



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 16, 2010

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$16,252,310 for the year ended June 30, 2009, which included \$841,447 in tax credits from the state. The County forwarded \$11,151,442 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$5,100,868 of the local tax revenue to finance County operations, a 6.9 percent increase over the prior year. Other revenues included charges for service of \$1,073,727, operating grants, contributions and restricted interest of \$3,631,752, capital grants, contributions and restricted interest of \$1,129,205, local option sales tax of \$333,000, tax increment financing of \$359,804, gaming tax of \$138,440, unrestricted investment earnings of \$143,150 and other general revenues of \$59,590.

Expenses for County operations totaled \$10,913,739, a 4.7 percent increase over the prior year. Expenses included \$4,230,096 for roads and transportation, \$1,350,173 for mental health and \$1,455,599 for public safety and legal services.

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

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

JUNE 30, 2009

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Palo Alto County

Officials

(Before January 2009)

<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
Bonnie Whitney	County Recorder	Jan 2011
Dennis Goeders	County Sheriff	Jan 2009
Peter C. Hart	County Attorney	Jan 2011
Lois Naig	County Assessor	Jan 2010

(After January 2009)

Edward Noonan	Board of Supervisors	Jan 2011
Keith Wirtz	Board of Supervisors	Jan 2011
Jerry Hofstad	Board of Supervisors	Jan 2011
Leo Goeders	Board of Supervisors	Jan 2013
Ronald Graettinger	Board of Supervisors	Jan 2013
Gary Leonard	County Auditor	Jan 2013
Mary Hilfiker	County Treasurer	Jan 2011
Bonnie Whitney	County Recorder	Jan 2011
Dennis Goeders	County Sheriff	Jan 2013
Peter C. Hart	County Attorney	Jan 2011
Lois Naig	County Assessor	Jan 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, 2009, 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, 2009, 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 March 2, 2010 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 15 and 48 through 51 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 five years ended June 30, 2008 (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

March 2, 2010

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, 2009. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues decreased approximately \$1,710,000 from fiscal year 2008 (FY08). Property tax and other county tax, including tax increment financing, increased approximately \$428,000 from FY08.
- Palo Alto County's governmental activities expenses increased approximately \$487,000 over FY08.
- The County's net assets increased 6%, or approximately \$1,055,000, from June 30, 2008 to June 30, 2009.

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 \$18,629,000 to approximately \$19,684,000. The analysis that follows focuses on the changes in the net assets of governmental activities.

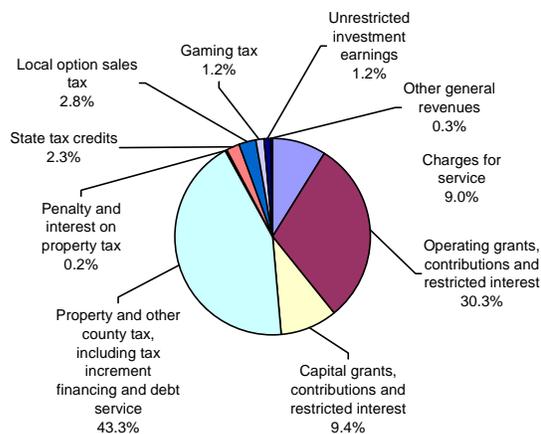
Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2009	2008
Current and other assets	\$ 25,563	25,134
Capital assets	12,489	12,187
Total assets	<u>38,052</u>	<u>37,321</u>
Long-term liabilities	12,264	12,555
Other liabilities	6,104	6,137
Total liabilities	<u>18,368</u>	<u>18,692</u>
Net assets:		
Invested in capital assets, net of related debt	12,489	12,039
Restricted	5,859	5,585
Unrestricted	1,336	1,005
Total net assets	<u>\$ 19,684</u>	<u>18,629</u>

Net assets of Palo Alto County's governmental activities increased approximately \$1,055,000. 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 increased from approximately \$1,005,000 at June 30, 2008 to approximately \$1,336,000 at June 30, 2009.

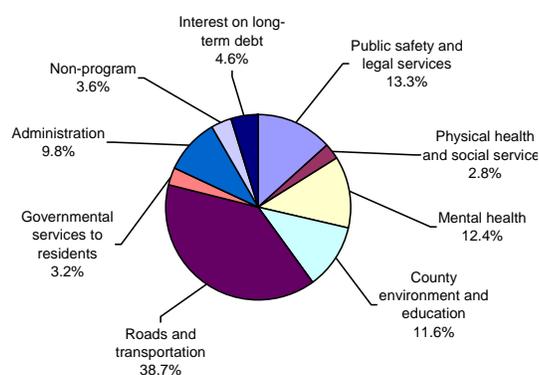
Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2009	2008
Revenues:		
Program revenues:		
Charges for service	\$ 1,074	1,497
Operating grants, contributions and restricted interest	3,632	3,251
Capital grants, contributions and restricted interest	1,129	3,088
General revenues:		
Property and other county tax, including tax increment financing and debt service	5,187	4,759
Penalty and interest on property tax	24	26
State tax credits	274	282
Local option sales tax	333	294
Gaming tax	138	136
Unrestricted investment earnings	143	344
Other general revenues	36	3
Total revenues	11,970	13,680
Program expenses:		
Public safety and legal services	1,456	1,424
Physical health and social services	304	305
Mental health	1,350	1,471
County environment and education	1,262	1,256
Roads and transportation	4,231	3,798
Governmental services to residents	349	344
Administration	1,066	1,071
Non-program	397	443
Interest on long-term debt	500	316
Total expenses	10,915	10,428
Increase in net assets	1,055	3,252
Net assets beginning of year	18,629	15,377
Net assets end of year	\$ 19,684	18,629

Revenues by Source



Expenses by Program



Palo Alto County's net assets of governmental activities increased approximately \$1,055,000 during the year. Revenues for governmental activities decreased approximately \$1,710,000 to approximately \$11,970,000 with capital grants, contributions and restricted interest down \$1,959,000, or 63.4%, from the prior year. However, property tax revenue, including tax increment financing, increased from the prior year approximately \$428,000, or 9%.

The County decreased property tax rates for 2009 an average of .4%. However, total taxable value increased approximately \$43.8 million, or 9.9%. Based on an increase in taxable valuation of approximately \$12.3 million and a slight decrease in property tax rates for fiscal year 2010, property tax is budgeted to increase approximately \$124,000 next year.

The cost of all governmental activities this year was approximately \$10.9 million compared to approximately \$10.4 million last year. However, as shown in the Statement of Activities on page 19, the amount taxpayers ultimately financed for these activities was only \$5.1 million because some of the cost was paid by those directly benefited from the programs (\$1,074,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$4,761,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased from approximately \$7,836,000 in 2008 to approximately \$5,835,000 in 2009, principally due to receiving less grant proceeds for construction improvements to county roads than received in the prior year. The County paid for the remaining "public benefit" portion of governmental activities (\$5,079,000) 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 \$18.5 million, an increase of approximately \$319,000 above last year's total of approximately \$18.2 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance decreased approximately \$357,000 from the prior year to approximately \$2,333,000. General Fund revenues decreased approximately \$653,000 and expenditures increased approximately \$108,000. The decrease in revenues was primarily due to a decrease of \$450,000 in property tax levied and a decrease of \$159,000 in use of money and property due to declining interest rates on investments in 2009. The increase in expenditures was primarily due to additional costs incurred for data processing services, legal services and a conservation land acquisition, totaling approximately \$60,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,350,000, a decrease of 8.2% from the prior year, and revenues increased approximately \$169,000. The Mental Health Fund balance at year end increased approximately \$170,000 to approximately \$392,000. Expenditures decreased due to Federal Medical Assistance Percentages (FMAP) credits totaling approximately \$60,000 provided to the County and less expenditures for state cases than the previous year. Revenues increased primarily due to an allowance for growth adjustment of \$194,000 from the State which was not received in the prior year as a result of the fund balance exceeding 20% of total expenditures for fiscal year 2007.
- Rural Services Fund expenditures decreased approximately \$23,000 from the prior year. The decrease in expenditures was primarily due to a decrease in workers' compensation insurance expenditures from the prior year. Revenues increased approximately \$64,000, which was primarily due to an increase in property tax receipts. The Rural Services Fund balance decreased approximately \$83,000 to approximately \$812,000.

- Secondary Roads Fund expenditures increased approximately \$268,000 over the prior year. This increase in expenditures is due primarily to several factors. Due to the availability of the County's gravel crusher contractor, the County pits could not be worked prior to the close of fiscal year 2008. Since the County still needed the gravel, the 2008-09 budget was modified to pay for the crushing. Also, due to the flooding in June 2008, subsequent road repairs were made in fiscal year 2009. Revenues increased approximately \$15,000. The Secondary Roads Fund ending balance increased approximately \$373,000, or 9%.
- The Drainage Districts Fund revenues decreased approximately \$82,000 due to a decrease in drainage assessments from the prior year. Expenditures decreased approximately \$119,000, due primarily to repairs and projects being completed in the prior year. This resulted in an increase in the Drainage Districts Fund balance of approximately \$156,000.
- The Tax Increment Financing Fund expended approximately \$267,000 for the payment of revenue bond principal and interest. The balance in the fund at June 30, 2009 was approximately \$302,000, which is to be used to pay principal and interest on the bonds through September 2009.
- The Debt Service Fund levied property tax in fiscal year 2008 to be collected in fiscal year 2009. The revenues and expenditures were approximately \$813,000 and \$827,000, respectively, as it was the first year to levy property tax for principal and interest payments due. The Debt Service Fund is used to pay for the general obligation bond principal and interest for the road projects.
- Capital Projects Fund revenues increased \$152,000 due to an increase in interest earned on the investment of prior year general obligation bond proceeds. Expenditures increased \$96,000 due to secondary road project payments from bond proceeds. 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 once. The amendment was made on April 14, 2009 and resulted in an increase in budgeted disbursements of \$519,345, which increased all functions except physical health and social services, mental health, governmental services to residents and debt service. Roads and transportation function budgeted disbursements increased \$408,000.

The County's receipts were \$116,835 less than budgeted, a variance of -1.1%. The most significant variance resulted from the County not receiving anticipated interest earnings as a result of the decrease in interest rates.

Total disbursements were \$7,484,644 less than the amended budget. Actual disbursements for the capital projects, roads and transportation and county environment and education functions were \$5,790,929, \$759,369 and \$385,537, respectively, less than budgeted. The variance affecting the capital projects function was primarily due to only spending \$349,065 of the \$6,000,000 budgeted for road projects from the Capital Projects Fund. The remaining variances are a result of disbursements budgeted and not used by June 30, 2009.

Even with the budget amendment, the County exceeded the budgeted amount in the debt service function for the year ended June 30, 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, Palo Alto County had approximately \$12.5 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 \$302,000, or \$2.5%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2009	2008
Land	\$ 1,144	1,144
Buildings and improvements	875	906
Equipment and vehicles	2,690	2,875
Infrastructure	7,780	7,262
Total	\$ 12,489	12,187

This year's major additions included (in thousands):

Capital assets contributed by the Iowa Department of Transportation	\$	814
John Deere tractor and three vehicles		89
Total	\$	903

The County had depreciation expense of approximately \$620,000 in fiscal year 2009 and total accumulated depreciation of approximately \$5.1 million at June 30, 2009. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2009, Palo Alto County had approximately \$12 million in outstanding long-term debt, which included \$1,731,000 in urban renewal tax increment revenue bonds, \$9,650,000 in general obligation bonds and \$573,135 in drainage warrants.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2009	2008
Urban renewal TIF bonds	\$ 1,731	1,914
General obligation bonds	9,650	10,000
Drainage warrants and improvement certificates	573	363
Total	\$ 11,954	12,277

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

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 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 approximately \$34 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 2010 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 November 2009 was 5,480, which is down from 5,520 during October 2008. Unemployment in the County during November 2009 was 6.6% compared to 5.8% during October 2008. This compares with the State's unemployment rate of 6.7% and the national rate of 10.0% during November 2009.

The national Consumer Price Index increased 0.4% in November 2009 from the previous month. However, over the last twelve months ending November 2009, the index increased 1.8% due to increasing energy prices, electricity, fuel oil and natural gas.

The above factors were all part of the considerations for the FY10 budget which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars)

	2010 Dollars Certified	2009 Dollars Certified	Percentage Change
General Fund	\$ 2,403,189	2,343,675	2.54%
Mental Health Fund	683,690	685,598	-0.28%
Debt Service Fund	825,563	824,401	0.14%
Rural Services Fund	1,371,321	1,306,435	4.97%
Total	\$ 5,283,763	5,160,109	2.40%

Continued state revenue cutbacks the past few years are driving the increases in property tax. No new services were added in the FY10 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for FY10 are as follows:

	2010	2009	Percentage Change
General basic levy	\$ 3.50000	3.75000	-6.67%
General supplemental levy	1.35000	1.10000	22.73%
Mental health levy	1.37979	1.41878	-2.75%
Debt service levy	1.57016	1.61591	-2.83%
Rural services basic levy	3.95000	3.95000	0.00%
Total	\$ 11.74995	11.83469	-0.72%

These factors were taken into account when adopting the budget for fiscal year 2010. Amounts appropriated in the operating budget are \$19,962,827, an increase of \$1,487,787, or 8.1%, over the final 2009 budget. The majority of this increase is budgeted for capital projects as road improvements continue during FY10. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. Palo Alto County decreased the general basic levy for FY10 from \$3.75 per \$1,000 of taxable valuation to \$3.50 per \$1,000 of taxable valuation while the County increased the general supplemental levy for FY10 from \$1.10 per \$1,000 of taxable valuation to \$1.35 per \$1,000 of taxable valuation. Palo Alto County decreased the mental health levy for FY10 from \$1.41878 per \$1,000 of taxable valuation to \$1.37979 per \$1,000 of taxable valuation. Additionally, the County decreased the debt service levy for FY10 from \$1.61591 per \$1,000 of taxable valuation to \$1.57016 per \$1,000 of taxable valuation. The rural basic levy rate remained at the limit of \$3.95 per \$1,000 of taxable valuation.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Palo Alto County

Basic Financial Statements

Exhibit A

Palo Alto County
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 18,075,913
Receivables:	
Property tax:	
Delinquent	3,931
Succeeding year	5,450,000
Interest and penalty on property tax	12,328
Accounts	132,375
Economic development loans	9,709
Accrued interest	57,304
Drainage assessments	482,693
Due from other governments	314,409
Inventories	916,421
Prepaid insurance	108,227
Capital assets (net of accumulated depreciation)	<u>12,488,706</u>
Total assets	<u>38,052,016</u>
Liabilities	
Accounts payable	299,292
Accrued interest payable	141,486
Salaries and benefits payable	58,757
Due to other governments	154,171
Deferred revenue:	
Succeeding year property tax	5,450,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment revenue bonds	173,000
General obligation bonds	460,000
Drainage warrants	573,135
Compensated absences	145,192
Portion due or payable after one year:	
Urban renewal tax increment revenue bonds	1,558,000
General obligation bonds	9,190,000
Compensated absences	<u>164,525</u>
Total liabilities	<u>18,367,558</u>
Net Assets	
Invested in capital assets	12,488,706
Restricted for:	
Supplemental levy purposes	626,323
Mental health purposes	391,784
Secondary roads purposes	4,483,263
Drainage district purposes	72,645
Debt service	18,412
Capital projects	143,666
Other purposes	123,252
Unrestricted	<u>1,336,407</u>
Total net assets	<u>\$ 19,684,458</u>

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2009

	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	\$ 1,455,599	180,914	34,942	1,249	(1,238,494)
Physical health and social services	303,888	125,513	46,636	-	(131,739)
Mental health	1,350,173	-	846,261	-	(503,912)
County environment and education	1,261,745	232,588	46,301	-	(982,856)
Roads and transportation	4,230,096	97,027	2,501,686	1,096,191	(535,192)
Governmental services to residents	349,202	170,479	5,285	-	(173,438)
Administration	1,065,789	13,313	-	-	(1,052,476)
Non-program	396,962	253,893	150,641	31,765	39,337
Interest on long-term debt	500,285	-	-	-	(500,285)
Total	\$ 10,913,739	1,073,727	3,631,752	1,129,205	(5,079,055)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,055,536
Debt service					771,778
Tax increment financing					359,804
Penalty and interest on property tax					24,024
State tax credits					273,554
Local option sales tax					333,000
Gaming tax					138,440
Unrestricted investment earnings					143,150
Miscellaneous					35,566
Total general revenues					6,134,852
Change in net assets					1,055,797
Net assets beginning of year					18,628,661
Net assets end of year					\$ 19,684,458

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2009

Assets	Special			
	General	Mental Health	Rural Services	Secondary Roads
Cash and pooled investments	\$ 2,307,070	563,393	794,294	3,482,878
Receivables:				
Property tax:				
Delinquent	2,119	603	515	-
Succeeding year	2,303,000	655,000	1,314,000	-
Interest and penalty on property tax	12,328	-	-	-
Accounts	11,945	-	15,908	104,522
Economic developmental loans	-	-	-	-
Accrued interest	11,892	-	-	3,422
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	15,681
Due from other governments	28,091	-	40,709	228,648
Inventories	-	-	-	916,421
Prepaid insurance	23,099	-	729	17,849
Total assets	\$ 4,699,544	1,218,996	2,166,155	4,769,421
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 37,530	49,648	6,761	76,452
Salaries and benefits payable	-	-	-	58,757
Due to other funds	-	-	15,681	-
Due to other governments	11,942	122,221	17,259	2,749
Deferred revenue:				
Succeeding year property tax	2,303,000	655,000	1,314,000	-
Other	14,447	603	515	104,522
Total liabilities	2,366,919	827,472	1,354,216	242,480
Fund balances:				
Reserved for:				
Supplemental levy purposes	645,515	-	-	-
Drainage warrants/drainage improvement certificates	-	-	-	-
Debt service	-	-	-	-
Transfer station closure care	-	-	-	-
Unreserved, reported in:				
General fund	1,687,110	-	-	-
Special revenue funds	-	391,524	811,939	4,526,941
Capital projects fund	-	-	-	-
Total fund balances	2,332,625	391,524	811,939	4,526,941
Total liabilities and fund balances	\$ 4,699,544	1,218,996	2,166,155	4,769,421

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
265,154	301,609	17,718	9,791,629	116,958	17,640,703
-	-	694	-	-	3,931
-	389,000	789,000	-	-	5,450,000
-	-	-	-	-	12,328
-	-	-	-	-	132,375
-	-	-	-	9,709	9,709
-	-	-	41,990	-	57,304
482,693	-	-	-	-	482,693
-	-	-	-	-	15,681
16,961	-	-	-	-	314,409
-	-	-	-	-	916,421
-	-	-	-	-	41,677
764,808	690,609	807,412	9,833,619	126,667	25,077,231
14,496	-	-	9,490	3,415	197,792
-	-	-	-	-	58,757
-	-	-	-	-	15,681
-	-	-	-	-	154,171
-	389,000	789,000	-	-	5,450,000
562,330	-	694	-	9,709	692,820
576,826	389,000	789,694	9,490	13,124	6,569,221
-	-	-	-	-	645,515
55,102	-	-	-	-	55,102
-	-	17,718	-	-	17,718
-	-	-	-	5,000	5,000
-	-	-	-	-	1,687,110
132,880	301,609	-	-	108,543	6,273,436
-	-	-	9,824,129	-	9,824,129
187,982	301,609	17,718	9,824,129	113,543	18,508,010
764,808	690,609	807,412	9,833,619	126,667	25,077,231

Palo Alto County

Palo Alto County

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

June 30, 2009

Total governmental fund balances (page 21) \$ 18,508,010

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 \$17,582,856 and the accumulated depreciation is \$5,094,150. 12,488,706

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 692,820

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. 400,260

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. (12,405,338)

Net assets of governmental activities (page 18) \$ 19,684,458

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2009

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,318,417	637,715	1,570,293	-
Interest and penalty on property tax	21,939	-	-	-
Intergovernmental	357,907	882,597	131,356	2,522,377
Licenses and permits	4,033	-	-	4,980
Charges for service	309,428	-	202,531	31,019
Use of money and property	144,139	-	14	31,288
Miscellaneous	53,931	-	1,756	37,006
Total revenues	<u>3,209,794</u>	<u>1,520,312</u>	<u>1,905,950</u>	<u>2,626,670</u>
Expenditures:				
Operating:				
Public safety and legal services	1,292,559	-	191,574	-
Physical health and social services	303,222	-	-	-
Mental health	-	1,349,910	-	-
County environment and education	581,356	-	548,804	-
Roads and transportation	-	-	171,011	3,124,361
Governmental services to residents	352,521	-	-	-
Administration	982,043	-	77,038	-
Non-program	4,291	-	-	-
Debt service	-	-	-	-
Capital projects	37,871	-	12,126	118,025
Total expenditures	<u>3,553,863</u>	<u>1,349,910</u>	<u>1,000,553</u>	<u>3,242,386</u>
Excess (deficiency) of revenues over (under) expenditures	(344,069)	170,402	905,397	(615,716)
Other financing sources (uses):				
Operating transfers in	27,056	-	-	988,434
Operating transfers out	(40,000)	-	(988,434)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	<u>(12,944)</u>	<u>-</u>	<u>(988,434)</u>	<u>988,434</u>
Net change in fund balances	(357,013)	170,402	(83,037)	372,718
Fund balances beginning of year	<u>2,689,638</u>	<u>221,122</u>	<u>894,976</u>	<u>4,154,223</u>
Fund balances end of year	<u>\$ 2,332,625</u>	<u>391,524</u>	<u>811,939</u>	<u>4,526,941</u>

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	359,801	771,081	-	-	5,657,307
-	-	-	-	-	21,939
149,213	-	42,406	-	28,822	4,114,678
-	-	-	-	-	9,013
-	-	-	-	2,368	545,346
-	-	-	282,266	8,536	466,243
143,777	-	-	-	10,344	246,814
292,990	359,801	813,487	282,266	50,070	11,061,340
-	-	-	-	30,055	1,514,188
-	-	-	-	-	303,222
-	-	-	-	-	1,349,910
-	-	-	-	53,695	1,183,855
-	-	-	-	-	3,295,372
-	-	-	-	1,999	354,520
-	-	-	-	-	1,059,081
334,090	-	-	-	-	338,381
77,223	266,893	826,929	-	-	1,171,045
-	-	-	279,088	-	447,110
411,313	266,893	826,929	279,088	85,749	11,016,684
(118,323)	92,908	(13,442)	3,178	(35,679)	44,656
-	-	31,160	-	40,000	1,086,650
-	-	-	(31,160)	(27,056)	(1,086,650)
274,025	-	-	-	-	274,025
274,025	-	31,160	(31,160)	12,944	274,025
155,702	92,908	17,718	(27,982)	(22,735)	318,681
32,280	208,701	-	9,852,111	136,278	18,189,329
187,982	301,609	17,718	9,824,129	113,543	18,508,010

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, 2009

Net change in fund balances - Total governmental funds (page 25) \$ 318,681

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	\$ 88,790	
Capital assets contributed by Iowa Department of Transportation and others	813,926	
Depreciation expense	(620,015)	282,701

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. 19,121

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	907	
Other	11,468	12,375

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

Issued	(274,025)	
Repaid	596,557	322,532

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	(31,735)	
Interest on long-term debt	74,203	42,468

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. 57,919

Change in net assets of governmental activities (page 19) \$ 1,055,797

See notes to financial statements.

Palo Alto County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2009

	Internal Service - Employee Group Health
Assets	
Cash and cash equivalents	\$ 435,210
Prepaid insurance	66,550
Total assets	<u>501,760</u>
Liabilities	
Accounts payable	<u>101,500</u>
Net Assets	
Unrestricted	<u><u>\$ 400,260</u></u>

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2009

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 845,075
Reimbursements from employees		22,099
Total operating revenues		<u>867,174</u>
Operating expenses:		
Insurance premiums	\$ 724,964	
Medical claims	67,775	
Administrative fees	<u>16,516</u>	<u>809,255</u>
Operating income		57,919
Net assets beginning of year		<u>342,341</u>
Net assets end of year		<u><u>\$ 400,260</u></u>

See notes to financial statements.

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2009

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 845,075
Cash received from employees	22,099
Cash paid to suppliers for services	(813,873)
Net cash provided by operating activities	<u>53,301</u>
Cash and cash equivalents beginning of year	<u>381,909</u>
Cash and cash equivalents end of year	<u><u>\$ 435,210</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 57,919
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts payable	500
(Increase) in prepaid insurance	(5,118)
Net cash provided by operating activities	<u><u>\$ 53,301</u></u>

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2009

Assets

Cash and pooled investments:

County Treasurer	\$ 898,673
Other County officials	34,544

Receivables:

Property tax:

Delinquent	11,240
Succeeding year	10,547,000

Accounts	13,957
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Accrued interest	48
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Special assessments	58,753
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Total assets	<u>11,564,215</u>
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Liabilities

Accounts payable	4,538
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Due to other governments	11,521,310
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Trusts payable	28,222
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Compensated absences	10,145
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Total liabilities	<u>11,564,215</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, 2009

(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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2008.

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, 2009, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles 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

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, 2009. 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, 2009, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2009 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, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 15,681</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, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Conservation Land Acquisition	\$ 27,056
Special Revenue: Secondary Roads	Special Revenue: Rural Services	988,434
Economic Development	General	40,000
Debt Service	Capital Projects	<u>31,160</u>
Total		<u>\$ 1,086,650</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, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,144,025	-	-	1,144,025
Construction in progress	-	813,926	-	813,926
Total capital assets not being depreciated	<u>1,144,025</u>	<u>813,926</u>	<u>-</u>	<u>1,957,951</u>
Capital assets being depreciated:				
Buildings	1,499,953	-	-	1,499,953
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	6,248,633	109,390	(56,037)	6,301,986
Infrastructure, road network	7,729,567	-	-	7,729,567
Total capital assets being depreciated	<u>15,571,552</u>	<u>109,390</u>	<u>(56,037)</u>	<u>15,624,905</u>
Less accumulated depreciation for:				
Buildings	661,409	26,659	-	688,068
Improvements other than buildings	26,611	3,504	-	30,115
Equipment and vehicles	3,373,304	293,301	(54,558)	3,612,047
Infrastructure, road network	467,369	296,551	-	763,920
Total accumulated depreciation	<u>4,528,693</u>	<u>620,015</u>	<u>(54,558)</u>	<u>5,094,150</u>
Total capital assets being depreciated, net	<u>11,042,859</u>	<u>(510,625)</u>	<u>(1,479)</u>	<u>10,530,755</u>
Governmental activities capital assets, net	<u>\$ 12,186,884</u>	<u>303,301</u>	<u>(1,479)</u>	<u>12,488,706</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 10,971
County environment and education	38,200
Roads and transportation	568,144
Administration	<u>2,700</u>
Total depreciation expense - governmental activities	<u>\$ 620,015</u>

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	\$ 11,942
Special Revenue:		
Mental Health	Services	122,221
Rural Services	Services	17,259
Secondary Roads	Services	2,749
		<u>142,229</u>
Total for governmental funds		<u>\$ 154,171</u>
Agency:		
County Offices	Collections	11,482
Agricultural Extension Education		73,327
County Assessor		444,944
Schools		6,543,447
Community Colleges		377,423
Corporations		2,406,551
Townships		118,156
City Special Assessments		63,196
Auto License and Use Tax		204,349
All other		1,278,435
Total for agency funds		<u>\$ 11,521,310</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, 2009
Mike and Kim Gehrt	Feb 24, 1998	Jun 1, 2008	\$ 10,000	5.0%	10 years	\$ 2,957
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>5,611</u>
Total			<u>\$ 32,500</u>			<u>\$ 9,709</u>

(8) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Urban Renewal Tax Increment Revenue Bonds	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Total
Balance beginning of year	\$ 1,913,540	10,000,000	363,127	277,982	12,554,649
Increases	-	-	274,025	257,636	531,661
Decreases	182,540	350,000	64,017	225,901	822,458
Balance end of year	\$ 1,731,000	9,650,000	573,135	309,717	12,263,852
Due within one year	\$ 173,000	460,000	573,135	145,192	1,351,327

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, 2009, final payments of principal and interest of \$9,540 and \$619, respectively, 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, 2009, principal of \$173,000 and interest of \$83,734 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, 2009 annual debt service requirements to maturity for urban renewal tax increment revenue bonds is as follows:

Year ending June 30,	Interest Rates	November 23, 2004 Issue		
		Principal	Interest	Total
2010	4.50%	\$ 173,000	75,949	248,949
2011	4.50	173,000	68,164	241,164
2012	4.50	173,000	60,379	233,379
2013	4.50	173,000	52,594	225,594
2014	4.50	173,000	44,809	217,809
2015-2019	4.50	866,000	107,269	973,269
Total		\$ 1,731,000	409,164	2,140,164

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, 2009 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Series 2007B			
	Issued December 31, 2007			
	Interest Rates	Principal	Interest	Total
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	4.25	-	212,500	212,500
2015-2019	4.25	-	1,062,500	1,062,500
2020-2024	4.25	2,780,000	870,400	3,650,400
2025-2027	4.25	2,220,000	191,250	2,411,250
Total		\$ 5,000,000	3,186,650	8,186,650

Year Ending June 30,	Series 2008				Total		
	Issued May 1, 2008				Principal	Interest	Total
	Interest Rates	Principal	Interest	Total			
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	3.30	515,000	98,035	613,035	515,000	310,535	825,535
2015-2019	3.45-3.80	2,225,000	209,160	2,434,160	2,225,000	1,271,660	3,496,660
2020-2024		-	-	-	2,780,000	870,400	3,650,400
2025-2027		-	-	-	2,220,000	191,250	2,411,250
Total		\$ 4,650,000	843,164	5,493,164	9,650,000	4,029,814	13,679,814

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 4.10% of their annual covered salary and the County is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$220,608, \$202,102 and \$186,299, 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 577 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, 2009 were \$122,196.

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 by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2009, no liability has been recorded in the County's financial statements. As of June 30, 2009, 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 Health Insurance Plan

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

Payments to the Employee Group Health Fund 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, 2009 was \$845,075.

Amounts payable from the Employee Group Health Fund at June 30, 2009 total \$101,500, 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 \$400,260 at June 30, 2009 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	\$ 101,000
Incurred claims (including claims incurred but not reported at June 30, 2009)	68,275
Payment on claims during the fiscal year	<u>(67,775)</u>
Unpaid claims end of year	<u><u>\$ 101,500</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, 2009 have been estimated at \$4,923. 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, 2009.

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, 2009

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 5,647,428	-	5,647,428
Interest and penalty on property tax	21,939	-	21,939
Intergovernmental	4,133,645	211,889	3,921,756
Licenses and permits	22,673	-	22,673
Charges for service	546,592	-	546,592
Use of money and property	542,259	-	542,259
Miscellaneous	247,918	143,777	104,141
Total receipts	11,162,454	355,666	10,806,788
Disbursements:			
Public safety and legal services	1,523,932	-	1,523,932
Physical health and social services	308,083	-	308,083
Mental health	1,349,152	-	1,349,152
County environment and education	1,212,231	-	1,212,231
Roads and transportation	3,547,527	-	3,547,527
Governmental services to residents	356,108	-	356,108
Administration	1,072,983	-	1,072,983
Non-program	429,246	424,955	4,291
Debt service	1,171,045	77,223	1,093,822
Capital projects	522,267	-	522,267
Total disbursements	11,492,574	502,178	10,990,396
Excess (deficiency) of receipts over (under) disbursements	(330,120)	(146,512)	(183,608)
Other financing sources, net	274,025	274,025	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(56,095)	127,513	(183,608)
Balance beginning of year	17,696,798	137,641	17,559,157
Balance end of year	\$ 17,640,703	265,154	17,375,549

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
5,510,759	5,510,759	136,669
6,400	6,400	15,539
4,016,893	4,020,993	(99,237)
9,850	9,850	12,823
552,460	552,460	(5,868)
650,235	650,235	(107,976)
172,188	172,926	(68,785)
<u>10,918,785</u>	<u>10,923,623</u>	<u>(116,835)</u>
1,534,569	1,584,294	60,362
404,236	404,236	96,153
1,612,203	1,612,203	263,051
1,592,930	1,597,768	385,537
3,898,896	4,306,896	759,369
389,536	389,536	33,428
1,145,890	1,171,325	98,342
-	4,291	-
1,091,295	1,091,295	(2,527)
6,286,140	6,313,196	5,790,929
<u>17,955,695</u>	<u>18,475,040</u>	<u>7,484,644</u>
(7,036,910)	(7,551,417)	7,367,809
5,600,000	5,600,000	(5,600,000)
(1,436,910)	(1,951,417)	1,767,809
-	-	-
15,161,250	15,161,250	2,397,907
<u>13,724,340</u>	<u>13,209,833</u>	<u>4,165,716</u>

Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 11,162,454	101,114	11,061,340
Expenditures	11,492,574	475,890	11,016,684
Net	(330,120)	(374,776)	44,656
Other financing sources, net	274,025	-	274,025
Beginning fund balances	17,696,798	492,531	18,189,329
Ending fund balances	\$ 17,640,703	867,307	18,508,010

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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, one budget amendment increased budgeted disbursements by \$519,345. The budget amendment is reflected in the final budgeted amounts.

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

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the debt service function.

Palo Alto County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2009

		Special
	Resource Enhancement and Protection	County Recorder's Records Management
Assets		
Cash and pooled investments	\$ 29,326	7,546
Receivables:		
Economic development loans	-	-
Total assets	\$ 29,326	7,546
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 3,415	-
Deferred revenue	-	-
Total liabilities	3,415	-
Fund balances:		
Reserved for transfer station closure care	-	-
Unreserved fund balances	25,911	7,546
Total fund balances	25,911	7,546
Total liabilities and fund balances	\$ 29,326	7,546

See accompanying independent auditor's report.

Revenue					
Economic Development	Sheriff Reserve	Closure/ Postclosure	Conservation Land Acquisition		Total
9,805	6,767	5,000	58,514		116,958
9,709	-	-	-		9,709
19,514	6,767	5,000	58,514		126,667
-	-	-	-		3,415
9,709	-	-	-		9,709
9,709	-	-	-		13,124
-	-	5,000	-		5,000
9,805	6,767	-	58,514		108,543
9,805	6,767	5,000	58,514		113,543
19,514	6,767	5,000	58,514		126,667

Palo Alto County

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

Year ended June 30, 2009

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Revenues:			
Intergovernmental	\$ 15,015	-	-
Charges for service	-	2,268	-
Use of money and property	168	44	-
Miscellaneous	-	-	-
Total revenues	15,183	2,312	-
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	13,695	-	-
Governmental services to residents	-	1,909	90
Total expenditures	13,695	1,909	90
Excess (deficiency) of revenues over (under) expenditures	1,488	403	(90)
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,488	403	(90)
Fund balances beginning of year	24,423	7,143	90
Fund balances end of year	\$ 25,911	7,546	-

See accompanying independent auditor's report.

Revenue				
Economic Development	Sheriff Reserve	Closure/ Postclosure	Conservation Land Acquisition	Total
-	9,676	-	4,131	28,822
-	100	-	-	2,368
3,166	-	-	5,158	8,536
-	10,344	-	-	10,344
3,166	20,120	-	9,289	50,070
-	30,055	-	-	30,055
40,000	-	-	-	53,695
-	-	-	-	1,999
40,000	30,055	-	-	85,749
(36,834)	(9,935)	-	9,289	(35,679)
40,000	-	-	-	40,000
-	-	-	(27,056)	(27,056)
40,000	-	-	(27,056)	12,944
3,166	(9,935)	-	(17,767)	(22,735)
6,639	16,702	5,000	76,281	136,278
9,805	6,767	5,000	58,514	113,543

Palo Alto County

Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2009

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,261	245,224	101,889
Other County officials	34,544	-	-	-
Receivables:				
Property tax:				
Delinquent	-	66	191	5,558
Succeeding year	-	72,000	208,000	6,436,000
Accounts	1,080	-	-	-
Accrued interest	-	-	-	-
Special assessments	-	-	-	-
Total assets	\$ 35,624	73,327	453,415	6,543,447
Liabilities				
Accounts payable	\$ -	-	-	-
Due to other governments	11,482	73,327	444,944	6,543,447
Trusts payable	24,142	-	-	-
Compensated absences	-	-	8,471	-
Total liabilities	\$ 35,624	73,327	453,415	6,543,447

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
6,083	41,490	2,109	4,443	204,349	291,825	898,673
-	-	-	-	-	-	34,544
340	4,061	47	-	-	977	11,240
371,000	2,361,000	116,000	-	-	983,000	10,547,000
-	-	-	-	-	12,877	13,957
-	-	-	-	-	48	48
-	-	-	58,753	-	-	58,753
377,423	2,406,551	118,156	63,196	204,349	1,288,727	11,564,215
-	-	-	-	-	4,538	4,538
377,423	2,406,551	118,156	63,196	204,349	1,278,435	11,521,310
-	-	-	-	-	4,080	28,222
-	-	-	-	-	1,674	10,145
377,423	2,406,551	118,156	63,196	204,349	1,288,727	11,564,215

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2009

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 35,513	72,624	484,412	5,801,712
Additions:				
Property and other county tax	-	72,233	209,196	6,452,989
E911 surcharge	-	-	-	-
State tax credits	-	4,065	13,708	332,390
Drivers license fees	-	-	-	-
Office fees and collections	219,985	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	157,707	-	-	-
Miscellaneous	-	-	2,111	-
Total additions	377,692	76,298	225,015	6,785,379
Deductions:				
Agency remittances:				
To other funds	120,074	-	-	-
To other governments	95,985	75,595	256,012	6,043,644
Trusts paid out	161,522	-	-	-
Total deductions	377,581	75,595	256,012	6,043,644
Balances end of year	\$ 35,624	73,327	453,415	6,543,447

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
349,917	2,310,679	117,506	73,993	181,484	1,272,907	10,700,747
372,195	2,373,515	116,029	-	-	987,392	10,583,549
-	-	-	-	-	56,792	56,792
19,631	117,929	7,207	-	-	72,963	567,893
-	-	-	-	39,701	-	39,701
-	-	-	-	-	-	219,985
-	-	-	-	-	2,275	2,275
-	-	-	-	2,385,355	-	2,385,355
-	-	-	6,865	-	-	6,865
-	-	-	-	-	-	157,707
-	-	-	-	-	172,146	174,257
391,826	2,491,444	123,236	6,865	2,425,056	1,291,568	14,194,379
-	-	-	-	107,891	-	227,965
364,320	2,395,572	122,586	17,662	2,294,300	1,275,748	12,941,424
-	-	-	-	-	-	161,522
364,320	2,395,572	122,586	17,662	2,402,191	1,275,748	13,330,911
377,423	2,406,551	118,156	63,196	204,349	1,288,727	11,564,215

Palo Alto County

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

For the Last Nine Years

	Modified Accrual			
	2009	2008	2007	2006
Revenues:				
Property and other county tax	\$ 5,657,307	5,189,149	5,306,470	4,500,878
Interest and penalty on property tax	21,939	24,668	25,995	25,929
Intergovernmental	4,114,678	3,801,314	3,804,731	3,885,266
Licenses and permits	9,013	23,505	9,782	11,150
Charges for service	545,346	487,402	477,541	450,315
Use of money and property	466,243	485,647	391,148	241,490
Miscellaneous	246,814	472,628	210,377	852,455
Total	\$ 11,061,340	10,484,313	10,226,044	9,967,483
Expenditures:				
Operating:				
Public safety and legal services	1,514,188	1,440,928	1,307,407	1,223,356
Physical health and social services	303,222	305,488	346,957	377,459
Mental health	1,349,910	1,470,535	1,379,738	1,217,605
County environment and education	1,183,855	1,173,111	956,832	983,662
Roads and transportation	3,295,372	3,072,587	3,091,246	2,898,948
Governmental services to residents	354,520	465,185	329,024	462,226
Administration	1,059,081	951,245	1,078,010	1,012,503
Non-program	338,381	379,250	73,170	100,355
Debt service	1,171,045	425,316	338,077	832,476
Capital projects	447,110	272,549	735,751	221,044
Total	\$ 11,016,684	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



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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, 2009, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated March 2, 2010. 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 we consider to be significant deficiencies, including deficiencies we consider to be 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 a 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, 2009 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

March 2, 2010

Palo Alto County

Schedule of Findings

Year ended June 30, 2009

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) Receipts – collecting, depositing, posting and daily reconciling.	County Treasurer County Sheriff County Recorder
(2) Bank reconciliation is not prepared by someone who doesn't sign checks, handle or record cash.	County Sheriff County Recorder
(3) Bank reconciliations are not reviewed periodically by an independent person for propriety.	County Recorder
(4) Person who signs checks is not independent of the individual who records cash receipts and prepares checks.	County Recorder

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

Responses –

Palo Alto County

Schedule of Findings

Year ended June 30, 2009

Treasurer – (1) It would be the ideal situation if we could have true segregation of each duty performed in the Treasurer’s office. However, with staff members “wearing many different hats”, the County Treasurer makes a very honest attempt to have cross checks in place for each posting function. The staff member that prepares respective deposits is not the same person that balances the bank statement. All staff members post tax payments (especially in March & September). Other times, we try to have some staff members post payments and others verify the same. The County Treasurer will continue to work on procedures that would better enforce checks and balances.

Sheriff – (1) Mail is collected by the Sheriff or Chief Deputy. They then sort the mail to the respective offices within the Sheriff’s Office. The office mail is given to the office secretary who opens all the incoming mail and records all incoming monies on a spreadsheet. The spreadsheet is inclusive of who the money is from, date received and dollar amount received. After the secretary records the mail it is given to the Office Manager who then reviews and processes the mail.

(2) Bank reconciliation and monthly statements are prepared by the Office Manager. The Sheriff reviews the same and signs off on if approved.

Recorder – (1) through (4) In a small office it is difficult to try to segregate duties. In the future, as time allows, we will make an effort to alternate the duties of the daily balancing, monthly balancing, the DNR-ACH balancing and the bank reconciliation. Checks written are reviewed and included in our balancing so we do know checks written for the day and for what reason.

Conclusions –

Treasurer and Recorder – Responses accepted.

Sheriff – Response acknowledged. (1) The listing of cash receipts should be compared to the bank deposit by a person not responsible for maintaining the accounting records. (2) Bank reconciliations should be performed by a person not responsible for signing checks or handling and recording cash.

(B) Financial Reporting – Several material receivables were not originally recorded in the County’s financial statements. An adjustment was subsequently made by the County to properly include these amounts in the financial statements.

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

Response – We will comply with this in the future. The dates were inadvertently left off.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2009

- (C) 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 – An independent review of the capital assets listing will be performed by all departments in the future. Department heads will ensure the completeness of the assets listed do exist.

Conclusion – Response accepted.

- (D) County Sheriff – Fees – The quarterly fees for the quarters ended December 31, 2008 and March 31, 2009 were not remitted to the County Treasurer until February 4, 2009 and April 30, 2009, respectively.

Recommendation – Quarterly fees should be remitted to the County Treasurer timely.

Response – Monthly fees will be remitted by the 15th of each month hereafter.

Conclusion – Response accepted.

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

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

Response – Department heads should do a better job evaluating vacation balances in the future and will abide by the personnel policies and not allow for the accrual of vacation hours above these maximum amounts.

Conclusion – Response accepted.

- (F) Compensatory Time – The County's personnel policy states employees may accumulate up to 40 hours of compensatory time. Two employees had compensatory time balances 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 – In the future, the County will track compensatory time earned and taken. The County will do better in abiding by the personnel policy.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2009

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

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

Response – Written job evaluations will be evaluated by the Supervisors in the future.

Conclusion – Response accepted.

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

Recommendation – A written disaster recovery plan should be developed.

Response – The County has been talking about a disaster recovery plan for the last couple of years but it seems the plan is never completed. We will try to complete a plan in the future.

Conclusion – Response accepted.

- (I) Credit Card Usage – The County has adopted a credit card policy allowing County purchases using a credit card. The policy requires all credit card bills to be supported by a statement and detailed itemized vendor receipts. The policy prohibits employee use of a county credit card for personal purchases.

For 11 of eighteen credit card transactions tested, credit card bills were not always supported by statements and detailed itemized vendor receipts. Also, during our testing of credit card transactions, an annual fee and interest were charged to the account.

Recommendation – The Board should ensure credit card bills are properly supported by statements and detailed itemized vendor receipts as required by the credit card policy. Also, credit card bills should be submitted and paid timely to avoid interest and other fees charged to the account.

Response – A notice will be sent to everyone using a county credit card a statement and detailed itemized vendor receipts must be furnished and bills should be paid timely to avoid interest charges and personal purchases should never happen.

Conclusion – Response accepted.

- (J) County Extension Office Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a 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.

Palo Alto County

Schedule of Findings

Year ended June 30, 2009

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 provides the best control possible with two full-time employees and a Regional Director. We will implement a policy up date to rotate handling receipts and bank deposits. Our Treasurer of the Palo Alto County Extension Council has taken on additional responsibilities checking financials monthly.

Conclusion – Response accepted.

- (K) County Assessor – A warrant was prepared and signed for the payment of services and was held prior to the services being received.

Recommendation – Warrants should not be written and held since this can weaken the control over disbursements.

Response – In the future, warrants will not be written and held until services are delivered.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
 Schedule of Findings
 Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the debt service function. In addition, disbursements in certain departments exceeded the amounts appropriated prior to amendment.

Recommendation - The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – This will not happen in the future.

Conclusion – Response accepted.

- (2) Questionable Expenditures – We noted certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
McNally Bake Shop	Donuts for County Engineer's Department safety meeting	\$ 40
Pizza Ranch	Pizza for inmates for courthouse work	23
Coffee King, Inc.	Bottled water for County Sheriff's Department employees	168

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

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

Palo Alto County

Schedule of Findings

Year ended June 30, 2009

Response – The Board of Supervisors feel most of these expenditures do serve as a good public purpose and will probably establish a written policy in the near future.

Conclusion – Response accepted.

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

Name, Title and Business Connection	Transaction Description	Amount
Brandi Goeder, daughter of Sheriff's Office employee, self-employed	Jail transportation	\$ 35
Terry Neary, spouse of Zoning and Sanitation employee, self-employed	Bookkeeping	498
Thomas Leonard, brother of County Auditor, self-employed	Jail transportation	1,136

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

- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) Electronic Checks – Chapter 554D.114 of the Code of Iowa allows the County to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check.
The County Sheriff's Office did not obtain an image of the back of each cancelled check as required.

Palo Alto County

Schedule of Findings

Year ended June 30, 2009

Recommendation – The County Sheriff’s Office should obtain and retain check or warrant images as required.

Responses – The Sheriff’s Office will contact the bank to ensure that from heretofore the back of all checks are received on the bank statements. The Sheriff’s Office will also inquire about receiving corrected bank statements for July 1, 2009 to present to include the back of each processed check.

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 – A compilation of County Ordinances will be prepared and published as required in the future.

Conclusion – Response accepted.

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

Disbursements during the year ended June 30, 2009 for the County Extension Office did not exceed the amount budgeted.

Palo Alto County

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Darryl J. Brumm, CPA, Senior Auditor II
Brett C. Conner, Staff Auditor
Alison P. Baker, Assistant Auditor
Kurt D. Goldsmith, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State