



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 31, 2011

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

The County had local tax revenue of \$17,596,010 for the year ended June 30, 2010, which included \$712,498 in tax credits from the state. The County forwarded \$12,303,473 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$5,292,537 of the local tax revenue to finance County operations, a 3.8 percent increase over the prior year. Other revenues included charges for service of \$1,656,002, operating grants, contributions and restricted interest of \$3,420,611, capital grants, contributions and restricted interest of \$5,396,830, local option sales tax of \$333,579, tax increment financing of \$393,677, gaming tax of \$143,772, unrestricted investment earnings of \$74,164 and other general revenues of \$135,544.

Expenses for County operations totaled \$11,633,232, a 6.6 percent increase over the prior year. Expenses included \$4,386,075 for roads and transportation, \$1,640,028 for public safety and legal services and \$1,300,307 for county environment and education.

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/1010-0074-B00F.pdf>.

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PALO ALTO COUNTY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	28
Notes to Financial Statements		29-44
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		46-47
Budget to GAAP Reconciliation		48
Notes to Required Supplementary Information – Budgetary Reporting		49
Schedule of Funding Progress for the Retiree Health Plan		50
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	52-53
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	54-55
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	56-57
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4	58-59
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	5	60-61
Schedule of Expenditures of Federal Awards	6	62-63
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		65-66
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		60-70
Schedule of Findings and Questioned Costs		71-79
Staff		80

Palo Alto County

Officials

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

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, 2010, 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, 2010, 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.

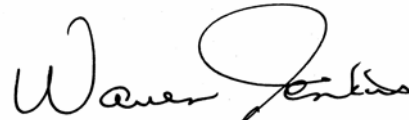
In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2011 on our consideration of Palo Alto County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palo Alto County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 15, 2011

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, 2010. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues increased approximately \$4,877,000 from fiscal year 2009 (FY09). Property tax and other county tax, including tax increment financing, increased approximately \$273,000 from FY09.
- Palo Alto County's governmental activities expenses increased approximately \$718,000 over FY09.
- The County's net assets increased 26%, or approximately \$5,214,000, from June 30, 2009 to June 30, 2010.

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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

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

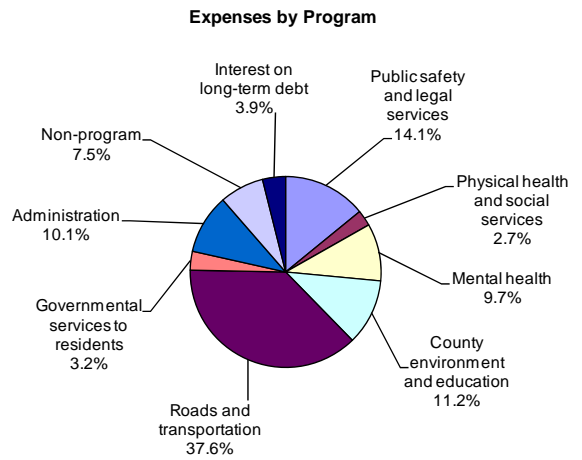
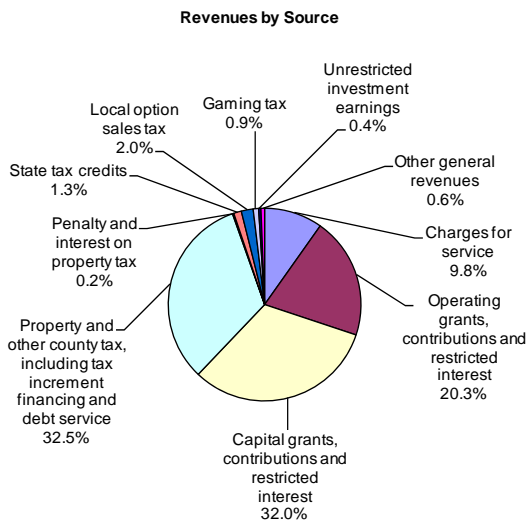
As noted earlier, net assets may serve over time as a useful indicator of financial position. Palo Alto County's combined net assets increased from approximately \$19,684,000 to approximately \$24,898,000. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities		
(Expressed in Thousands)		
	June 30,	
	2010	2009
Current and other assets	\$ 24,838	25,563
Capital assets	18,426	12,489
Total assets	43,264	38,052
Long-term liabilities	11,823	12,264
Other liabilities	6,543	6,104
Total liabilities	18,366	18,368
Net assets:		
Invested in capital assets, net of related debt	17,668	12,489
Restricted	5,965	5,859
Unrestricted	1,265	1,336
Total net assets	\$ 24,898	19,684

Net assets of Palo Alto County's governmental activities increased approximately \$5,214,000. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment) less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Unrestricted net assets decreased from approximately \$1,336,000 at June 30, 2009 to approximately \$1,265,000 at June 30, 2010.

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

	Year ended June 30,	
	2010	2009
Revenues:		
Program revenues:		
Charges for service	\$ 1,656	1,074
Operating grants, contributions and restricted interest	3,421	3,632
Capital grants, contributions and restricted interest	5,397	1,129
General revenues:		
Property and other county tax, including tax increment financing	5,460	5,187
Penalty and interest on property tax	26	24
State tax credits	226	274
Local option sales tax	334	333
Gaming tax	144	138
Unrestricted investment earnings	74	143
Other general revenues	109	36
Total revenues	16,847	11,970
Program expenses:		
Public safety and legal services	1,640	1,456
Physical health and social services	312	304
Mental health	1,130	1,350
County environment and education	1,300	1,262
Roads and transportation	4,386	4,231
Governmental services to residents	369	349
Administration	1,176	1,066
Non-program	867	397
Interest on long-term debt	453	500
Total expenses	11,633	10,915
Increase in net assets	5,214	1,055
Net assets beginning of year	19,684	18,629
Net assets end of year	\$ 24,898	19,684



Palo Alto County's net assets of governmental activities increased approximately \$5,214,000 during the year. Revenues for governmental activities increased approximately \$4,877,000 to approximately \$16,847,000 with capital grants, contributions and restricted interest up \$4,268,000, or 378%, from the prior year. Additionally, property tax revenue, including tax increment financing, increased from the prior year approximately \$273,000, or 5%.

The County decreased property tax rates for fiscal year 2010 an average of 1%. However, total taxable value increased approximately \$12.3 million, or 3%. Property tax is budgeted to increase approximately \$504,000 next year.

The cost of all governmental activities this year was approximately \$11.6 million compared to approximately \$10.9 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was approximately \$1.2 million because some of the cost was paid by those directly benefited from the programs (\$1,656,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$8,817,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased from approximately \$5,835,000 in fiscal year 2009 to approximately \$10,473,000 in fiscal year 2010, principally due to receiving more 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 (\$1,160,000) 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 \$16.8 million, a decrease of approximately \$1,733,000 under last year's total of approximately \$18.5 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 \$420,000 from the prior year to approximately \$1,913,000. General Fund revenues increased approximately \$258,000 and expenditures increased approximately \$293,000. The increase in revenues was primarily due to an increase of \$129,000 in property tax levied and an increase of \$63,000 in intergovernmental grants in fiscal year 2010. The increase in expenditures was primarily due to additional costs incurred for the Geographic Information System (GIS) mapping project, courthouse and jail repair from the hail storm in April and the disbursement of pass-through grants totaling approximately \$210,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,131,000, a decrease of 16% from the prior year, and revenues decreased approximately \$215,000. The Mental Health Fund balance at year end increased approximately \$174,000 to approximately \$566,000. The decrease in expenditures is primarily due to the increased federal Medicaid match applied by the State to the invoices received by the County which reduced the amount due from the County. Revenues decreased primarily due to a reduction of allowable growth and community service dollars of \$129,000 from the State. This reduction was a result of the fund balance exceeding 10% of total expenditures for fiscal year 2008 and a mandatory state-wide 10% reduction of allowable growth and community service dollars ordered by the Governor.
- Rural Services Fund expenditures increased approximately \$102,000 from the prior year. Revenues increased approximately \$83,000, which was primarily due to an increase in property and other county tax receipts. The Rural Services Fund balance decreased approximately \$154,000 to approximately \$658,000.

- Secondary Roads Fund expenditures increased approximately \$903,000 over the prior year. This increase in expenditures is due primarily to an increase of \$210,000 in the construction budget. This construction increase is due primarily to the locally funded "Kirby-Flynn" high truss bridge reconstruction project. There was also an increase of approximately \$392,000 in the general roadway (new equipment) line item. This increase was due primarily to the purchase of 2 semi's and belly dump trailers, gravel truck box retrofits and the purchase of a new motor grader. The County's snow removal cost increased due to the record setting winter. The County's patching costs decreased due to the timing of the patches (prior to July 1) and also due to the beginning of the positive effects from the spring weight restriction road embargos and the newer pavements. Revenues increased approximately \$209,000. The major item increasing the revenue was the I-JOBS funding of approximately \$89,000 received in fiscal year 2010 and not received in the prior year. The Secondary Roads Fund ending balance decreased approximately \$270,000, or 6%.
- The Drainage Districts Fund revenues increased approximately \$140,000 due to an increase in drainage assessments from the prior year. Expenditures increased approximately \$573,000, due primarily to flood repair and projects being completed in the current year. This resulted in an increase of approximately \$19,000 in the Drainage Districts Fund end of year balance.
- The Tax Increment Financing Fund expended \$473,816 for the payment of revenue bond principal and interest, including an additional \$250,000 paid toward the principal balance on the revenue bond. The balance in the fund at June 30, 2010 was approximately \$221,000, which is to be used to pay principal and interest on the bonds through September 2010.
- The Debt Service Fund revenues increased approximately \$11,000 over the prior year. The expenditures decreased approximately \$1,000. The balance in the fund at June 30, 2010 was approximately \$17,000, or approximately \$1,000 less than the prior year. The Debt Service Fund is used to pay for general obligation bond principal and interest for the road projects.
- Capital Projects Fund revenues decreased \$99,000 due to a decrease in interest earned on the investment of prior year general obligation bond proceeds. Expenditures increased \$914,000 for construction of Highway B53. 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 twice. The amendments were made on September 29, 2009 and May 25, 2010 and resulted in an increase in budgeted disbursements of \$728,900, which increased all functions except mental health, governmental services to residents, nonprogram and debt service. Capital projects function budgeted disbursements increased \$530,000.

The County's receipts were \$496,877 less than budgeted, a variance of 4.3%. A significant variance resulted from the County not receiving anticipated interest earnings as a result of the decrease in interest rates.

Total disbursements were \$8,090,301 less than the amended budget. Actual disbursements for the capital projects, mental health and roads and transportation functions were \$6,778,725, \$452,806 and \$326,755, respectively, less than budgeted. The variance affecting the capital projects function was primarily due to only spending \$1,573,645 of the \$8,352,370 budgeted for road projects from the Capital Projects Fund. This resulted from changes in the farm-to-market funding rules for borrowing ahead, which allowed the County to utilize farm-to-market funds instead of bond funds. Bond funds are planned to be utilized for future capital projects. The remaining variances are a result of disbursements budgeted and not used by June 30, 2010.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, Palo Alto County had approximately \$18.4 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges and intangible assets. This is a net increase (including additions and deletions) of approximately \$5,937,000, or 47.5%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2010	2009
Land	\$ 934	1,144
Buildings and improvements	845	875
Equipment and vehicles	2,809	2,690
Intangibles	402	-
Infrastructure	13,436	7,780
Total	\$ 18,426	12,489

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

Capital assets contributed by the Iowa Department of Transportation and others	\$ 4,675
CAT motor grader	277
Two trucks and dump trailers	129
Total	\$ 5,081

The County had depreciation expense of approximately \$721,000 in fiscal year 2010 and total accumulated depreciation of approximately \$5.6 million at June 30, 2010. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2010, Palo Alto County had approximately \$11.4 million in outstanding long-term debt, which included \$1,308,000 in urban renewal tax increment revenue bonds, \$9,190,000 in general obligation bonds and \$928,250 in drainage warrants.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2010	2009
Urban renewal TIF bonds	\$ 1,308	1,731
General obligation bonds	9,190	9,650
Drainage warrants	928	573
Total	\$ 11,426	11,954

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 \$36 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 2011 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 December 2010 was 4,940, which is down from 4,990 during December 2009. Unemployment in the County during December 2010 was 5.1% compared to 7.1% during December 2009. This compares with the State's unemployment rate of 6.3% and the national rate of 9.4% during December 2010.

The national Consumer Price Index increased .05% in December 2010 from the previous month. However, over the last twelve months, the index increased 1.5% due to increasing energy prices, electricity, fuel oil and natural gas.

The above factors were all part of the considerations for the fiscal year 2011 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars)

	2011 Dollars Certified	2010 Dollars Certified	Percentage Change
General Fund	\$ 2,725,185	2,403,189	13.40%
Mental Health Fund	682,516	683,690	-0.17%
Rural Services Fund	1,560,646	1,371,321	13.81%
Debt Service Fund	823,603	825,563	-0.24%
Total	\$ 5,791,950	5,283,763	9.62%

Continued state revenue cutbacks the past few years are driving the increases in property tax. No new services were added in the fiscal year 2011 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2011 are as follows:

	2011	2010	Percentage Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.35000	1.35000	0.00%
Mental health levy	1.21467	1.37979	-11.97%
Rural services basic levy	3.95000	3.95000	0.00%
Debt service levy	1.40264	1.57016	-10.67%
Total	\$ 11.41731	11.74995	-2.83%

These factors were taken into account when adopting the budget for fiscal year 2011. Amounts appropriated in the operating budget are \$20,644,227, a decrease of \$47,500, or less than 1%, under the final fiscal year 2010 budget. The majority of the disbursements budgeted are for capital projects as road improvements continue during fiscal year 2011. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy for fiscal year 2011 remained at \$1.35 per \$1,000 of taxable valuation. Palo Alto County decreased the mental health levy for fiscal year 2011 from \$1.37979 per \$1,000 of taxable valuation to \$1.21467 per \$1,000 of taxable valuation. Additionally, the County decreased the debt service levy for fiscal year 2011 from \$1.57016 per \$1,000 of taxable valuation to \$1.40264 per \$1,000 of taxable valuation. The rural basic levy rate remained at the limit of \$3.95 per \$1,000 of taxable valuation.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Exhibit A

Palo Alto County
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 16,424,921
Receivables:	
Property tax:	
Delinquent	4,823
Succeeding year	5,873,000
Interest and penalty on property tax	15,038
Accounts	150,070
Economic development loans	5,596
Accrued interest	19,943
Drainage assessments	1,056,941
Due from other governments	521,840
Inventories	647,291
Prepaid insurance	118,627
Capital assets (net of accumulated depreciation)	<u>18,425,716</u>
Total assets	<u>43,263,806</u>
Liabilities	
Accounts payable	310,008
Accrued interest payable	148,377
Salaries and benefits payable	64,741
Due to other governments	147,213
Deferred revenue:	
Succeeding year property tax	5,873,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment revenue bonds	173,000
General obligation bonds	470,000
Drainage warrants	928,250
Compensated absences	166,065
Portion due or payable after one year:	
Urban renewal tax increment revenue bonds	1,135,000
General obligation bonds	8,720,000
Compensated absences	83,625
Net OPEB liability	<u>146,585</u>
Total liabilities	<u>18,365,864</u>
Net Assets	
Invested in capital assets, net of related debt	17,668,171
Restricted for:	
Supplemental levy purposes	467,891
Courthouse repairs	50,000
Mental health purposes	566,478
Secondary roads purposes	4,160,704
Drainage district purposes	222,508
Debt service	17,914
Capital projects	351,685
Other purposes	127,708
Unrestricted	<u>1,264,883</u>
Total net assets	<u>\$ 24,897,942</u>

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2010

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,640,028	187,440	24,058	2,082	(1,426,448)
Physical health and social services	311,737	123,834	46,916	-	(140,987)
Mental health	1,130,331	-	621,676	-	(508,655)
County environment and education	1,300,307	234,984	50,632	-	(1,014,691)
Roads and transportation	4,386,075	139,964	2,471,469	4,928,827	3,154,185
Governmental services to residents	369,074	178,167	-	-	(190,907)
Administration	1,175,864	4,349	24,285	-	(1,147,230)
Non-program	867,318	787,264	181,575	465,921	567,442
Interest on long-term debt	452,498	-	-	-	(452,498)
Total	\$ 11,633,232	1,656,002	3,420,611	5,396,830	(1,159,789)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,276,460
Debt service					790,180
Tax increment financing					393,677
Penalty and interest on property tax					26,639
State tax credits					225,897
Local option sales tax					333,579
Gaming tax					143,772
Unrestricted investment earnings					74,164
Gain on disposition of capital assets					53,700
Miscellaneous					55,205
Total general revenues					6,373,273
Change in net assets					5,213,484
Net assets beginning of year					19,684,458
Net assets end of year					\$ 24,897,942

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2010

	Special				
	General	Mental Health	Rural Services	Secondary Roads	
Assets					
Cash and pooled investments	\$ 1,910,505	707,571	650,435	3,385,941	
Receivables:					
Property tax:					
Delinquent	2,761	692	564	-	
Succeeding year	2,622,000	656,000	1,502,000	-	
Interest and penalty on property tax	15,038	-	-	-	
Accounts	17,504	1,882	10,660	120,024	
Economic developmental loans	-	-	-	-	
Accrued interest	4,236	-	-	3,151	
Drainage assessments	-	-	-	-	
Due from other funds	-	-	-	12,827	
Due from other governments	12,830	-	44,117	279,256	
Inventories	-	-	-	647,291	
Prepaid insurance	21,409	-	711	18,261	
	Total assets	\$ 4,606,283	1,366,145	2,208,487	4,466,751
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 41,971	34,431	8,276	26,486	
Salaries and benefits payable	-	-	-	64,741	
Due to other funds	-	-	12,827	-	
Due to other governments	11,409	109,236	26,568	-	
Deferred revenue:					
Succeeding year property tax	2,622,000	656,000	1,502,000	-	
Other	17,783	690	557	118,628	
Total liabilities	2,693,163	800,357	1,550,228	209,855	
Fund balances:					
Reserved for:					
Supplemental levy purposes	478,027	-	-	-	
Courthouse repairs	50,000	-	-	-	
Drainage warrants/drainage improvement certificates	-	-	-	-	
Debt service	-	-	-	-	
Transfer station closure care	-	-	-	-	
Unreserved, reported in:					
General fund	1,385,093	-	-	-	
Special revenue funds	-	565,788	658,259	4,256,896	
Capital projects fund	-	-	-	-	
Total fund balances	1,913,120	565,788	658,259	4,256,896	
	Total liabilities and fund balances	\$ 4,606,283	1,366,145	2,208,487	4,466,751

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
121,935	221,470	17,108	8,802,372	121,697	15,939,034
-	-	806	-	-	4,823
-	300,000	793,000	-	-	5,873,000
-	-	-	-	-	15,038
-	-	-	-	-	150,070
-	-	-	-	5,596	5,596
-	-	-	11,234	-	18,621
1,056,941	-	-	-	-	1,056,941
-	-	-	-	-	12,827
185,222	-	-	-	415	521,840
-	-	-	-	-	647,291
-	-	-	-	-	40,381
1,364,098	521,470	810,914	8,813,606	127,708	24,285,462
100,272	-	-	-	-	211,436
-	-	-	-	-	64,741
-	-	-	-	-	12,827
-	-	-	-	-	147,213
-	300,000	793,000	-	-	5,873,000
1,056,941	-	803	-	5,596	1,200,998
1,157,213	300,000	793,803	-	5,596	7,510,215
-	-	-	-	-	478,027
-	-	-	-	-	50,000
186,457	-	-	-	-	186,457
-	-	17,111	-	-	17,111
-	-	-	-	5,000	5,000
-	-	-	-	-	1,385,093
20,428	221,470	-	-	117,112	5,839,953
-	-	-	8,813,606	-	8,813,606
206,885	221,470	17,111	8,813,606	122,112	16,775,247
1,364,098	521,470	810,914	8,813,606	127,708	24,285,462

Palo Alto County

Palo Alto County

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

June 30, 2010

Total governmental fund balances (page 19) \$ 16,775,247

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 \$24,010,716 and the accumulated depreciation/amortization is \$5,585,000. 18,425,716

Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds. 1,200,998

The Internal Service Fund is used by management to charge the costs of the partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Assets. 466,883

Long-term liabilities, including urban renewal tax increment revenue bonds payable, general obligation bonds payable, drainage warrants payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (11,970,902)

Net assets of governmental activities (page 16) \$ 24,897,942

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2010

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,447,127	655,250	1,317,084	-
Local option sales tax	-	-	333,579	-
Interest and penalty on property tax	23,945	-	-	-
Intergovernmental	420,702	642,316	121,799	2,741,190
Licenses and permits	6,972	-	-	3,095
Charges for service	305,178	-	215,970	30,845
Use of money and property	78,792	-	19	23,069
Miscellaneous	185,102	7,372	-	37,293
Total revenues	<u>3,467,818</u>	<u>1,304,938</u>	<u>1,988,451</u>	<u>2,835,492</u>
Expenditures:				
Operating:				
Public safety and legal services	1,391,928	-	204,189	-
Physical health and social services	308,296	-	-	-
Mental health	-	1,130,674	-	-
County environment and education	676,876	-	604,087	-
Roads and transportation	-	-	191,285	3,817,033
Governmental services to residents	361,537	-	-	-
Administration	1,074,115	-	97,500	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	34,571	-	5,112	328,462
Total expenditures	<u>3,847,323</u>	<u>1,130,674</u>	<u>1,102,173</u>	<u>4,145,495</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(379,505)</u>	<u>174,264</u>	<u>886,278</u>	<u>(1,310,003)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	1,039,958
Operating transfers out	(40,000)	-	(1,039,958)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	<u>(40,000)</u>	<u>-</u>	<u>(1,039,958)</u>	<u>1,039,958</u>
Net change in fund balances	(419,505)	174,264	(153,680)	(270,045)
Fund balances beginning of year	<u>2,332,625</u>	<u>391,524</u>	<u>811,939</u>	<u>4,526,941</u>
Fund balances end of year	<u>\$ 1,913,120</u>	<u>565,788</u>	<u>658,259</u>	<u>4,256,896</u>

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	393,677	790,071	-	-	5,603,209
-	-	-	-	-	333,579
-	-	-	-	-	23,945
272,332	-	34,880	-	21,626	4,254,845
-	-	-	-	-	10,067
-	-	-	-	2,582	554,575
-	-	-	182,805	9,544	294,229
161,125	-	-	-	15,183	406,075
433,457	393,677	824,951	182,805	48,935	11,480,524
-	-	-	-	14,983	1,611,100
-	-	-	-	-	308,296
-	-	-	-	-	1,130,674
-	-	-	-	50,992	1,331,955
-	-	-	-	-	4,008,318
-	-	-	-	1,811	363,348
-	-	-	-	-	1,171,615
740,436	-	-	-	-	740,436
244,056	473,816	825,558	-	-	1,543,430
-	-	-	1,193,328	12,580	1,574,053
984,492	473,816	825,558	1,193,328	80,366	13,783,225
(551,035)	(80,139)	(607)	(1,010,523)	(31,431)	(2,302,701)
-	-	-	-	40,000	1,079,958
-	-	-	-	-	(1,079,958)
569,938	-	-	-	-	569,938
569,938	-	-	-	40,000	569,938
18,903	(80,139)	(607)	(1,010,523)	8,569	(1,732,763)
187,982	301,609	17,718	9,824,129	113,543	18,508,010
206,885	221,470	17,111	8,813,606	122,112	16,775,247

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, 2010

Net change in fund balances - Total governmental funds (page 23) \$ (1,732,763)

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

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

Expenditures for capital assets	\$ 1,929,712	
Capital assets contributed by the Iowa Department of Transportation and others	4,674,613	
Depreciation/amortization expense	<u>(721,015)</u>	5,883,310

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.

53,700

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

Property tax	3,574	
Other	<u>504,604</u>	508,178

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	(569,938)	
Repaid	<u>1,097,823</u>	527,885

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	60,027	
Other postemployment benefits	(146,585)	
Interest on long-term debt	<u>(6,891)</u>	(93,449)

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.

66,623

Change in net assets of governmental activities (page 17) \$ 5,213,484

See notes to financial statements.

Palo Alto County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2010

	Internal Service - Employee Group Health
Assets	
Cash and cash equivalents	\$ 485,887
Accrued interest	1,322
Prepaid insurance	78,246
Total assets	565,455
Liabilities	
Accounts payable	98,572
Net Assets	
Unrestricted	\$ 466,883

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, 2010

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 917,949
Reimbursements from employees		12,109
Total operating revenues		<u>930,058</u>
Operating expenses:		
Insurance premiums	\$ 781,220	
Medical claims	67,072	
Administrative fees	<u>16,465</u>	<u>864,757</u>
Operating income		65,301
Non-operating revenues:		
Interest income		<u>1,322</u>
Net income		66,623
Net assets beginning of year		<u>400,260</u>
Net assets end of year		<u><u>\$ 466,883</u></u>

See notes to financial statements.

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2010

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 917,949
Cash received from employees	12,109
Cash paid to suppliers for services	(879,381)
Net cash provided by operating activities	50,677
Cash and cash equivalents beginning of year	435,210
Cash and cash equivalents end of year	\$ 485,887
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 65,301
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts payable	(2,928)
Increase in prepaid insurance	(11,696)
Net cash provided by operating activities	\$ 50,677

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

Assets

Cash and pooled investments:

County Treasurer	\$ 850,751
Other County officials	49,878

Receivables:

Property tax:

Delinquent	14,820
Succeeding year	11,824,000

Accounts	21,404
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Accrued interest	80
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Special assessments	41,754
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Total assets	<u>12,802,687</u>
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Liabilities

Accounts payable	2,794
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Due to other governments	12,734,449
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Trusts payable	54,112
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Compensated absences	11,332
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Total liabilities	<u>12,802,687</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, 2010

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2009.

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, 2010, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. 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, 2010, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2010 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, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 12,827</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, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Economic Development	General	\$ 40,000
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>1,039,958</u>
Total		<u>\$ 1,079,958</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, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 933,912	-	-	933,912
Intangibles	210,113	-	-	210,113
Construction in progress	813,926	6,039,226	(2,851,080)	4,002,072
Total capital assets not being depreciated/amortized	1,957,951	6,039,226	(2,851,080)	5,146,097
Capital assets being depreciated/amortized:				
Buildings	1,499,953	-	-	1,499,953
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	6,301,986	426,912	(230,165)	6,498,733
Intangibles	-	191,887	-	191,887
Infrastructure, road network	7,729,567	2,851,080	-	10,580,647
Total capital assets being depreciated/amortized	15,624,905	3,469,879	(230,165)	18,864,619
Less accumulated depreciation/amortization for:				
Buildings	688,068	26,659	-	714,727
Improvements other than buildings	30,115	3,504	-	33,619
Equipment and vehicles	3,612,047	307,459	(230,165)	3,689,341
Intangibles	-	-	-	-
Infrastructure, road network	763,920	383,393	-	1,147,313
Total accumulated depreciation/amortization	5,094,150	721,015	(230,165)	5,585,000
Total capital assets being depreciated/amortized, net	10,530,755	2,748,864	-	13,279,619
Governmental activities capital assets, net	\$ 12,488,706	8,788,090	(2,851,080)	18,425,716

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 13,098
County environment and education	36,721
Roads and transportation	668,496
Administration	2,700
Total depreciation/amortization expense - governmental activities	\$ 721,015

Governmental Accounting Standards Board Statement No. 51, Accounting and Financial Reporting for Intangible Assets, was implemented during fiscal year 2010. A right of way totaling \$210,113 which was previously reported as land was reclassified as intangibles. Restatement of the beginning net assets and capital assets for governmental activities was not necessary because the right of way has an indefinite useful life and, therefore, is not subject to amortization.

(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	\$ 11,409
Special Revenue:		
Mental Health	Services	109,236
Rural Services	Services	26,568
		<u>135,804</u>
Total for governmental funds		<u>\$ 147,213</u>
Agency:		
County Offices	Collections	8,212
Agricultural Extension Education		72,998
County Assessor		377,043
Schools		7,444,549
Community Colleges		430,204
Corporations		2,553,840
Townships		126,855
City Special Assessments		42,644
Auto License and Use Tax		209,219
All other		<u>1,468,885</u>
Total for agency funds		<u>\$ 12,734,449</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, 2010
Mike and Kim Gehrt	Feb 24, 1998	Jun 1, 2008	\$ 10,000	5.0%	10 years	\$ 1,158
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>3,297</u>
Total			<u>\$ 32,500</u>			<u>\$ 5,596</u>

(8) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Urban Renewal Tax Increment Revenue Bonds	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 1,731,000	9,650,000	573,135	309,717	-	12,263,852
Increases	-	-	569,938	174,594	146,585	891,117
Decreases	(423,000)	(460,000)	(214,823)	(234,621)	-	(1,332,444)
Balance end of year	\$ 1,308,000	9,190,000	928,250	249,690	146,585	11,822,525
Due within one year	\$ 173,000	470,000	928,250	166,065	-	1,737,315

Urban Renewal Tax Increment Revenue Bonds

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, 2010, principal of \$423,000, including an additional principal payment of \$250,000, and interest of \$50,816 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, 2010 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
2011	4.50%	\$ 173,000	56,914	229,914
2012	4.50	173,000	49,129	222,129
2013	4.50	173,000	41,344	214,344
2014	4.50	173,000	33,559	206,559
2015	4.50	173,000	25,774	198,774
2016-2019	4.50	443,000	30,610	473,610
Total		\$ 1,308,000	237,330	1,545,330

General Obligation Bonds

During the year ended June 30, 2008, the County issued \$10,000,000 of general obligation bonds. A summary of the County's June 30, 2010 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Series 2007B			
	Issued December 31, 2007			
	Interest Rates	Principal	Interest	Total
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	4.25	-	212,500	212,500
2016-2020	4.25	190,000	1,062,500	1,252,500
2021-2025	4.25	3,300,000	752,250	4,052,250
2026-2027	4.25	1,510,000	96,900	1,606,900
Total		\$ 5,000,000	2,974,150	7,974,150

Year Ending June 30,	Series 2008					Total		
	Issued May 1, 2008					Principal	Interest	Total
	Interest Rates	Principal	Interest	Total				
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	3.45	530,000	81,040	611,040	530,000	293,540	823,540	
2016-2020	3.60-3.80	1,695,000	128,120	1,823,120	1,885,000	1,190,620	3,075,620	
2021-2025		-	-	-	3,300,000	752,250	4,052,250	
2026-2027		-	-	-	1,510,000	96,900	1,606,900	
Total		\$ 4,190,000	690,102	4,880,102	9,190,000	3,664,252	12,854,252	

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 4.30% of their annual covered salary and the County is required to contribute 6.65% 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, 2010, 2009 and 2008 were \$239,363, \$220,608 and \$202,102, respectively, equal to the required contributions for each year.

(10) Other Postemployment Benefits (OPEB)

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

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

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

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

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 162,040
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	162,040
Contributions made	(15,455)
Increase in net OPEB obligation	146,585
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 146,585</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the County contributed \$15,455 to the plan.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 162,040	9.5%	\$ 146,585

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1,339,502, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,339,502. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,088,000 and the ratio of the UAAL to covered payroll was 43.4%. As of June 30, 2010, there were no trust fund assets.

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

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

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

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

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

(11) Risk Management

The 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 634 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, 2010 were \$118,225.

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 \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2010, no liability has been recorded in the County's financial statements. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

(12) 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, 2010 was \$917,949.

Amounts payable from the Employee Group Health Fund at June 30, 2010 total \$98,572, 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 \$466,883 at June 30, 2010 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	\$ 101,500
Incurred claims (including claims incurred but not reported at June 30, 2010)	64,144
Payment on claims during the fiscal year	<u>(67,072)</u>
Unpaid claims end of year	<u>\$ 98,572</u>

(13) 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, 2010 have been estimated at \$4,978. 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, 2010.

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, 2010

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 5,937,836	-	5,937,836
Interest and penalty on property tax	23,937	-	23,937
Intergovernmental	3,965,972	24,434	3,941,538
Licenses and permits	10,667	-	10,667
Charges for service	565,023	-	565,023
Use of money and property	329,924	-	329,924
Miscellaneous	395,176	161,125	234,051
Total receipts	11,228,535	185,559	11,042,976
Disbursements:			
Public safety and legal services	1,616,542	-	1,616,542
Physical health and social services	305,909	-	305,909
Mental health	1,158,880	-	1,158,880
County environment and education	1,322,772	-	1,322,772
Roads and transportation	3,786,423	-	3,786,423
Governmental services to residents	363,295	-	363,295
Administration	1,174,580	-	1,174,580
Non-program	654,660	654,660	-
Debt service	1,543,436	244,056	1,299,380
Capital projects	1,573,645	-	1,573,645
Total disbursements	13,500,142	898,716	12,601,426
Excess (deficiency) of receipts over (under) disbursements	(2,271,607)	(713,157)	(1,558,450)
Other financing sources, net	569,938	569,938	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,701,669)	(143,219)	(1,558,450)
Balance beginning of year	17,640,703	265,154	17,375,549
Balance end of year	\$ 15,939,034	121,935	15,817,099

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net
Original	Final	Variance
5,779,059	5,779,059	158,777
6,400	6,400	17,537
3,878,345	3,970,581	(29,043)
28,550	28,550	(17,883)
581,900	586,040	(21,017)
586,873	586,873	(256,949)
230,350	582,350	(348,299)
11,091,477	11,539,853	(496,877)
1,632,477	1,648,477	31,935
386,060	400,200	94,291
1,611,686	1,611,686	452,806
1,521,977	1,565,977	243,205
4,013,178	4,113,178	326,755
395,025	395,025	31,730
1,255,542	1,280,302	105,722
-	-	-
1,324,512	1,324,512	25,132
7,822,370	8,352,370	6,778,725
19,962,827	20,691,727	8,090,301
(8,871,350)	(9,151,874)	7,593,424
-	-	-
(8,871,350)	(9,151,874)	7,593,424
-	-	-
16,124,048	16,124,048	1,251,501
7,252,698	6,972,174	8,844,925

Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 11,228,535	(251,989)	11,480,524
Expenditures	13,500,142	(283,083)	13,783,225
Net	(2,271,607)	31,094	(2,302,701)
Other financing sources, net	569,938	-	569,938
Beginning fund balances	17,640,703	867,307	18,508,010
Ending fund balances	\$ 15,939,034	836,213	16,775,247

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$728,900. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

Palo Alto County

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

Required Supplementary Information

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

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

Palo Alto County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2010

	Resource Enhancement and Protection	County Recorder's Records Management	Economic Development
Assets			
Cash and pooled investments	\$ 29,566	7,731	14,171
Economic development loans receivable	-	-	5,596
Due from other governments	-	-	-
Total assets	\$ 29,566	7,731	19,767
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue	\$ -	-	5,596
Fund balances:			
Reserved for transfer station closure care	-	-	-
Unreserved fund balances	29,566	7,731	14,171
Total fund balances	29,566	7,731	14,171
Total liabilities and fund balances	\$ 29,566	7,731	19,767

See accompanying independent auditor's report.

Special Revenue						
Sheriff Reserve	Five Island Trails	Closure/ Postclosure	County Attorney Collections	Conservation Land Acquisition		Total
1,020	257	5,000	279	63,673		121,697
-	-	-	-	-		5,596
-	-	-	415	-		415
1,020	257	5,000	694	63,673		127,708
-	-	-	-	-		5,596
-	-	5,000	-	-		5,000
1,020	257	-	694	63,673		117,112
1,020	257	5,000	694	63,673		122,112
1,020	257	5,000	694	63,673		127,708

Palo Alto County

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

Year ended June 30, 2010

	Resource Enhancement and Protection	County Recorder's Records Management	Economic Development
Revenues:			
Intergovernmental	\$ 14,632	-	-
Charges for service	-	1,992	-
Use of money and property	15	4	4,366
Miscellaneous	-	-	-
Total revenues	14,647	1,996	4,366
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	10,992	-	40,000
Governmental services to residents	-	1,811	-
Capital projects	-	-	-
Total expenditures	10,992	1,811	40,000
Excess (deficiency) of revenues over (under) expenditures	3,655	185	(35,634)
Other financing sources:			
Operating transfers in	-	-	40,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures	3,655	185	4,366
Fund balances beginning of year	25,911	7,546	9,805
Fund balances end of year	\$ 29,566	7,731	14,171

See accompanying independent auditor's report.

Special Revenue						
Sheriff Reserve	Five Island Trails	Closure/ Postclosure	County Attorney Collections	Conservation Land Acquisition		Total
6,300	-	-	694	-		21,626
590	-	-	-	-		2,582
-	-	-	-	5,159		9,544
2,346	12,837	-	-	-		15,183
9,236	12,837	-	694	5,159		48,935
14,983	-	-	-	-		14,983
-	-	-	-	-		50,992
-	-	-	-	-		1,811
-	12,580	-	-	-		12,580
14,983	12,580	-	-	-		80,366
(5,747)	257	-	694	5,159		(31,431)
-	-	-	-	-		40,000
(5,747)	257	-	694	5,159		8,569
6,767	-	5,000	-	58,514		113,543
1,020	257	5,000	694	63,673		122,112

Palo Alto County

Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2010

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	922	174,960	83,211	4,758
Other County officials	49,878	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	76	222	7,338	446
Succeeding year	-	72,000	211,000	7,354,000	425,000
Accounts	1,375	-	6	-	-
Accrued interest	-	-	-	-	-
Special assessments	-	-	-	-	-
Total assets	\$ 51,253	72,998	386,188	7,444,549	430,204
Liabilities					
Accounts payable	\$ -	-	248	-	-
Due to other governments	8,212	72,998	377,043	7,444,549	430,204
Trusts payable	43,041	-	-	-	-
Compensated absences	-	-	8,897	-	-
Total liabilities	\$ 51,253	72,998	386,188	7,444,549	430,204

See accompanying independent auditor's report.

Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
30,432	1,795	890	209,219	344,564	850,751
-	-	-	-	-	49,878
5,408	60	-	-	1,270	14,820
2,518,000	125,000	-	-	1,119,000	11,824,000
-	-	-	-	20,023	21,404
-	-	-	-	80	80
-	-	41,754	-	-	41,754
2,553,840	126,855	42,644	209,219	1,484,937	12,802,687
-	-	-	-	2,546	2,794
2,553,840	126,855	42,644	209,219	1,468,885	12,734,449
-	-	-	-	11,071	54,112
-	-	-	-	2,435	11,332
2,553,840	126,855	42,644	209,219	1,484,937	12,802,687

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2010

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets and Liabilities					
Balances beginning of year	\$ 35,624	73,327	453,415	6,543,447	377,423
Additions:					
Property and other county tax	-	71,887	211,800	7,355,714	425,451
E911 surcharge	-	-	-	-	-
State tax credits	-	3,278	9,471	295,799	16,935
Drivers license fees	-	-	-	-	-
Office fees and collections	258,535	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	126,601	-	-	-	-
Miscellaneous	-	-	19	-	-
Total additions	385,136	75,165	221,290	7,651,513	442,386
Deductions:					
Agency remittances:					
To other funds	117,364	-	-	-	-
To other governments	144,441	75,494	288,517	6,750,411	389,605
Trusts paid out	107,702	-	-	-	-
Total deductions	369,507	75,494	288,517	6,750,411	389,605
Balances end of year	\$ 51,253	72,998	386,188	7,444,549	430,204

See accompanying independent auditor's report.

Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
2,406,551	118,156	63,196	204,349	1,288,727	11,564,215
2,507,391	124,911	-	-	1,119,718	11,816,872
-	-	-	-	62,858	62,858
110,972	5,484	-	-	44,662	486,601
-	-	-	29,983	-	29,983
-	-	-	-	-	258,535
-	-	-	-	5,375	5,375
-	-	-	2,497,471	-	2,497,471
-	-	5,149	-	-	5,149
-	-	-	-	-	126,601
-	-	-	-	268,254	268,273
2,618,363	130,395	5,149	2,527,454	1,500,867	15,557,718
-	-	-	105,924	-	223,288
2,471,074	121,696	25,701	2,416,660	1,304,657	13,988,256
-	-	-	-	-	107,702
2,471,074	121,696	25,701	2,522,584	1,304,657	14,319,246
2,553,840	126,855	42,644	209,219	1,484,937	12,802,687

Palo Alto County

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

For the Last Ten Years

	2010	2009	2008	2007
Revenues:				
Property and other county tax	\$ 5,603,209	5,324,307	4,895,452	4,931,144
Local option sales tax	333,579	333,000	293,697	375,326
Interest and penalty on property tax	23,945	21,939	24,668	25,995
Intergovernmental	4,254,845	4,114,678	3,801,314	3,804,731
Licenses and permits	10,067	9,013	23,505	9,782
Charges for service	554,575	545,346	487,402	477,541
Use of money and property	294,229	466,243	485,647	391,148
Miscellaneous	406,075	246,814	472,628	210,377
Total	\$ 11,480,524	11,061,340	10,484,313	10,226,044
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,611,100	1,514,188	1,440,928	1,307,407
Physical health and social services	308,296	303,222	305,488	346,957
Mental health	1,130,674	1,349,910	1,470,535	1,379,738
County environment and education	1,331,955	1,183,855	1,173,111	956,832
Roads and transportation	4,008,318	3,295,372	3,072,587	3,091,246
Governmental services to residents	363,348	354,520	465,185	329,024
Administration	1,171,615	1,059,081	951,245	1,078,010
Non-program	740,436	338,381	379,250	73,170
Debt service	1,543,430	1,171,045	425,316	338,077
Capital projects	1,574,053	447,110	272,549	735,751
Total	\$ 13,783,225	11,016,684	9,956,194	9,636,212

See accompanying independent auditor's report.

Modified Accrual Basis					
2006	2005	2004	2003	2002	2001
4,232,250	4,211,427	4,608,299	4,245,927	3,741,378	3,076,365
268,628	280,977	257,049	226,407	289,330	123,108
25,929	25,423	27,410	30,859	31,504	26,361
3,885,266	3,781,399	3,483,391	4,254,454	3,064,676	3,118,979
11,150	6,621	6,756	7,906	3,572	3,931
450,315	380,075	402,237	412,663	339,719	304,456
241,490	148,718	104,798	109,026	145,413	258,468
852,455	154,374	376,283	256,392	751,402	325,405
9,967,483	8,989,014	9,266,223	9,543,634	8,366,994	7,237,073
1,223,356	1,181,247	1,138,496	1,103,475	1,073,147	1,026,810
377,459	242,172	241,273	269,280	285,358	283,350
1,217,605	1,265,563	1,330,115	1,380,912	1,375,515	1,249,105
983,662	2,861,490	838,259	945,358	891,111	904,999
2,898,948	3,402,536	1,815,008	2,616,612	2,653,642	2,786,069
462,226	384,667	306,606	265,775	245,936	240,149
1,012,503	1,045,164	970,837	888,506	794,606	754,904
100,355	318,393	477,850	647,697	536,512	368,304
832,476	163,711	368,499	282,548	599,995	243,671
221,044	471,050	144,343	131,059	200,102	244,118
9,329,634	11,335,993	7,631,286	8,531,222	8,655,924	8,101,479

Palo Alto County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		\$ 8,966
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	06-ED-012	4,000
U.S. Department of Education:			
Iowa Department of Transportation:			
ARRA - State Fiscal Stabilization Fund (SFSP) - Government Services, Recovery Act	84.397		24,462
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		4,621
Refugee and Entrant Assistance_State Administered Programs	93.566		25
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		2,349
Foster Care_Title IV-E	93.658		4,803
Adoption Assistance	93.659		1,200
Children's Health Insurance Program	93.767		54
Medical Assistance Program	93.778		10,134
Social Services Block Grant	93.667		4,764
Social Services Block Grant	93.667		38,750
			43,514
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
National Bioterrorism Hospital Preparedness Program	93.889	5880EM219	7,500
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1763 DRIA	246,559
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1930 DRIA	71,636
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1877 DRIA	45,996
			364,191

Palo Alto County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Iowa Homeland Security and Emergency Management Division (Continued) :			
Emergency Management Performance Grants	97.042		28,744
Homeland Security Grant Program	97.067		6,724
Total			\$ 511,287

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Palo Alto County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Palo Alto County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated March 15, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10, II-B-10 and II-C-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-D-10 through II-K-10 to be significant deficiencies.

Compliance and Other Matters

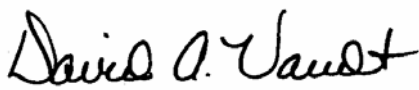
As part of obtaining reasonable assurance about whether Palo Alto County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2010 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.

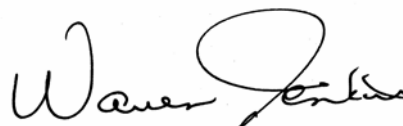
Palo Alto County's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the County's responses, we did not audit Palo Alto County's responses and, accordingly, we express no opinion on them.

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 15, 2011

**Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and
on Internal Control over Compliance in Accordance with
OMB Circular A-133**

Palo Alto County



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Auditor of State

Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and
on Internal Control over Compliance in Accordance with
OMB Circular A-133

To the Officials of Palo Alto County:

Compliance

We have audited Palo Alto County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on Palo Alto County's major federal program for the year ended June 30, 2010. Palo Alto County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Palo Alto County's management. Our responsibility is to express an opinion on Palo Alto County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Palo Alto County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Palo Alto County's compliance with those requirements.

In our opinion, Palo Alto County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

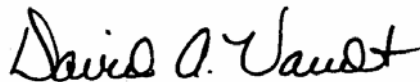
Internal Control Over Compliance

The management of Palo Alto County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Palo Alto County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Palo Alto County's internal control over compliance.

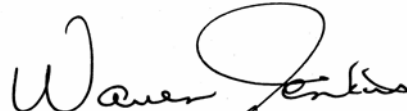
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 15, 2011

Palo Alto County
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters).
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Palo Alto County did not qualify as a low-risk auditee.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

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

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

Responses –

Recorder – It is difficult in an office of our size to segregate duties dealing with receipts, check writing and reconciliations. At the end of each day, we balance the cash register to the computer and Department of Natural Resources (DNR) website activity and any checks written are verified with the original transaction. Everything is balanced at the end of the month with checks written to the appropriate entities. We do alternate the bank reconciliation between the Recorder, Deputy and Clerk. As time allows, we will attempt to get another office to review our bank reconciliations. We feel that between our daily and monthly balancing we have a good system, but will continue to try to provide better procedures for checks and balances.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Sheriff – Receipts and bank reconciliations are reviewed and approved each month by the County Sheriff.

Conclusions –

Recorder - Response 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.

- II-B-10 Financial Reporting – During our testing, we identified material amounts of receivables, deferred revenues and capital asset additions which were not properly recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

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

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

Conclusion – Response accepted.

- II-C-10 Supporting Documentation for Claims - The County has credit cards for use by various employees while on County business. The County has adopted a credit card policy which requires all credit card bills be supported by a statement and detailed itemized vendor receipts. The policy prohibits employee use of a County credit card for personal purchases. Of 31 credit card transactions tested, 12 credit card billings totaling \$1,685 were not supported by detailed itemized vendor receipts. In addition, during our disbursement testing, we identified six of 35 non-credit card claims totaling \$8,310 which were not supported by detailed itemized vendor receipts or other supporting documentation.

Recommendation - The Board should ensure credit card payments are properly supported by statements and detailed itemized vendor receipts as required by the credit card policy. Additionally, all other claims should be supported by detailed itemized vendor receipts or other supporting documentation to substantiate the charges.

Response – A notice will be sent to everyone using a County credit card. A statement and detailed itemized vendor receipts must be furnished. All claims must have itemized proof by the vendor before payment will be made.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- II-D-10 Capital Assets – Procedures do not exist to perform an independent review of the capital asset listing to determine whether assets on the listing exist or whether all existing assets are accounted for.

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

Response – An independent review of the capital assets listing will be performed by all departments in the future. Department heads will ensure the completeness of the assets listed.

Conclusion – Response accepted.

- II-E-10 County Sheriff – Garnishments were collected during the month of June and posted to the individual garnishment ledgers on June 22, 2010. However, they were not recorded in the County's cashbook or deposited at the bank until July 26, 2010. In addition, procedures do not exist to reconcile the cashbook balance for garnishments to the individual garnishment ledgers at month end.

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

Response – Garnishments will be deposited by the last working day of each month. A monthly garnishment report will be printed and reconciled each month with the cash receipts.

Conclusion – Response accepted.

- II-F-10 County Attorney Petty Cash – A petty cash fund is maintained by the County Attorney for the purchase of postage and other miscellaneous items. However, the petty cash fund is not maintained on an imprest basis, nor is it reconciled on a regular basis. In addition, several refunds totaling \$951 were deposited into the petty cash fund rather than being deposited with the County Treasurer and being recorded in the County's accounting system. Also, disbursements from the petty cash fund included amounts for meals and mileage which should be paid with County funds through the submission of travel claims.

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

Response – We will review the current situation and implement the change as advised.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- II-G-10 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.

- II-H-10 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 and abide by the personnel policy.

Conclusion – Response accepted.

- II-I-10 Job Evaluations – Written job evaluations are not currently being completed. County personnel policies state, "Employees will be evaluated by the supervisor at such frequency as the supervisor may determine, but not less than annually. A conference shall be held between the employee and supervisor following the completion of a written evaluation. A copy signed by both parties shall be given to the employee, and a signed copy shall be placed in the employee's personnel file."

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

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

Conclusion – Response accepted.

- II-J-10 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.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- II-K-10 County Extension Office Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties help to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. Bank reconciliations are not prepared by an independent person.

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

Response – Financial transactions, reconciliations and reports will be reviewed and initialed. Deposits will be double checked by second person.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.

IV-B-10 Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Coffee King, Inc.	Bottled water for County Sheriff's Department employees	\$ 418

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

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

Response – The Board of Supervisors feel this expenditure serves a public purpose and we will document this in the minutes in the future.

Conclusion – Responses accepted.

IV-C-10 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-D-10 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Terry Neary, spouse of Zoning and Sanitation employee, self-employed	Bookkeeping	\$ 858
Thomas Leonard, brother of County Auditor, self-employed	Jail transportation	1,178

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

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010


- IV-E-10 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.
- IV-F-10 Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not.
- IV-G-10 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.
- IV-H-10 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).
- IV-I-10 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 Treasurer’s Office did not obtain an image of the back of each cancelled check from Lauren’s State Bank as required.
- Recommendation – The County Treasurer’s Office should obtain and retain check images as required.
- Response – When the image of both front and back of each cancelled check on the Lauren’s State Bank account was brought to my attention in September of 2010, the Treasurer immediately contacted Lauren’s State Bank. From that point forward, and including the September 2010 bank statement, we now receive images of the front and back of each cancelled check from Lauren’s State Bank.
- Conclusion – Response accepted.
- IV-J-10 County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.
- Recommendation – The 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 – Responses accepted.
- IV-K-10 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, 2010 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
Rosemary E. Nielsen, Staff Auditor
Kelly L. Hilton, Staff Auditor
Daryl L. Hart, Assistant Auditor
Justin M. Scherrman, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State