fund were recorded as expenditures by the operating funds. Payments to Wellmark, Blue Cross and Blue Shield are for insurance premiums and payments to Group Services, Inc. are for service fees and medical claims. The County's contribution for the year ended June 30, 2008 was \$858,536.

Amounts payable from the Employee Group Health Fund at June 30, 2008 total \$101,000, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$342,341 at June 30, 2008 and is reported as a designation of the Internal Service, Employee Group Health Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 82,000
Incurred claims (including claims incurred but not reported at June 30, 2008)	26,200
Payment on claims during the fiscal year	<u>(7,200)</u>
Unpaid claims end of year	<u><u>\$ 101,000</u></u>

(12) Transfer Station Closure Care

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

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

The total closure care costs for the County as of June 30, 2008 have been estimated at \$4,603. A balance of \$5,000 has been deposited in the Closure/Postclosure Fund. The balance is restricted and the estimated closure care costs are fully funded at June 30, 2008.

(13) Subsequent Event

On February 10, 2009, the County entered into a construction contract for \$4,459,487 for paving the DePue Highway.

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, 2008

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 5,243,010	-	5,243,010
Interest and penalty on property tax	24,668	-	24,668
Intergovernmental	3,765,082	11,808	3,753,274
Licenses and permits	7,625	-	7,625
Charges for service	543,592	-	543,592
Use of money and property	394,300	-	394,300
Miscellaneous	471,622	363,284	108,338
Total receipts	<u>10,449,899</u>	<u>375,092</u>	<u>10,074,807</u>
Disbursements:			
Public safety and legal services	1,450,089	-	1,450,089
Physical health and social services	300,761	-	300,761
Mental health	1,471,908	-	1,471,908
County environment and education	1,146,833	-	1,146,833
Roads and transportation	3,120,532	-	3,120,532
Governmental services to residents	338,371	-	338,371
Administration	1,060,143	-	1,060,143
Non-program	276,823	276,823	-
Debt service	425,317	150,643	274,674
Capital projects	191,521	-	191,521
Total disbursements	<u>9,782,298</u>	<u>427,466</u>	<u>9,354,832</u>
Excess (deficiency) of receipts over (under) disbursements	667,601	(52,374)	719,975
Other financing sources, net	9,957,195	52,324	9,904,871
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	10,624,796	(50)	10,624,846
Balance beginning of year	7,072,002	137,691	6,934,311
Balance end of year	<u>\$ 17,696,798</u>	<u>137,641</u>	<u>17,559,157</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
5,106,562	5,106,562	136,448
6,400	6,400	18,268
3,966,018	4,462,018	(708,744)
8,550	8,550	(925)
437,510	494,510	49,082
145,845	145,845	248,455
176,350	196,613	(88,275)
9,847,235	10,420,498	(345,691)
1,383,334	1,500,399	50,310
348,657	405,657	104,896
1,620,440	1,620,440	148,532
1,481,116	1,559,116	412,283
3,392,071	3,539,071	418,539
357,682	362,182	23,811
1,091,612	1,125,346	65,203
105,000	525,000	525,000
274,674	274,674	-
403,020	1,256,020	1,064,499
10,457,606	12,167,905	2,813,073
(610,371)	(1,747,407)	2,467,382
-	4,936,871	4,968,000
(610,371)	3,189,464	7,435,382
4,856,174	4,856,174	2,078,137
4,245,803	8,045,638	9,513,519

Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 10,449,899	(34,414)	10,484,313
Expenditures	9,782,298	(173,896)	9,956,194
Net	667,601	139,482	528,119
Other financing sources, net	9,957,195	-	9,957,195
Beginning fund balances	7,072,002	632,013	7,704,015
Ending fund balances	\$ 17,696,798	771,495	18,189,329

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon 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, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$1,710,299. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.

Palo Alto County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2008

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Assets			
Cash and pooled investments	\$ 25,290	7,134	90
Receivables:			
Accounts	-	-	-
Economic development loans	-	-	-
Accrued interest	36	9	-
Total assets	\$ 25,326	7,143	90
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 903	-	-
Deferred revenue	-	-	-
Total liabilities	903	-	-
Fund balances:			
Reserved for transfer station closure care	-	-	-
Unreserved fund balances	24,423	7,143	90
Total fund balances	24,423	7,143	90
Total liabilities and fund balances	\$ 25,326	7,143	90

See accompanying independent auditor's report.

Revenue				
Economic Development	Sheriff Reserve	Closure/ Postclosure	Conservation Land Acquisition	Total
6,639	17,947	5,000	76,281	138,381
	35	-	-	35
12,433	-	-	-	12,433
-	-	-	-	45
19,072	17,982	5,000	76,281	150,894
-	1,280	-	-	2,183
12,433	-	-	-	12,433
12,433	1,280	-	-	14,616
-	-	5,000	-	5,000
6,639	16,702	-	76,281	131,278
6,639	16,702	5,000	76,281	136,278
19,072	17,982	5,000	76,281	150,894

Palo Alto County

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

Year ended June 30, 2008

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Revenues:			
Intergovernmental	\$ 12,973	-	-
Charges for service	-	2,569	-
Use of money and property	427	110	6
Miscellaneous	-	-	-
Total revenues	13,400	2,679	6
Expenditures:			
Operating:			
County environment and education	-	-	-
Governmental services to residents	10,933	1,505	-
Total expenditures	10,933	1,505	-
Excess (deficiency) of revenues over (under) expenditures	2,467	1,174	6
Other financing sources:			
Operating transfers in	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	2,467	1,174	6
Fund balances beginning of year	21,956	5,969	84
Fund balances end of year	\$ 24,423	7,143	90

See accompanying independent auditor's report.

Revenue				
Economic Development	Sheriff Reserve	Closure/ Postclosure	Conservation Land Acquisition	Total
-	4,982	-	-	17,955
2,566	1,092	-	-	6,227
-	-	-	4,658	5,201
-	12,385	-	-	12,385
2,566	18,459	-	4,658	41,768
39,912	-	-	-	39,912
-	1,757	-	-	14,195
39,912	1,757	-	-	54,107
(37,346)	16,702	-	4,658	(12,339)
28,500	-	-	-	28,500
(8,846)	16,702	-	4,658	16,161
15,485	-	5,000	71,623	120,117
6,639	16,702	5,000	76,281	136,278

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

June 30, 2008

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	1,569	245,211	123,600	6,651
Other County officials	33,761	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	55	187	4,112	266
Succeeding year	-	71,000	239,000	5,674,000	343,000
Accounts	1,752	-	14	-	-
Accrued interest	-	-	-	-	-
Special assessments	-	-	-	-	-
Total assets	\$ 35,513	72,624	484,412	5,801,712	349,917
Liabilities					
Accounts payable	\$ -	-	9,368	-	-
Due to other governments	7,503	72,624	465,645	5,801,712	349,917
Trusts payable	28,010	-	-	-	-
Compensated absences	-	-	9,399	-	-
Total liabilities	\$ 35,513	72,624	484,412	5,801,712	349,917

See accompanying independent auditor's report.

Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
31,685	2,464	2,169	181,484	331,164	925,997
-	-	-	-	-	33,761
2,994	42	-	-	784	8,440
2,276,000	115,000	-	-	927,000	9,645,000
-	-	-	-	13,685	15,451
-	-	-	-	274	274
-	-	71,824	-	-	71,824
2,310,679	117,506	73,993	181,484	1,272,907	10,700,747
-	-	-	-	2,315	11,683
2,310,679	117,506	73,993	181,484	1,193,614	10,574,677
-	-	-	-	72,981	100,991
-	-	-	-	3,997	13,396
2,310,679	117,506	73,993	181,484	1,272,907	10,700,747

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2008

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets and Liabilities					
Balances beginning of year	\$ 26,072	73,381	425,728	5,692,667	310,369
Additions:					
Property and other county tax	-	70,985	238,922	5,669,023	343,959
E911 surcharge	-	-	-	-	-
State tax credits	-	4,647	15,156	365,279	19,693
Drivers license fees	-	-	-	-	-
Office fees and collections	256,402	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	326,092	-	-	-	-
Miscellaneous	-	-	2,063	-	-
Total additions	582,494	75,632	256,141	6,034,302	363,652
Deductions:					
Agency remittances:					
To other funds	135,095	-	-	-	-
To other governments	124,059	76,389	197,457	5,925,257	324,104
Trusts paid out	313,899	-	-	-	-
Total deductions	573,053	76,389	197,457	5,925,257	324,104
Balances end of year	\$ 35,513	72,624	484,412	5,801,712	349,917

See accompanying independent auditor's report.

Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
1,962,405	102,174	104,542	203,786	1,107,741	10,008,865
2,282,152	114,091	-	-	925,899	9,645,031
-	-	-	-	52,653	52,653
126,935	6,751	-	-	75,224	613,685
-	-	-	30,957	-	30,957
-	-	-	-	-	256,402
-	-	-	-	2,569	2,569
-	-	-	2,319,920	-	2,319,920
-	-	9,454	-	-	9,454
-	-	-	-	-	326,092
-	-	-	-	252,912	254,975
2,409,087	120,842	9,454	2,350,877	1,309,257	13,511,738
-	-	-	85,991	-	221,086
2,060,813	105,510	40,003	2,287,188	1,144,091	12,284,871
-	-	-	-	-	313,899
2,060,813	105,510	40,003	2,373,179	1,144,091	12,819,856
2,310,679	117,506	73,993	181,484	1,272,907	10,700,747

Palo Alto County

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

For the Last Eight Years

	Modified Accrual		
	2008	2007	2006
Revenues:			
Property and other county tax	\$ 5,189,149	5,306,470	4,500,878
Interest and penalty on property tax	24,668	25,995	25,929
Intergovernmental	3,801,314	3,804,731	3,885,266
Licenses and permits	23,505	9,782	11,150
Charges for service	487,402	477,541	450,315
Use of money and property	485,647	391,148	241,490
Miscellaneous	472,628	210,377	852,455
Total	\$ 10,484,313	10,226,044	9,967,483
Expenditures:			
Operating:			
Public safety and legal services	1,440,928	1,307,407	1,223,356
Physical health and social services	305,488	346,957	377,459
Mental health	1,470,535	1,379,738	1,217,605
County environment and education	1,173,111	956,832	983,662
Roads and transportation	3,072,587	3,091,246	2,898,948
Governmental services to residents	465,185	329,024	462,226
Administration	951,245	1,078,010	1,012,503
Non-program	379,250	73,170	100,355
Debt service	425,316	338,077	832,476
Capital projects	272,549	735,751	221,044
Total	\$ 9,956,194	9,636,212	9,329,634

See accompanying independent auditor's report.

Basis				
2005	2004	2003	2002	2001
4,492,404	4,865,348	4,472,334	4,030,708	3,199,473
25,423	27,410	30,859	31,504	26,361
3,781,399	3,483,391	4,254,454	3,064,676	3,118,979
6,621	6,756	7,906	3,572	3,931
380,075	402,237	412,663	339,719	304,456
148,718	104,798	109,026	145,413	258,468
154,374	376,283	256,392	751,402	325,405
8,989,014	9,266,223	9,543,634	8,366,994	7,237,073
1,181,247	1,138,496	1,103,475	1,073,147	1,026,810
242,172	241,273	269,280	285,358	283,350
1,265,563	1,330,115	1,380,912	1,375,515	1,249,105
2,861,490	838,259	945,358	891,111	904,999
3,402,536	1,815,008	2,616,612	2,653,642	2,786,069
384,667	306,606	265,775	245,936	240,149
1,045,164	970,837	888,506	794,606	754,904
318,393	477,850	647,697	536,512	368,304
163,711	368,499	282,548	599,995	243,671
471,050	144,343	131,059	200,102	244,118
11,335,993	7,631,286	8,531,222	8,655,924	8,101,479

Palo Alto County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated February 24, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Palo Alto County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Palo Alto County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Palo Alto County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood misstatement of Palo Alto County's financial statements that is more than inconsequential will not be prevented or detected by Palo Alto County's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Palo Alto County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

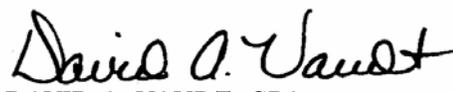
As part of obtaining reasonable assurance about whether Palo Alto County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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.

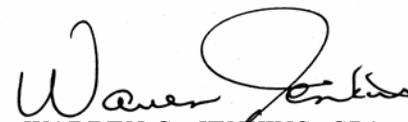
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

February 24, 2009

Palo Alto County
 Schedule of Findings
 Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

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

	<u>Applicable Offices</u>
(1) 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 County Sheriff
(2) Receipts – collecting, depositing, posting and daily reconciling.	County Sheriff County Recorder
(3) Bank reconciliation is not prepared by someone who doesn't sign checks, handle or record cash.	County Treasurer County Sheriff County Recorder
(4) Bank reconciliations are not reviewed periodically by an independent person for propriety.	County Treasurer County Recorder County Sheriff
(5) Person who signs checks is not independent of individual who records cash receipts and prepares checks.	County Recorder
(6) Investments - custody of receipts, record keeping and reconciling functions.	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.

Palo Alto County
Schedule of Findings
Year ended June 30, 2008

Responses –

Treasurer – (1) All employees in the Treasurer’s Office are authorized to post entries to the accounting records. This is a necessity in order to ensure timely posting of receipts. One employee walks to the post office to pick up the mail. The County Treasurer opens the mail. The County Treasurer initiated a mail log in August of 2008 and does a sampling of incoming mail. The log tracks what type of payment was submitted, the customer name, means of payment and which staff members processed the item. The County Treasurer follows the selected transaction all the way through to make sure it posted properly to the accounting records and funds are deposited to the appropriate bank account.

(3)(4) All staff members handle or record cash transactions. The County Treasurer has now instituted a procedure where three people in the office rotate bank reconciliation duties. One person will do the bank reconciliation and another will verify. Both staff members participating in the reconciliation will initial the bank statements. The County Treasurer will consider having a person from another department periodically look at our bank reconciliations.

(6) The County Treasurer handles all investments and the record keeping of the same. However, when interest is received, the County Treasurer does not post the interest amount to the accounting system. Another staff member receipts the interest. Going forward, the County Treasurer will have a neutral party from another office verify all investment instruments are accounted for and initial the log reflecting the same.

Sheriff – (1) Incoming mail is collected from the post office by the Sheriff or Chief Deputy. They sort through the mail and distribute accordingly. Periodically throughout the month, a listing of checks received on various days will be listed to be able to be compared to the cash receipts record.

(2) Due to the limited staff, it is difficult to segregate duties to different persons. However, a review of the control procedures in place in the Sheriff’s Office will be looked over to see where controls can be implemented to make the office more secure.

(3)(4) Bank reconciliation and bank statements will now be reviewed by the Sheriff and initialed that the same have been received and approved.

Recorder – (2) Currently, the Deputy Recorder reviews and performs the daily balancing one day a week or when the County Recorder is gone. We both work on the month end balancing and make sure the reports balance with our monthly totals from our daily balancing. We do alternate bank reconciliations when time allows.

(3) In the future, we will make an effort to alternate the duties of balancing the daily and monthly reports, the DNR, ACH and bank reconciliations and will also include the part-time person in the bank reconciliation process as she does not have anything to do with signing checks or daily balancing.

(4) In the future, we will make an effort to have someone from one of the other offices in the Courthouse review our bank reconciliation.

Palo Alto County

Schedule of Findings

Year ended June 30, 2008

(5) In our small office, it would be hard to segregate check writing and recording cash receipts. In our daily balancing, the checks written are reviewed and included in our balancing so we are both aware of the checks written for the day and for what reason.

Conclusion – Responses accepted.

- (B) Financial Reporting – A material receivable was not recorded in the County’s financial statements. An adjustment was subsequently made by the County to properly include this amount in the financial statements.

Recommendation – The County should implement procedures to ensure all receivables are identified and properly included in the financial statements.

Response – The incorrectly recorded receivable pertained to Road Use Tax. The receipt and posting was done on August 21, 2008. In the comments area of the miscellaneous receipt, the notation should have been made to reflect which fiscal year the revenue pertained. This was inadvertently left off. During the time frame of July and August specifically, all miscellaneous receipts will be checked for accuracy.

Conclusion – Response accepted.

- (C) County Treasurer – Certain state warrants received by various County offices were not remitted to the County Treasurer to be deposited timely.

Recommendation – The County should ensure all funds are received intact and deposited timely.

Response – The County Treasurer will contact all department heads. The discussion will include the importance of getting these warrants to the Treasurer’s Office for timely posting. When warrants are not submitted to the Treasurer’s Office, the County is missing out on interest income. The County Treasurer will contact Department Heads periodically to make sure there are no warrants that have not been remitted.

Conclusion – Response accepted.

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

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

Response – Palo Alto County agrees there is a need to develop a new capital asset list and appoint someone to maintain and review the list. County personnel hope to have this completed in the near future.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2008

- (E) County Sheriff – The County Sheriff’s office does not prepare a year-to-date spreadsheet of receipts and disbursements reconciled to the beginning and ending book balances.

Recommendation – The County Sheriff’s office should prepare a year-to-date spreadsheet of receipts and disbursements which should reconcile to the beginning and ending book balances.

Response – A year to date spreadsheet form was given to the Sheriff’s Office by the State Auditor’s Office. We will implement this going back to July 2008 for fiscal year 2008 – 2009 and this will be continued from there.

Conclusion – Response accepted.

- (F) Commissary Account – The Sheriff’s commissary account had a balance of \$3,639 at June 30, 2008. This balance includes trusts of individual inmates and profits from the sale of commissary items. Purchases for items, other than resale items, were also made from the commissary account. In addition, a listing of inmate trusts was not completed at year end.

Recommendation – The County Sheriff should remit profits of the commissary account to the County Treasurer. Expenditures of these profits should be budgeted and accounted for through the normal disbursements process, including Board of Supervisor approval, and be reflected in the County’s budget and financial statements. Purchases for items other than resale items should not be made from the account, but from the profits remitted to the County Treasurer. In addition, an inmate trust list should be prepared.

Response – For the upcoming fiscal year 2010, a revolving line item will be added to the budget which will account for the commissary account profits and disbursements in a special revenue fund. A trust list of the commissary account will now be included with each bank statement printed from Quicken with the monthly bank reconciliation and kept with the same. In addition, monies coming out of the commissary account will be paid by claims which are approved by the Board of Supervisors.

Conclusion – Response accepted.

- (G) Time Sheet Approval – Time sheets in the Conservation Office were not approved by the employee’s immediate supervisor.

Recommendation – Time sheets should be signed by the employee’s immediate supervisor to indicate time recorded is accurately reported.

Response – Timesheets will be signed as requested.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2008

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

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

Response – Department supervisors will review employee vacation balances and try to follow personnel policies in the future.

Conclusion – Response accepted.

- (I) Compensatory Time – The County's personnel policy states employees may accumulate up to 40 hours of compensatory time. Two employees had compensatory time exceeding 40 hours. In addition, compensatory time balances are not maintained on a perpetual basis.

Recommendation – The County should limit the amount of compensatory time to the maximum amount established by the County's personnel policy. In addition, the County should track compensatory time earned and taken on a regular basis.

Response – We will keep these balances under 40 hours in the future. We will be using our time sheets in the future to keep track of these hours for the offices that provide them to the County Auditor's Office.

Conclusion – Response accepted.

- (J) 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 in accordance with personnel policies.

Response – Job evaluations will be held at least annually in the future.

Conclusion – Response accepted.

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

Recommendation – A written disaster recovery plan should be developed.

Response – A disaster recovery plan for the Electronic Data Processing System will be developed in the future.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2008

- (L) County Extension Office Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a standpoint, are not performed by the same employee. This segregation of duties help to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. Bank reconciliations are not prepared by an independent person.

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

Response – Palo Alto County Extension staff will review our control activities to provide the maximum control possible with the two full time employees and a half time County Director. We will implement a policy to rotate handling receipts and bank deposits. Bank reconciliations and any financial records will be reviewed by a second employee or Extension Council Member. Reviewers will initial and date records involved with monetary concerns of the office

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2008

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 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 – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Brandi Goeder, daughter of Sheriff's Office employee	Jail transportation	\$ 40
Beth Schultes, spouse of Sheriff's Office employee	Jail transportation	50
Terry Neary, spouse of Zoning and Sanitation employee	Bookkeeping	240
Thomas Leonard, brother of County Auditor	Jail transportation	698

In accordance with Chapters 331.342(10) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since the cumulative amount by individual was less than \$1,500 during the fiscal year.

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

Palo Alto County

Schedule of Findings

Year ended June 30, 2008

- (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 by the Code of Iowa.

Response – We cancelled some of the warrants on August 8th, 2008 and have notified others they have until August 15th, 2008 to get a duplicate.

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 have turned this over to the County Attorney to complete.

Conclusion – Response accepted.

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

Recommendation – Unspent balances, if any, should be tracked by the County Sheriff and the Board of Supervisors since the use of the funds is restricted. In addition, the Sheriff, or the Sheriff and the Board, should develop a plan for the use of the funds.

Response – For the upcoming Fiscal Year 2009 – 2010, a revolving line item will be included in the County Sheriff's budget which will account for the inmate room and board collections profits and disbursements. Disbursements will be paid by claims thus approved by the Board of Supervisors.

Conclusion – Response accepted.

- (12) 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, 2008 for the County Extension Office did not exceed the amount budgeted.

Palo Alto County

Staff

This audit was performed by:

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Timothy D. Houlette, CPA, Senior Auditor II
Dorothy O. Stover, Staff Auditor
James R. Wittenwyler, Staff Auditor
Brett C. Conner, Assistant Auditor
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Deputy Auditor of State