



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 9, 2005

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

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$14,157,806 for the year ended June 30, 2004, which included \$1,214,976 in tax credits from the state. The County forwarded \$8,854,032 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$5,303,774 of the local tax revenue to finance County operations, an 18% increase from the prior year. Other revenues included charges for service of \$685,627, operating grants, contributions and restricted interest of \$2,601,037, capital grants, contributions and restricted interest of \$24,590, local option sales tax of \$257,059, unrestricted investment earnings of \$91,861 and other general revenues of \$481,856.

Expenses for County operations totaled \$7,369,793, and included \$1,943,860 for roads and transportation, \$1,328,811 for mental health and \$1,140,473 for public safety and legal services.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

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PALO ALTO COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2004

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Palo Alto County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Leo Goeders	Board of Supervisors	Jan 2005
Ronald Graettinger	Board of Supervisors	Jan 2005
Philip Currans	Board of Supervisors	Jan 2007
Lannie Miller	Board of Supervisors	Jan 2007
Steven Nelson	Board of Supervisors	Jan 2007
Jill Bailey	Board of Supervisors	Jan 2007
Gary Leonard	County Auditor	Jan 2005
Kathleen Thompson	County Treasurer	Jan 2007
Lori Kliegl	County Recorder	Jan 2007
Russell B. Jergens	County Sheriff	Jan 2005
Peter C. Hart	County Attorney	Jan 2007
Ross Simmelink	County Assessor	Jan 2010

Palo Alto County



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Independent Auditor's Report

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2004, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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.

The County did not determine the amount of materials and supplies inventories pertaining to the Secondary Roads Fund, a major governmental fund, at July 1, 2003, although required by U.S. generally accepted accounting principles. As a result, the net assets of the governmental activities and the fund balance of the Secondary Roads Fund are understated at the beginning of the year, and the expenses of the governmental activities and the expenditures of the Secondary Roads Fund are understated for the year ended June 30, 2004 by the same amount. These amounts are not reasonably determinable.

In our opinion, except for the effects of the omission of the materials and supplies inventories for the Secondary Roads Fund at July 1, 2003 on the governmental activities and the Secondary Roads Fund, as described above, the financial statements referred to above present fairly, in all material respects, the changes in financial position of the governmental activities and the Secondary Roads Fund of Palo Alto County for the year ended June 30, 2004 in conformity with U.S. generally accepted accounting principles.

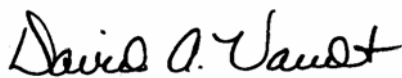
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County at June 30, 2004, and the respective changes in financial position of the General Fund, Mental Health Fund, Rural Services Fund, Drainage Districts Fund and the aggregate remaining fund information thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Palo Alto County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

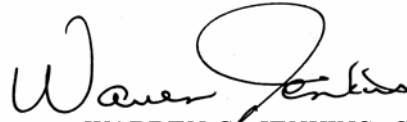
In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2004 on our consideration of Palo Alto County’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed 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 three years ended June 30, 2003 (which are not presented herein) and expressed qualified opinions on those financial statements for the effects of the omission of the general fixed assets account group and the materials and supplies inventories, pertaining primarily to the Special Revenue Funds. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 16, 2004

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, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Palo Alto County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Palo Alto County's governmental fund revenues decreased approximately \$277,000 from fiscal year 2003 (FY03). Property tax and other county tax increased approximately \$393,000 from FY03.
- Palo Alto County's governmental fund expenditures decreased approximately \$900,000 from FY03.
- The County's net assets increased 25.5%, or approximately \$2,103,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Palo Alto County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Palo Alto County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Palo Alto County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

2) Proprietary funds account for the County's Internal Service, Employee Group Health Insurance 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 drainage districts, 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

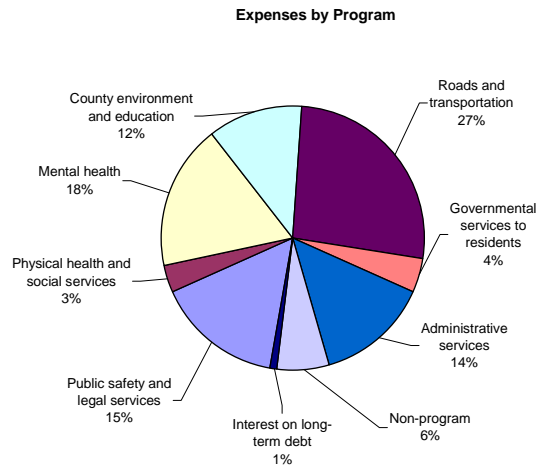
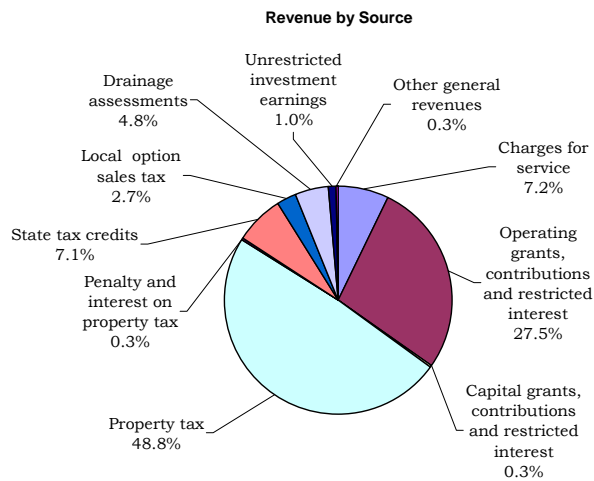
As noted earlier, net assets may serve over time as a useful indicator of financial position. Palo Alto County's combined net assets increased from \$8,256,649 to \$10,359,681. The analysis that follows focuses on the changes in the net assets for governmental activities.

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

Net assets of Palo Alto County's governmental activities increased by \$2,103,032. The largest portion of the County's net assets are restricted net assets which represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The Secondary Roads Fund is the largest portion of restricted net assets, due in part to the receipt of approximately \$793,000 of transfer of jurisdiction funds received in fiscal year 2003. The County also reports net assets invested in capital assets (e.g., land, infrastructure, buildings and equipment). Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

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

	Year ended June 30, 2004
Revenues:	
Program revenues:	
Charges for service	\$ 686
Operating grants, contributions and restricted interest	2,601
Capital grants, contributions and restricted interest	25
General revenues:	
Property tax	4,627
Penalty and interest on property tax	27
State tax credits	677
Local option sales tax	257
Drainage assessments	450
Unrestricted investment earnings	92
Other general revenues	31
Total revenues	9,473
Program expenses:	
Public safety and legal services	1,141
Physical health and social services	241
Mental health	1,328
County environment and education	858
Roads and transportation	1,944
Governmental services to residents	304
Administration	1,012
Non-program	478
Interest on long-term debt	64
Total expenses	7,370
Increase in net assets	2,103
Net assets beginning of year, as restated	8,257
Net assets end of year	\$ 10,360



The County increased property tax rates by approximately 6 percent. This increase raised property tax revenues by approximately \$393,000 in 2004. Based on decreases in total assessed valuation, property tax is budgeted to decrease by approximately \$399,000 this year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of \$6,089,564, an increase of \$1,919,012 above last year's total of \$4,170,552. The increase in fund balance is due in part to recognizing inventory and maintaining expenditures below available resources. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures increased. The ending fund balance showed an increase of \$330,706 from the prior year restated balance to \$1,396,159. The increase was due in part to the increase in the general supplemental property tax levy.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$1,330,115, a decrease of 4% from the prior year. The Mental Health Fund balance at year end decreased by \$41,462 from the prior year.
- Rural Services Fund expenditures decreased approximately 9% from the prior year. The decrease was due in part to a decrease in solid waste expenditures.
- Secondary Roads Fund expenditures decreased by \$769,617 from the prior year. This decrease in expenditures is due primarily to recognizing inventory of \$718,694 at June 30, 2004 and resulted in an increase in the Secondary Roads Fund ending balance of approximately \$1,470,000, or 73 %.
- The Drainage Districts Fund revenues decreased approximately \$309,000, due primarily to a decrease in Federal Emergency Management Agency assistance.

BUDGETARY HIGHLIGHTS

Palo Alto County amended its original budget on April 6, 2004 as follows: increased public safety and legal services by \$10,500, increased county environment and education by \$35,290, increased governmental services to residents by \$30,642 and increased administration by \$42,456.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Palo Alto County had \$4,268,861 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. GASB 34 required the addition of infrastructure assets and required depreciation of all capital assets. The capital assets previously reported have been modified as per the County's "Capital Asset Policy". There were \$246,751 in additions in FY 04. The County had depreciation expense of \$291,600 in FY04 and total accumulated depreciation of \$3,212,042 at June 30, 2004.

Long-Term Debt

At June 30, 2004, Palo Alto County had \$653,419 in outstanding long-term debt, exclusive of compensated absences, compared to \$682,653 at June 30, 2003.

Outstanding Long-term Debt of Governmental Activities at Year End (Expressed in Thousands)	
	June 30, 2004
Urban Renewal TIF Bonds	\$ 42
Drainage Warrants and Improvement Certificates	611
Total	\$ 653

Palo Alto County issued \$73,000 of urban renewal tax increment revenue bonds on October 15, 1998 to defray a portion of the costs of an urban renewal project in the Palo Alto County/Graettinger Urban Renewal Area. In FY04, the County paid \$6,959 of principal and \$3,195 of interest on these bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Palo Alto County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and the fees that will be charged for various County activities. One of those factors is the economy. Palo Alto County's employment (number of persons working) has remained steady at 5,211 since 1999. Unemployment in the County now stands at 2.2 percent versus 2.7 percent a year ago. This compares with the State's unemployment rate of 4.2 percent and the national rate of 5.4 percent.

Inflation in the State paralleled the national Consumer Price Index increase. The State's CPI increase was 1.03% for fiscal year 2004 compared with the national rate of 1.03%. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

The above factors were all part of the considerations for the FY2005 budget which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars)

	Dollars Certified	Percentage Increase (Decrease)
General Fund	\$ 2,587,518	(9%)
Mental Health Fund	688,176	0
Rural Services Fund	1,184,900	(12)
Total	\$ 4,460,594	

Continued state revenue cutbacks and health insurance increases for the past few years are driving the increases in property tax. No new services were added in the FY2005 budget. Levy rates (expressed in \$/\$1,000 taxable valuation) to produce the above dollars for FY2005 are as follows:

General basic levy	\$3.50000
General supplemental levy	2.85552
Mental health levy	1.69031
Rural services basic levy	3.95000

These factors were taken into account when adopting the budget for fiscal year 2005. Amounts appropriated in the operating budget are \$11,931,455, an increase of 38.5% over the final 2004 budget. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable value. A majority of Iowa counties have reached that limit and have a general supplemental levy which allows them to exceed the general basic levy for certain expenditures, which include employee benefits (i.e. health insurance, FICA and IPERS), county risk management expenditures, election costs and court ordered settlements. The rural basic levy rate limit is \$3.95 per \$1,000 of taxable value. Some Iowa counties have reached that level and have a rural supplemental levy for certain expenditures, similar to the general supplemental levy.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Palo Alto County

Basic Financial Statements

Exhibit A

Palo Alto County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 5,467,198
Receivables:	
Property tax:	
Delinquent	1,822
Succeeding year	4,197,000
Interest and penalty on property tax	5,382
Accounts	104,384
Economic development loans	25,540
Accrued interest	5,509
Drainage assessments	717,813
Due from other governments	267,298
Inventories	718,694
Prepaid insurance	107,845
Capital assets (net of accumulated depreciation)	4,268,861
Total assets	<u>15,887,346</u>
Liabilities	
Accounts payable	230,261
Accrued interest payable	101,888
Salaries and benefits payable	75,752
Due to other governments	97,721
Deferred revenue:	
Succeeding year property tax	4,197,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment financing bonds	7,411
Drainage improvement certificates	4,017
Compensated absences	171,624
Portion due or payable after one year:	
Urban renewal tax increment financing bonds	34,791
Drainage warrants/drainage improvement certificates	607,200
Total liabilities	<u>5,527,665</u>
Net Assets	
Invested in capital assets	4,268,861
Restricted for:	
Supplemental levy purposes	447,651
Secondary roads purposes	3,460,843
Debt service	6,741
Drainage warrants/drainage improvement certificates	672,084
Other purposes	167,841
Unrestricted	1,335,660
Total net assets	<u>\$ 10,359,681</u>

See notes to financial statements.

Palo Alto County
 Statement of Activities
 Year ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest
Functions / Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,140,473	118,056	16,409	-	(1,006,008)
Physical health and social services	240,679	3,283	52,749	-	(184,647)
Mental health	1,328,811	-	196,323	-	(1,132,488)
County environment and education	857,591	167,780	96,374	-	(593,437)
Roads and transportation	1,943,860	167,151	2,131,648	24,590	379,529
Governmental services to residents	304,259	210,345	-	-	(93,914)
Administration	1,012,058	8,764	28,058	-	(975,236)
Non-program	477,850	10,248	79,476	-	(388,126)
Interest on long-term debt	64,212	-	-	-	(64,212)
Total	\$ 7,369,793	685,627	2,601,037	24,590	(4,058,539)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,616,358
Tax increment financing					10,176
Penalty and interest on property tax					27,031
State tax credits					677,240
Local option sales tax					257,049
Unrestricted investment earnings					91,861
Drainage assessments					450,124
Gain on sale of capital assets					18,950
Miscellaneous					12,782
Total general revenues					6,161,571
Change in net assets					2,103,032
Net assets beginning of year, as restated					8,256,649
Net assets end of year					\$ 10,359,681

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2004

Assets	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Cash and pooled investments	\$ 1,365,735	129,535	1,011,035	2,698,935
Receivables:				
Property tax:				
Delinquent	1,176	313	333	-
Succeeding year	2,428,000	646,000	1,113,000	-
Interest and penalty on property tax	5,382	-	-	-
Accounts	7,502	-	6,629	90,253
Economic developmental loans	-	-	-	-
Accrued interest	2,312	-	-	3,197
Drainage assessments	-	-	-	-
Due from other governments	35,776	2,963	43,913	170,319
Inventories	-	-	-	718,694
Prepaid insurance	19,310	-	64	12,867
Total assets	\$ 3,865,193	778,811	2,174,974	3,694,265
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 25,051	58,621	1,705	47,356
Salaries and benefits payable	947	-	-	74,805
Due to other governments	1,200	82,779	13,610	132
Deferred revenue:				
Succeeding year property tax	2,428,000	646,000	1,113,000	-
Other	13,836	303	324	77,780
Total liabilities	2,469,034	787,703	1,128,639	200,073
Fund balances:				
Reserved for:				
Supplemental levy purposes	447,140	-	-	-
Drainage warrants/drainage improvement certificates	-	-	-	-
Unreserved, reported in:				
General fund	949,019	-	-	-
Special revenue funds	-	(8,892)	1,046,335	3,494,192
Total fund balances	1,396,159	(8,892)	1,046,335	3,494,192
Total liabilities and fund balances	\$ 3,865,193	778,811	2,174,974	3,694,265

See notes to financial statements.

Drainage Districts	Nonmajor Governmental Funds	Total
131,194	127,974	5,464,408
-	-	1,822
-	10,000	4,197,000
-	-	5,382
-	-	104,384
-	25,540	25,540
-	-	5,509
717,813	-	717,813
-	14,327	267,298
-	-	718,694
-	-	32,241
849,007	177,841	11,540,091
97,528	-	230,261
-	-	75,752
-	-	97,721
-	10,000	4,197,000
717,814	39,736	849,793
815,342	49,736	5,450,527
-	-	447,140
33,665	-	33,665
-	-	949,019
-	128,105	4,659,740
33,665	128,105	6,089,564
849,007	177,841	11,540,091

Palo Alto County

Palo Alto County

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

June 30, 2004

Total governmental fund balances (page 19) \$ 6,089,564

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,480,903 and the accumulated depreciation is \$3,212,042. 4,268,861

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 849,793

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 78,394

Long-term liabilities, including bonds payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (926,931)

Net assets of governmental activities (page 16) \$ 10,359,681

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2004

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,674,825	647,168	1,533,179	-
Interest and penalty on property tax	27,410	-	-	-
Intergovernmental	393,161	640,950	130,307	2,230,132
Licenses and permits	6,426	-	-	330
Charges for service	208,231	-	143,507	25,062
Use of money and property	91,951	-	33	4,852
Miscellaneous	16,145	535	199	14,692
Total revenues	<u>3,418,149</u>	<u>1,288,653</u>	<u>1,807,225</u>	<u>2,275,068</u>
Expenditures:				
Operating:				
Public safety and legal services	1,138,496	-	-	-
Physical health and social services	241,273	-	-	-
Mental health	-	1,330,115	-	-
County environment and education	429,727	-	380,880	-
Roads and transportation	-	-	139,840	1,675,168
Governmental services to residents	303,477	-	-	-
Administration	970,837	-	-	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	6,833	-	2,764	134,746
Total expenditures	<u>3,090,643</u>	<u>1,330,115</u>	<u>523,484</u>	<u>1,809,914</u>
Excess (deficiency) of revenues over (under) expenditures	<u>327,506</u>	<u>(41,462)</u>	<u>1,283,741</u>	<u>465,154</u>
Other financing sources (uses):				
Sale of capital assets	3,200	-	-	-
Operating transfers in	-	-	-	1,004,461
Operating transfers out	-	-	(1,009,461)	-
Drainage warrants/drainage improvement certificates issued	-	-	-	-
Total other financing sources (uses)	<u>3,200</u>	<u>-</u>	<u>(1,009,461)</u>	<u>1,004,461</u>
Net change in fund balances	330,706	(41,462)	274,280	1,469,615
Fund balances beginning of year, as restated	<u>1,065,453</u>	<u>32,570</u>	<u>772,055</u>	<u>2,024,577</u>
Fund balances end of year	<u>\$ 1,396,159</u>	<u>(8,892)</u>	<u>1,046,335</u>	<u>3,494,192</u>

See notes to financial statements.

Drainage Districts	Nonmajor Governmental Funds	Total
-	10,176	4,865,348
-	-	27,410
79,476	9,365	3,483,391
-	-	6,756
-	25,437	402,237
-	7,962	104,798
344,712	-	376,283
424,188	52,940	9,266,223
-	-	1,138,496
-	-	241,273
-	-	1,330,115
-	27,652	838,259
-	-	1,815,008
-	3,129	306,606
-	-	970,837
477,850	-	477,850
358,345	10,154	368,499
-	-	144,343
836,195	40,935	7,631,286
(412,007)	12,005	1,634,937
-	-	3,200
-	15,154	1,019,615
-	(10,154)	(1,019,615)
280,875	-	280,875
280,875	5,000	284,075
(131,132)	17,005	1,919,012
164,797	111,100	4,170,552
33,665	128,105	6,089,564

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, 2004

Net change in fund balances - Total governmental funds (page 23) \$ 1,919,012

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

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

Expenditures for capital assets	\$ 231,001	
Depreciation expense	(291,600)	(60,599)

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

15,750

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	(1,110)	
Other	158,284	157,174

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

Issued	(280,875)	
Repaid	310,109	29,234

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

Compensated absences	(30,111)	
Interest on long-term debt	(5,822)	(35,933)

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

78,394

Change in net assets of governmental activities (page 17) \$ 2,103,032

See notes to financial statements.

Palo Alto County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2004

	Internal Service - Employee Group Health
Assets	
Cash and cash equivalents	\$ 2,790
Prepaid insurance	75,604
Total assets	78,394
Liabilities	
None	-
Net Assets	
Unrestricted	\$ 78,394

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, 2004

	<u>Internal Service - Employee Group Health</u>
Operating revenues:	
Reimbursements from operating funds	\$ 78,394
Operating expenses:	
None	-
Operating income	<u>78,394</u>
Net assets beginning of year	<u>-</u>
Net assets end of year	<u><u>\$ 78,394</u></u>

See notes to financial statements.

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2004

	<u>Internal Service - Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 78,394
Cash paid to suppliers for services	(75,604)
Net cash provided by operating activities	<u>2,790</u>
Cash and cash equivalents beginning of year	<u>-</u>
Cash and cash equivalents end of year	<u>\$ 2,790</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 78,394
Adjustment to reconcile operating income to net cash provided by operating activities:	
(Increase) in prepaid expenses	<u>(75,604)</u>
Net cash provided by operating activities	<u>\$ 2,790</u>

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

Cash and pooled investments:	
County Treasurer	\$ 516,737
Other County officials	33,145
Receivables:	
Property tax:	
Delinquent	4,596
Succeeding year	8,330,000
Accounts	17,350
Special assessments	167,682
Due from other governments	3,136
Total assets	<u>9,072,646</u>

Liabilities

Accounts payable	10,893
Due to other governments	9,040,724
Trusts payable	13,585
Compensated absences	7,444
Total liabilities	<u>9,072,646</u>

Net assets \$ -

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

Five hundred seventy-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, Palo Alto County Conservation Board and Palo Alto County Joint E911 Service Board. Financial transactions of these organizations are included in the County’s financial statements only to the extent of the County’s fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions 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 construction and maintenance.

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-reimbursements grant resources to such programs, followed by categorical block grants and then by general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for the Internal Service Fund includes the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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 the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and 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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2003.

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

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

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

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

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

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

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

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

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

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

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

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

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

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 that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 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.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	\$ 1,004,461
Closure/Postclosure	Rural Services	5,000
Debt Service	Tax Increment Financing	10,154
Total		<u>\$ 1,019,615</u>

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

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year (as restated)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 805,312	-	-	805,312
Construction in progress	-	63,961	-	63,961
Total capital assets not being depreciated	<u>805,312</u>	<u>63,961</u>	<u>-</u>	<u>869,273</u>
Capital assets being depreciated:				
Buildings	1,318,221	-	-	1,318,221
Improvements other than buildings	55,096	-	-	55,096
Equipment and vehicles	5,098,818	116,671	(43,295)	5,172,194
Infrastructure, road network	-	66,119	-	66,119
Total capital assets being depreciated	<u>6,472,135</u>	<u>182,790</u>	<u>(43,295)</u>	<u>6,611,630</u>
Less accumulated depreciation for:				
Buildings	535,384	23,024	-	558,408
Improvements other than buildings	13,687	1,972	-	15,659
Equipment and vehicles	2,414,666	265,636	(43,295)	2,637,007
Infrastructure, road network	-	968	-	968
Total accumulated depreciation	<u>2,963,737</u>	<u>291,600</u>	<u>(43,295)</u>	<u>3,212,042</u>
Total capital assets being depreciated, net	<u>3,508,398</u>	<u>(108,810)</u>	<u>-</u>	<u>3,399,588</u>
Governmental activities capital assets, net	<u>\$ 4,313,710</u>	<u>(44,849)</u>	<u>-</u>	<u>4,268,861</u>

Depreciation expense was charged to the following functions:

Governmental activities:		
Public safety and legal services		\$ 35,338
County environment and education		29,631
Roads and transportation		223,931
Administration		<u>2,700</u>
Total depreciation expense - governmental activities		<u><u>\$ 291,600</u></u>

(5) Due to Other Governments

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

Fund	Description	Amount
General	Services	<u>\$ 1,200</u>
Special Revenue:		
Mental Health	Services	82,779
Rural Services	Services	13,610
Secondary Roads	Services	<u>132</u>
		<u>96,521</u>
Total for governmental funds		<u><u>\$ 97,721</u></u>
Agency:		
County Offices	Collections	\$ 27,723
Agricultural Extension Education		71,190
County Assessor		234,865
Schools		5,540,644
Community Colleges		280,211
Corporations		1,816,916
Townships		100,878
City Special Assessments		169,158
Auto License and Use Tax		208,013
All other		<u>591,126</u>
Total for agency funds		<u><u>\$ 9,040,724</u></u>

(6) Economic Development Loans

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

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

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

Loaned to	Date of Loan	Maturity Date	Loan Amount	Interest Rate	Term of Loan	Loan Balance June 30, 2004
Mike and Kim Gehrt	Feb 24, 1998	Jun 1, 2008	\$ 10,000	5.0%	10 years	\$ 7,420
Jason White	Jun 27, 2000	Aug 1, 2003	2,500	6.0%	3 years	1,141
Jesse Wolf	Feb 17, 2004	Feb 24, 2007	1,500	4.9%	3 years	1,500
Stanley Propane and Appliance	Mar 26, 2002	Jul 1, 2012	<u>20,000</u>	5.0%	10 years	<u>15,479</u>
Total			<u>\$ 34,000</u>			<u>\$ 25,540</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Urban Renewal Tax Increment Financing Bonds	Drainage Warrants	Drainage Improvement Certificates	Compensated Absences	Total
Balance beginning of year	\$ 49,161	617,422	16,070	141,513	824,166
Increases	-	280,875	-	195,650	476,525
Decreases	6,959	299,132	4,018	165,539	475,648
Balance end of year	<u>\$ 42,202</u>	<u>599,165</u>	<u>12,052</u>	<u>171,624</u>	<u>825,043</u>
Due within one year	<u>\$ 7,411</u>	<u>-</u>	<u>4,017</u>	<u>171,624</u>	<u>183,052</u>

Urban Renewal Tax Increment Financing Bonds Payable

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

The bonds are not a general obligation of the County, but are payable only from the income and proceeds of the Special Revenue, Tax Increment Financing Fund established in the resolution. During the year ended June 30, 2004, principal of \$6,959 and interest of \$3,195 were paid.

A summary of the County's June 30, 2004 annual debt service requirements to maturity are as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	6.50%	\$ 7,411	2,743	10,154
2006	6.50	7,893	2,261	10,154
2007	6.50	8,406	1,748	10,154
2008	6.50	8,952	1,202	10,154
2009	6.50	9,540	619	10,159
Total		\$ 42,202	8,573	50,775

Drainage Warrants/Drainage Improvement Certificates Payable

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

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

Drainage warrants and drainage improvement certificates are paid from the Special Revenue Fund solely from drainage assessments against benefited properties.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48% respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively. For the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$165,585, \$164,396 and \$154,602, respectively, equal to the required contributions for each year.

(9) Risk Management

Palo Alto County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2004 were \$96,722.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, 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.

(10) Employee Health Insurance Plan

During the year, the County established the Internal Service, Employee Group Health Fund to account for the partial self funding of the county's health insurance benefit plan which begins July 1, 2004. The plan will be administered by Group Services, Inc.

Payments of service fees and plan contributions to the Employee Group Health Fund were recorded as expenditures by the operating funds. The payment by the Employee Group Health Fund of service fees and insurance for the period beginning July 1, 2004 were reported as prepaid insurance.

(11) Community Economic Betterment Account Loan Program

Palo Alto County entered into a loan agreement dated May 20, 1999 for \$250,000. The proceeds were received during the year ended June 30, 2000 and loaned to a local business, Skyjack Equipment, Inc., (the Company) to assist with economic development. The loan consists of an \$85,000 forgivable loan and a \$165,000 no interest conventional loan. The conditions of the forgivable loan were to be met by June 30, 2002.

Skyjack Equipment, Inc. did not meet the conditions to have the loan forgiven and the Company has been requested to repay \$149,821 as a result of that non-performance. This amount represents repaying the \$85,000 forgivable loan in its entirety and the remaining \$64,821 outstanding balance on the \$165,000 no interest conventional loan. The Company has been requested to make the repayment to the Iowa Department of Economic Development. The County's liability for repayment of the loan is limited to the amounts collected from the Company. Therefore, the liability for these loans is not included in the Statement of Net Assets.

(12) Palo Alto County Hospital Revenue Bonds

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

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

The bonds mature on August 1 of each year through 2018, with payments of \$1,240,000 and \$2,350,000 due August 1, 2022 and August 1, 2028, respectively. The bonds bear interest payable semiannually on February 1 and August 1 of each year.

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	1.70%	\$ 165,000	295,249	460,249
2006	2.00	170,000	292,146	462,146
2007	2.40	175,000	288,346	463,346
2008	2.80	175,000	283,796	458,796
2009	3.10	180,000	278,556	458,556
2010-2014	3.40-4.35	1,015,000	1,286,153	2,301,153
2015-2019	4.50-4.95	1,250,000	1,038,410	2,288,410
2020-2024	5.40	1,240,000	781,266	2,021,266
2025-2029	4.63	2,365,000	492,216	2,857,216
Total		\$ 6,735,000	5,036,138	11,771,138

(13) Accounting Change and Restatement

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for fiscal year 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor governmental funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements on the governmental activities are summarized as follows:

	<u>Amount</u>
Net assets June 30, 2003, as previously reported	\$ 4,135,105
GASB Interpretation 6 adjustment	35,447
Net assets July 1, 2003, as restated for governmental funds	<u>4,170,552</u>
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$2,963,737	4,313,710
Long-term liabilities	(824,166)
Deferral of long-term assets	692,619
Accrued interest expense	<u>(96,066)</u>
Net assets July 1, 2003, as restated	<u>\$ 8,256,649</u>

(14) Subsequent Event

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. These bonds are not a general obligation of the County, but are payable solely from the portion of the income and proceeds of the Tax Increment Financing Fund.

Palo Alto County

Required Supplementary Information

Palo Alto County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2004

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 4,854,447	-	4,854,447
Interest and penalty on property tax	27,390	-	27,390
Intergovernmental	3,523,857	126,700	3,397,157
Licenses and permits	6,926	-	6,926
Charges for service	450,067	-	450,067
Use of money and property	104,757	-	104,757
Miscellaneous	378,562	344,712	33,850
Total receipts	9,346,006	471,412	8,874,594
Disbursements:			
Public safety and legal services	1,135,313	-	1,135,313
Physical health and social services	240,453	-	240,453
Mental health	1,330,817	-	1,330,817
County environment and education	850,912	-	850,912
Roads and transportation	2,496,853	-	2,496,853
Governmental services to residents	303,412	-	303,412
Administration	973,279	-	973,279
Non-program	384,221	384,221	-
Debt service	368,499	358,345	10,154
Capital projects	142,814	-	142,814
Total disbursements	8,226,573	742,566	7,484,007
Excess (deficiency) of receipts over (under) disbursements	1,119,433	(271,154)	1,390,587
Other financing sources, net	280,875	280,875	-
Excess of receipts and other financing sources over disbursements and other financing uses	1,400,308	9,721	1,390,587
Balance beginning of year	4,064,100	121,472	3,942,628
Balance end of year	\$ 5,464,408	131,193	5,333,215

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
4,860,647	4,860,647	(6,200)
5,250	5,250	22,140
3,204,846	3,285,092	112,065
3,370	3,370	3,556
362,220	362,220	87,847
92,501	92,501	12,256
16,550	16,550	17,300
<u>8,545,384</u>	<u>8,625,630</u>	<u>248,964</u>
1,192,589	1,203,089	67,776
302,319	302,319	61,866
1,507,548	1,507,548	176,731
888,597	923,887	72,975
2,962,840	2,962,840	465,987
308,789	339,431	36,019
981,591	1,024,047	50,768
-	-	-
10,155	10,155	1
338,990	338,990	196,176
<u>8,493,418</u>	<u>8,612,306</u>	<u>1,128,299</u>
51,966	13,324	1,377,263
-	-	-
51,966	13,324	1,377,263
2,137,922	3,938,098	4,530
<u>2,189,888</u>	<u>3,951,422</u>	<u>1,381,793</u>

Palo Alto County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 9,346,006	(79,783)	9,266,223
Expenditures	8,226,573	(595,287)	7,631,286
Net	1,119,433	515,504	1,634,937
Other financing sources, net	280,875	3,200	284,075
Beginning fund balances	4,064,100	106,452	4,170,552
Ending fund balances	\$ 5,464,408	625,156	6,089,564

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$118,888. The budget amendment is reflected in the final budgeted amounts.

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

Palo Alto County

Other Supplementary Information

Palo Alto County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2004

			Special
	Resource Enhancement and Protection	County Recorder's Records Management	County Recorder's Electronic Transaction Fee
Assets			
Cash and pooled investments	\$ 25,992	7,878	22,693
Receivables:			
Property tax:			
Succeeding year	-	-	-
Economic development loans	-	-	-
Due from other governments	131	-	14,196
Total assets	\$ 26,123	7,878	36,889
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue			
Succeeding year property tax	-	-	-
Other	-	-	14,196
Total liabilities	-	-	14,196
Fund equity:			
Unreserved fund balances	26,123	7,878	22,693
Total liabilities and fund equity	\$ 26,123	7,878	36,889

See accompanying independent auditor's report.

Revenue					
Tax Increment Financing	Palo Alto County Economic Development	Closure/ Postclosure	Conservation Land Acquisition Trust		Total
72	8,690	5,000	57,649		127,974
10,000	-	-	-		10,000
-	25,540	-	-		25,540
-	-	-	-		14,327
10,072	34,230	5,000	57,649		177,841
10,000	-	-	-		10,000
-	25,540	-	-		39,736
10,000	25,540	-	-		49,736
72	8,690	5,000	57,649		128,105
10,072	34,230	5,000	57,649		177,841

Palo Alto County

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

Year ended June 30, 2004

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Revenues:			
Property and other county tax	\$ -	-	-
Intergovernmental	9,365	-	-
Charges for service	-	2,748	22,689
Use of money and property	12	4	4
Total revenues	<u>9,377</u>	<u>2,752</u>	<u>22,693</u>
Expenditures:			
Operating:			
County environment and education	8,471	-	-
Governmental services to residents	-	3,129	-
Debt service	-	-	-
Total expenditures	<u>8,471</u>	<u>3,129</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>906</u>	<u>(377)</u>	<u>22,693</u>
Other financing sources:			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>906</u>	<u>(377)</u>	<u>22,693</u>
Fund balances beginning of year	<u>25,217</u>	<u>8,255</u>	<u>-</u>
Fund balances end of year	<u>\$ 26,123</u>	<u>7,878</u>	<u>22,693</u>

See accompanying independent auditor's report.

Revenue					
Tax Increment Financing	Palo Alto County Economic Development	Closure/ Postclosure	Conservation Land Acquisition Trust	Debt Service	Total
10,176	-	-	-	-	10,176
-	-	-	-	-	9,365
-	-	-	-	-	25,437
-	3,284	-	4,658	-	7,962
10,176	3,284	-	4,658	-	52,940
-	19,181	-	-	-	27,652
-	-	-	-	-	3,129
-	-	-	-	10,154	10,154
-	19,181	-	-	10,154	40,935
10,176	(15,897)	-	4,658	(10,154)	12,005
-	-	5,000	-	10,154	15,154
(10,154)	-	-	-	-	(10,154)
(10,154)	-	5,000	-	10,154	5,000
22	(15,897)	5,000	4,658	-	17,005
50	24,587	-	52,991	-	111,100
72	8,690	5,000	57,649	-	128,105

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

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,156	67,683	88,044
Other county officials	33,145	-	-	-
Receivables:				
Property tax:				
Delinquent	-	34	83	2,600
Succeeding year	-	70,000	171,000	5,450,000
Accounts	1,198	-	65	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 34,343	71,190	238,831	5,540,644
Liabilities				
Accounts payable	\$ -	-	476	-
Due to other governments	27,723	71,190	234,865	5,540,644
Trusts payable	6,620	-	-	-
Compensated absences	-	-	3,490	-
Total liabilities	\$ 34,343	71,190	238,831	5,540,644

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
5,078	22,440	1,845	1,476	208,013	121,002	516,737
-	-	-	-	-	-	33,145
133	1,476	33	-	-	237	4,596
275,000	1,793,000	99,000	-	-	472,000	8,330,000
-	-	-	-	-	16,087	17,350
-	-	-	167,682	-	-	167,682
-	-	-	-	-	3,136	3,136
280,211	1,816,916	100,878	169,158	208,013	612,462	9,072,646
-	-	-	-	-	10,417	10,893
280,211	1,816,916	100,878	169,158	208,013	591,126	9,040,724
-	-	-	-	-	6,965	13,585
-	-	-	-	-	3,954	7,444
280,211	1,816,916	100,878	169,158	208,013	612,462	9,072,646

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets and Liabilities					
Balances beginning of year	\$ 39,694	71,247	225,332	5,380,739	314,657
Additions:					
Property and other county tax	-	70,512	170,922	5,458,301	275,165
E911 surcharge	-	-	-	-	-
State tax credits	-	4,353	10,492	328,032	19,110
Drivers license fees	-	-	-	-	-
Office fees and collections	200,809	-	65	-	-
Electronic transaction fee	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	103,797	-	-	-	-
Miscellaneous	-	30	1,599	2,082	130
Total additions	304,606	74,895	183,078	5,788,415	294,405
Deductions:					
Agency remittances:					
To other funds	128,148	-	-	-	-
To other governments	77,815	74,952	169,579	5,628,510	328,851
Trusts paid out	103,994	-	-	-	-
Total deductions	309,957	74,952	169,579	5,628,510	328,851
Balances end of year	\$ 34,343	71,190	238,831	5,540,644	280,211

See accompanying independent auditor's report.

Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
1,668,640	109,036	90,400	173,466	652,489	8,725,700
1,768,931	99,799	-	-	472,666	8,316,296
-	-	-	-	71,934	71,934
137,886	6,039	-	-	31,824	537,736
-	-	-	49,823	-	49,823
-	-	-	-	-	200,874
-	-	-	-	13,740	13,740
-	-	-	2,119,017	-	2,119,017
-	-	109,439	-	-	109,439
-	-	-	-	313,813	417,610
-	73	-	-	84,927	88,841
1,906,817	105,911	109,439	2,168,840	988,904	11,925,310
-	-	-	91,132	-	219,280
1,758,541	114,069	30,681	2,043,161	715,353	10,941,512
-	-	-	-	313,578	417,572
1,758,541	114,069	30,681	2,134,293	1,028,931	11,578,364
1,816,916	100,878	169,158	208,013	612,462	9,072,646

Schedule 5

Palo Alto County

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

For the Last Four Years

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

See accompanying independent auditor's report.



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

David A. Vaudt, CPA
Auditor of State

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Officials of Palo Alto County:

We have audited the financial statements of Palo Alto County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 16, 2004. That report included a qualified opinion on the changes in financial position of the governmental activities and the Secondary Roads Fund for the year ended June 30, 2004 due to the omission of materials and supplies inventories pertaining to the Secondary Roads Fund at July 1, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved except for items (3), (5) and (10).

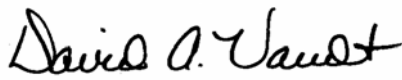
Internal Control Over Financial Reporting

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

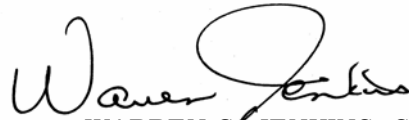
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 16, 2004

Palo Alto County
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

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

Also, one individual in the County Treasurer's office has custody of receipts and performs all record-keeping and reconciling functions for the office, including those related to all federal programs.

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

Palo Alto County
Schedule of Findings
Year ended June 30, 2004

Response –

Treasurer – I will try to comply with the recommendation. Sorry, I haven't been able to do them before.

County Extension – I will try to check deposits with written receipts.

Sheriff – In the future all financial transactions will be reviewed by an independent person.

Conclusion – Responses accepted.

- (B) Electronic Data Processing Systems – The County does not have a written disaster recovery plan. Backup tapes are currently stored off site in a fire proof safe monthly.

Recommendation – A written disaster recovery plan should be developed and backup tapes should be stored off site in a fire proof vault or safe more frequently.

Response – Backup tapes will be stored off site every two weeks. A written disaster recovery plan is being discussed.

Conclusion – Response accepted.

- (C) Credit Cards – The County has Visa, Mastercard and Advanta credit cards issued to the County Auditor, County Engineer, Conservation Officer and County Sheriff. The County does not have a written policy regarding use of these credit cards.

Recommendation – The Board should adopt a written policy governing the use of County owned credit cards. The policy should specify the individuals who are authorized to use the cards and should include the types of expenses allowed to be charged and the documentation required to be submitted to support the expense incurred and to allow authorization for payment. Board policy should prohibit the use of County-owned credit cards for personal expenses.

Response – A sample Credit Card Policy has been prepared and the Board of Supervisors will adopt an appropriate Credit Card Policy.

Conclusion – Response accepted.

- (D) County Board of Supervisors – Salaried personnel of the County do not prepare and file timesheets.

Recommendation – Timesheets should be prepared by all personnel in all departments, salaried as well as hourly, and should be submitted to the County Auditor's office prior to the processing of payroll each pay period. The timesheets should be signed by the employee and should be reviewed and signed by the employee's immediate supervisor or the County officer or department head prior to submission. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days. To ensure the County has an accurate record of all compensatory time, all employees should be included in the County payroll system.

Palo Alto County

Schedule of Findings

Year ended June 30, 2004

Response – At this time the Board of Supervisors and the elected officials feel that the present timesheet method is good enough.

Conclusion – Response acknowledged.

- (E) Compensatory Time – The County’s personnel policy states employees may accumulate up to 40 hours of compensatory time. Certain County employees were allowed to accumulate more than 40 hours of compensatory time.

Recommendation – The County should determine which employees should follow the County personnel policies and procedures and which employees should follow the Palo Alto County Secondary Road Department and Local Union agreement. Each employee should be provided with the applicable policy and provide acknowledgment of their understanding and acceptance of the policy.

Response – The Board of Supervisors will determine which employees will follow the appropriate Personnel Policy or Union agreement. Employees will comply with the appropriate policy in the future.

Conclusion – Response accepted.

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

Recommendation – Written job evaluations should be completed at least annually. A conference should be held between the employee and supervisor following the completion of a written evaluation. A copy signed by both parties should be given to the employee and a signed copy should be placed in the employee’s personnel file.

Response – The elected officials feel that job evaluations are not needed at this time and will be stricken from the policy handbook. However, at the current time we are obtaining copies of other counties personnel & policy manuals. After reviewing them the Board will make the determination whether or not the new policies should pertain just to courthouse personnel or to all departments. Job evaluations are also being discussed.

Conclusion – Response acknowledged. The County should develop policies and procedures to perform and document employee evaluations. Written employee evaluations provide documentation of the County’s overall monitoring of employee performance.

Palo Alto County

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- (3) Questionable Expenditures – Four expenditures of \$180 each were made for cell phone reimbursements by the Sheriff's Office. Expenditures of \$77 for food and refreshments at meetings were paid by the E911 Board. These expenditures 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.

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 improper purpose is very thin.

Recommendation – 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 requirements for proper documentation.

Response – We will discontinue this practice of the cell phone reimbursement. The purpose of the E911 Board expenditure was to secure a meeting room for budget meetings. The Board is required to purchase meals to use the meeting room.

Conclusion – Response accepted. The public purpose of the expenditures should also be documented.

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Jergens, son of Russell Jergens, County Sheriff	Services	\$ 170
Ryan Jergens, son of Russell Jergens, County Sheriff	Services	100
Richard Jergens, brother of Russell Jergens, County Sheriff	Transport expense	237
Harvey Jergens, father of Russell Jergens, County Sheriff	Transport expense	120

Palo Alto County

Schedule of Findings

Year ended June 30, 2004

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

- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- (9) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (10) Economic Development – During the year ended June 30, 2004, the County made the following payments for economic development:

<u>Payee</u>	<u>Amount</u>
Emmetsburg Economic Development Board	\$ 2,000
Ruthven Economic Development Board	2,000
West Bend Economic Development Board	2,000
Graettinger Economic Development Board	2,000
Horizons Unlimited	5,000
Jesse Wolfe	<u>3,000</u>
Total	<u>\$ 16,000</u>

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

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

Recommendation – The Board should evaluate and document the public purpose served by these expenditures before authorizing further payments and should require documentation of how the funds were used to accomplish economic development activities.

Palo Alto County

Schedule of Findings

Year ended June 30, 2004

Response – The Board of Supervisors feels that through Home Rule, the past expenditures of Economic Development funds did serve a public service.

Conclusion – Response acknowledged. The Board should require documentation of how the funds were used to accomplish economic development activities.

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

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

- (12) E911 Budget – Notice was not published at least 10 days prior to the hearing but not more than 20 days prior to the hearing as required by Chapter 24.9 of the Code of Iowa.

Recommendation – The budget should be published as required by Chapter 24.9 of the Code of Iowa.

Response – We will comply in the future.

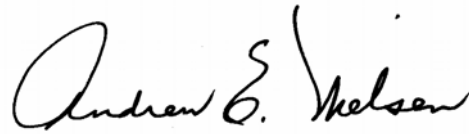
Conclusion – Response accepted.

Palo Alto County

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Cory A. Warmuth, CPA, Staff Auditor
James L. Blekfeld, CPA, Senior Auditor
Scott P. Boisen, 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