



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 6, 2008

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

The County had local tax revenue of \$14,370,719 for the year ended June 30, 2007, which included \$881,656 in tax credits from the state. The County forwarded \$9,702,532 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,668,187 of the local tax revenue to finance County operations, a 4% increase over the prior year. Other revenues included charges for service of \$1,223,655, operating grants, contributions and restricted interest of \$3,052,677, capital grants, contributions and restricted interest of \$249,902, local option sales tax of \$375,326, tax increment financing of \$409,737, gaming tax of \$129,394, unrestricted investment earnings of \$355,760 and other general revenues of \$70,762.

Expenses for County operations totaled \$9,158,130, an 8% increase over the prior year. Expenses included \$3,443,354 for roads and transportation, \$1,379,738 for mental health and \$1,312,073 for public safety and legal services.

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

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

JUNE 30, 2007

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Palo Alto County
Officials
(Before January 2007)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Philip Currans	Board of Supervisors	Jan 2007
Lannie Miller	Board of Supervisors	Jan 2007
Steven Nelson	Board of Supervisors	Jan 2007
Leo Goeders	Board of Supervisors	Jan 2009
Ronald Graettinger	Board of Supervisors	Jan 2009
Gary Leonard	County Auditor	Jan 2009
Kathleen Thompson	County Treasurer	Jan 2007
Lori Kliegl	County Recorder	Jan 2007
Dennis Goeders	County Sheriff	Jan 2009
Peter C. Hart	County Attorney	Jan 2007
Lois Naig	County Assessor	Jan 2010

(After January 2007)

Leo Goeders	Board of Supervisors	Jan 2009
Ronald Graettinger	Board of Supervisors	Jan 2009
Edward Noonan	Board of Supervisors	Jan 2011
Keith Wirtz	Board of Supervisors	Jan 2011
Jerry Hofstad	Board of Supervisors	Jan 2011
Gary Leonard	County Auditor	Jan 2009
Mary Hilfiker	County Treasurer	Jan 2011
Lori Kliegl	County Recorder	(Resigned Jul 2007)
Sue Ruppert (Appointed)	County Recorder	Nov 2007
Bonnie Whitney (Elected)	County Recorder	Jan 2011
Dennis Goeders	County Sheriff	Jan 2009
Peter C. Hart	County Attorney	Jan 2011
Lois Naig	County Assessor	Jan 2010

Palo Alto County



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Independent Auditor's Report

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Palo Alto County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2008 on our consideration of Palo Alto County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palo Alto County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. We also previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed qualified opinions on those financial statements due to the omission of general fixed assets and supplies inventory for the Secondary Roads Fund. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 19, 2008

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, 2007. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues decreased approximately \$111,000 from fiscal year 2006 (FY06). Property tax and other county tax increased approximately \$699,000 over FY06.
- Palo Alto County's governmental activities expenses increased approximately \$667,000 over FY06.
- The County's net assets increased 9.84%, or approximately \$1,377,000, from June 30, 2006 to June 30, 2007.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Palo Alto County's combined net assets increased from \$13,999,908 to \$15,377,178. The analysis that follows focuses on the changes in the net assets of governmental activities.

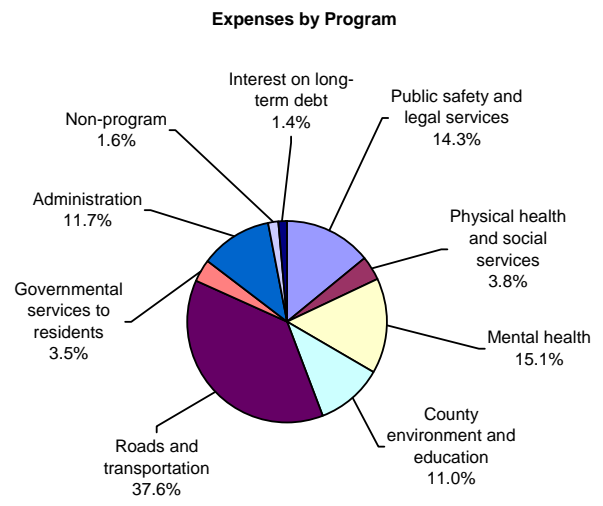
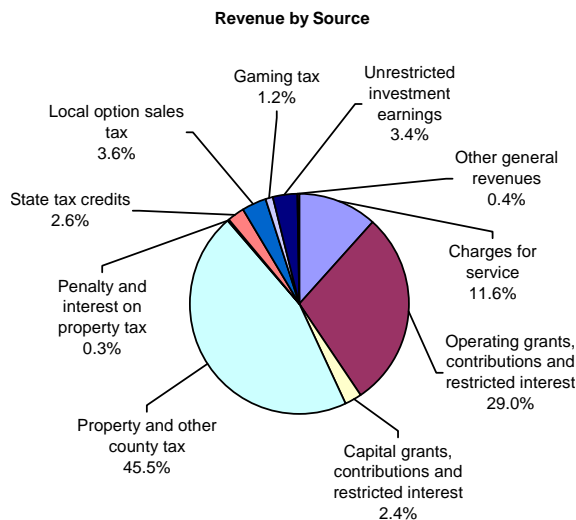
Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2007	2006
Current and other assets	\$ 13,783	13,010
Capital assets	9,552	9,011
Total assets	<u>23,335</u>	<u>22,021</u>
Long-term liabilities	2,636	2,824
Other liabilities	5,322	5,197
Total liabilities	<u>7,958</u>	<u>8,021</u>
Net assets:		
Invested in capital assets	9,552	8,999
Restricted	4,951	4,710
Unrestricted	874	291
Total net assets	<u>\$ 15,377</u>	<u>14,000</u>

Net assets of Palo Alto County's governmental activities increased approximately \$1,377,000. A large portion of the County's net assets are restricted net assets which represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Net assets restricted for Secondary Roads purposes is the largest portion of restricted net assets at approximately \$3,518,000. The County also reports net assets invested in capital assets (e.g., land, infrastructure, buildings and equipment) of approximately \$9,552,000. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Unrestricted net assets have increased from approximately \$291,000 at June 30, 2006 to approximately \$874,000 at June 30, 2007.

The largest change in net assets occurred in net assets invested in capital assets, which increased approximately \$553,000 due to capital asset additions. Restricted net assets increased approximately \$241,000 due to increased balances for the supplemental levies, Mental Health and other purposes.

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

	June 30,	
	2007	2006
Revenues:		
Program revenues:		
Charges for service	\$ 1,223	1,261
Operating grants, contributions and restricted interest	3,053	3,106
Capital grants, contributions and restricted interest	250	1,197
General revenues:		
Property and other county tax	4,803	4,221
Penalty and interest on property tax	27	27
State tax credits	276	292
Local option sales tax	375	269
Gaming tax	129	12
Unrestricted investment earnings	356	220
Other general revenues	43	41
Total revenues	10,535	10,646
Program expenses:		
Public safety and legal services	1,312	1,210
Physical health and social services	347	377
Mental health	1,380	1,218
County environment and education	1,005	925
Roads and transportation	3,443	3,021
Governmental services to residents	325	453
Administration	1,071	996
Non-program	149	143
Interest on long-term debt	126	148
Total expenses	9,158	8,491
 Increase in net assets	 1,377	 2,155
Net assets beginning of year	14,000	11,845
Net assets end of year	\$ 15,377	14,000



The County decreased property tax rates approximately .5%. However, total taxable value increased approximately \$15.38 million, or 3.74%. Based on an increase in taxable valuation of approximately \$12.31 million and a slight decrease in property tax rates for fiscal year 2008, property tax is budgeted to increase approximately \$110,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$7,704,000, an increase of approximately \$601,000 above last year's total of approximately \$7,103,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance increased approximately \$493,000 over the prior year to approximately \$2,321,000. The increase in the ending fund balance was due to the County not spending all of the budgeted disbursements. General Fund revenues increased approximately \$281,000 and expenditures decreased approximately \$37,000. The increase in revenues was primarily due to an increase in gaming tax and an increase in interest received.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,380,000 an increase of 13% over the prior year, and revenues decreased approximately \$4,000. The Mental Health Fund balance at year end increased approximately \$25,000 to approximately \$320,000. Expenditures increased because in October 2006 the County paid for the care of mental health patients previously paid for by the State. The State reimbursed the County for these expenditures. Revenues did not increase because the increase in state reimbursements for these patients was offset by a decrease in other State revenues.
- Rural Services Fund expenditures increased approximately \$44,000 over the prior year. The increase in expenditures was primarily due to an increase in worker's compensation insurance. Transfers from the Rural Services Fund to the Secondary Roads Fund increased approximately \$68,000. Revenues increased approximately \$177,000, which was primarily due to increases in property tax revenue of \$72,000 and local option sales tax revenue of approximately \$107,000. As a result, the Rural Services Fund balance increased approximately \$43,000 to approximately \$1,053,000.
- Secondary Roads Fund expenditures increased approximately \$763,000 from the prior year. This increase in expenditures is due primarily to a \$550,000 transfer from the Secondary Roads Fund to the County's farm-to-market State account for an additional mile of construction on the highway B14 project. Increasing fuel, steel and concrete costs also had a significant impact on expenditures. Revenues increased approximately \$101,000. Transfers from the Rural Services Fund increased approximately \$68,000. As a result, there was a decrease in the Secondary Roads Fund ending balance of approximately \$116,000, or 3%.
- The Drainage Districts Fund revenues decreased approximately \$685,000 due to a decrease in drainage assessments. Expenditures decreased approximately \$693,000, due primarily to the fact \$665,000 more in drainage warrants and interest were redeemed last year when the associated drainage assessments came in. This resulted in a decrease in the Drainage Districts Fund balance of approximately \$1,000.
- The Tax Increment Financing Fund expended approximately \$282,000 for the payment of bond principal and interest. The balance in the fund at June 30, 2007 was approximately \$215,000, which is to pay interest on the bonds until tax dollars are received in September 2007.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget two times. The first amendment was made on December 27, 2006 and resulted in an increase in budgeted disbursements of \$948,526, which included anticipated grants for the Community Development Block Grant of \$183,000, a pass through grant of \$105,000 for the Palo Alto County Economic Development Corporation (PACEDC), conservation grants totaling \$177,824 and \$400,000 for secondary roads projects. The second amendment was made on May 29, 2007. This amendment was made for the purpose of adding additional disbursements of \$62,900, which included \$10,000 for EMS, \$4,500 for the medical examiner, juvenile justice for \$5,500, jail disbursements of \$5,000, sheriff disbursements of \$32,400, communications center disbursements of \$5,000 and \$500 for the conservation department.

The County's receipts were \$664,569 more than budgeted, a variance of 7%. The most significant variance resulted from the County receiving more interest and charges for service than budgeted.

Total disbursements were \$1,411,313 less than the amended budget. Actual disbursements for the county environment and education, roads and transportation and capital projects functions were \$416,281, \$359,305 and \$145,988, respectively, less than budgeted. This was primarily due to grants totaling \$332,000 for county environment and education which were not received and disbursed and anticipated disbursements for roads and transportation and capital projects which did not occur.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, Palo Alto County had \$9,552,331 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. During FY07, there were \$1,088,283 in additions, which was due primarily to increases in road network infrastructure and construction in progress. The County had depreciation expense of \$546,760 in FY07 and total accumulated depreciation of \$4,017,741 at June 30, 2007. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Capital Assets of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2007	2006
Land	\$ 1,015	1,015
Buildings and improvements	935	927
Equipment and vehicles	2,996	3,086
Infrastructure	4,607	3,982
Total	\$ 9,553	9,010
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$	245
Construction in progress		601
Two tandem axle trucks		204
Lift installed as part of building		38
Total	\$	1,088

Long-Term Debt

At June 30, 2007, Palo Alto County had \$2,469,376 in outstanding long-term debt, which included \$2,095,492 in urban renewal tax increment revenue bonds and \$373,884 in drainage warrants.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2007	2006
Urban renewal TIF bonds	\$ 2,095	2,277
Drainage warrants and improvement certificates	374	368
Capital lease purchase agreement	-	12
Total	\$ 2,469	2,657

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County’s corporate limits. Palo Alto County’s outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of \$29 million. Additional information about the County’s long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

Palo Alto County’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees for various County activities. One of those factors is the economy. Palo Alto County’s employment (number of persons working) at March 31, 2007 was 4001, which is up from 3,690 the year before. Unemployment in the County at February 2008 was 3.7% compared to 3.8% at February 2007. This compares with the State’s unemployment rate of 4.0% December 2007 and the national rate of 4.6% at December 31, 2007.

Inflation in the State paralleled the national Consumer Price Index increase. The national CPI increase was 2.5% as of February 2008. The largest upward contribution to the change in the CPI annual rate came from housing and household services. This was due to gas and electricity bills rising by more than a year ago.

The above factors were all part of the considerations for the FY08 budget which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars)

	2008	2007	Percentage
	Dollars	Dollars	Change
	Certified	Certified	
General Fund	\$ 2,799,620	2,714,855	3.12%
Mental Health Fund	688,176	688,176	0%
Rural Services Fund	1,285,052	1,260,165	1.97%
Total	\$ 4,772,848	4,663,196	2.35%

Continued state revenue cutbacks and health insurance increases the past few years are driving the increases in property tax. No new services were added in the FY08 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for FY08 are as follows:

	2008	2007	Percentage Change
General basic levy	\$ 4.50000	3.90000	15.38%
General supplemental levy	1.87039	2.45552	(23.83%)
Mental health levy	1.56591	1.61103	(2.80%)
Rural services basic levy	3.95000	3.95000	0%
Total	\$ 11.88630	11.91655	(.25%)

These factors were taken into account when adopting the budget for fiscal year 2008. Amounts appropriated in the operating budget are \$10,457,606, a decrease of \$287,735, or 3%, from the final 2007 budget. Iowa Code limits the general basic levy rate to \$3.50 per \$1,000 of taxable value, except for special circumstances. Palo Alto County increased the general basic levy for 2008 from \$3.90 per \$1,000 of taxable value to \$4.50 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 50536-2442.

Basic Financial Statements

Exhibit A

Palo Alto County
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 7,412,232
Receivables:	
Property tax:	
Delinquent	3,089
Succeeding year	4,764,000
Interest and penalty on property tax	8,916
Accounts	135,370
Economic development loans	15,669
Accrued interest	38,244
Drainage assessments	373,034
Due from other governments	325,543
Inventories	602,298
Prepaid insurance	104,486
Capital assets - nondepreciable	1,451,787
Capital assets - depreciable - net	8,100,544
Total assets	<u>23,335,212</u>
Liabilities	
Accounts payable	288,274
Accrued interest payable	80,153
Salaries and benefits payable	25,514
Due to other governments	164,262
Deferred revenue:	
Succeeding year property tax	4,764,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment revenue bonds	181,952
Drainage warrants	373,884
Compensated absences	148,785
Portion due or payable after one year:	
Urban renewal tax increment revenue bonds	1,913,540
Compensated absences	17,670
Total liabilities	<u>7,958,034</u>
Net Assets	
Invested in capital assets	9,552,331
Restricted for:	
Supplemental levy purposes	908,791
Mental health purposes	327,007
Secondary roads purposes	3,517,731
Drainage district purposes	61,351
Other purposes	135,786
Unrestricted	874,181
Total net assets	<u>\$ 15,377,178</u>

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,312,073	224,220	6,563	-	(1,081,290)
Physical health and social services	346,574	149,168	56,690	-	(140,716)
Mental health	1,379,738	130,320	592,857	-	(656,561)
County environment and education	1,005,375	200,325	28,360	-	(776,690)
Roads and transportation	3,443,354	135,522	2,366,071	245,027	(696,734)
Governmental services to residents	325,031	189,281	-	4,875	(130,875)
Administration	1,071,229	29,301	2,136	-	(1,039,792)
Non-program	148,986	165,518	-	-	16,532
Interest on long-term debt	125,770	-	-	-	(125,770)
Total	\$ 9,158,130	1,223,655	3,052,677	249,902	(4,631,896)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,392,437
Tax increment financing					409,737
Penalty and interest on property tax					27,450
State tax credits					275,750
Local option sales tax					375,326
Gaming tax					129,394
Unrestricted investment earnings					355,760
Miscellaneous					43,312
Total general revenues					6,009,166
Change in net assets					1,377,270
Net assets beginning of year					13,999,908
Net assets end of year					\$ 15,377,178

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2007

Assets	Special			
	General	Mental Health	Rural Services	Secondary Roads
Cash and pooled investments	\$ 2,288,817	490,955	981,355	2,840,269
Receivables:				
Property tax:				
Delinquent	2,068	508	513	-
Succeeding year	2,635,000	647,000	1,216,000	-
Interest and penalty on property tax	8,916	-	-	-
Accounts	14,509	-	21,245	99,616
Economic developmental loans	-	-	-	-
Accrued interest	27,303	-	-	9,069
Drainage assessments	-	-	-	-
Due from other governments	52,631	8,028	69,010	193,215
Inventories	-	-	-	602,298
Prepaid insurance	22,174	-	537	16,435
	Total assets	1,146,491	2,288,660	3,760,902
	\$ 5,051,418	1,146,491	2,288,660	3,760,902
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 50,094	52,135	5,342	95,305
Salaries and benefits payable	-	-	-	25,514
Due to other governments	28,481	120,349	13,734	1,698
Deferred revenue:				
Succeeding year property tax	2,635,000	647,000	1,216,000	-
Other	16,722	7,122	513	98,350
Total liabilities	2,730,297	826,606	1,235,589	220,867
Fund balances:				
Reserved for:				
Supplemental levy purposes	908,184	-	-	-
Drainage warrants/drainage improvement certificates	-	-	-	-
Unreserved, reported in:				
General fund	1,412,937	-	-	-
Special revenue funds	-	319,885	1,053,071	3,540,035
Total fund balances	2,321,121	319,885	1,053,071	3,540,035
	Total liabilities and fund balances	1,146,491	2,288,660	3,760,902
	\$ 5,051,418	1,146,491	2,288,660	3,760,902

See notes to financial statements.

Revenue			
Drainage Districts	Tax Increment Financing	Nonmajor	Total
137,691	215,029	117,886	7,072,002
-	-	-	3,089
-	266,000	-	4,764,000
-	-	-	8,916
-	-	-	135,370
-	-	15,669	15,669
-	-	36	36,408
373,034	-	-	373,034
-	-	2,659	325,543
-	-	-	602,298
-	-	-	39,146
510,725	481,029	136,250	13,375,475
2,934	-	464	206,274
-	-	-	25,514
-	-	-	164,262
-	266,000	-	4,764,000
373,034	-	15,669	511,410
375,968	266,000	16,133	5,671,460
-	-	-	908,184
23,242	-	-	23,242
-	-	-	1,412,937
111,515	215,029	120,117	5,359,652
134,757	215,029	120,117	7,704,015
510,725	481,029	136,250	13,375,475

Palo Alto County

Palo Alto County

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

June 30, 2007

Total governmental fund balances (page 19)	\$ 7,704,015
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$13,570,072 and the accumulated depreciation is \$4,017,741.	9,552,331
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	511,410
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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.	325,406
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Long-term liabilities, including urban renewal tax increment revenue bonds payable, drainage warrants payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(2,715,984)
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Net assets of governmental activities (page 16)	<u><u>\$ 15,377,178</u></u>
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See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2007

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,681,996	647,046	1,567,691	-
Interest and penalty on property tax	25,995	-	-	-
Intergovernmental	475,925	757,893	135,958	2,420,718
Licenses and permits	6,787	-	-	2,995
Charges for service	260,767	-	185,366	28,819
Use of money and property	296,074	-	23	86,222
Miscellaneous	85,861	-	-	37,320
Total revenues	<u>3,833,405</u>	<u>1,404,939</u>	<u>1,889,038</u>	<u>2,576,074</u>
Expenditures:				
Operating:				
Public safety and legal services	1,125,920	-	181,487	-
Physical health and social services	346,957	-	-	-
Mental health	-	1,379,738	-	-
County environment and education	476,756	-	480,076	-
Roads and transportation	-	-	147,652	2,943,594
Governmental services to residents	327,893	-	-	-
Administration	1,005,010	-	73,000	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	22,576	-	6,034	707,141
Total expenditures	<u>3,305,112</u>	<u>1,379,738</u>	<u>888,249</u>	<u>3,650,735</u>
Excess (deficiency) of revenues over (under) expenditures	<u>528,293</u>	<u>25,201</u>	<u>1,000,789</u>	<u>(1,074,661)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	958,284
Operating transfers out	(35,000)	-	(958,284)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	<u>(35,000)</u>	<u>-</u>	<u>(958,284)</u>	<u>958,284</u>
Net change in fund balances	493,293	25,201	42,505	(116,377)
Fund balances beginning of year	<u>1,827,828</u>	<u>294,684</u>	<u>1,010,566</u>	<u>3,656,412</u>
Fund balances end of year	<u>\$ 2,321,121</u>	<u>319,885</u>	<u>1,053,071</u>	<u>3,540,035</u>

See notes to financial statements.

Revenue			
Drainage Districts	Tax Increment Financing	Nonmajor	Total
-	409,737	-	5,306,470
-	-	-	25,995
-	-	14,237	3,804,731
-	-	-	9,782
-	-	2,589	477,541
-	-	8,829	391,148
87,196	-	-	210,377
87,196	409,737	25,655	10,226,044
-	-	-	1,307,407
-	-	-	346,957
-	-	-	1,379,738
-	-	29,108	985,940
-	-	-	3,091,246
-	-	1,131	329,024
-	-	-	1,078,010
73,170	-	-	73,170
55,620	282,457	-	338,077
-	-	-	735,751
128,790	282,457	30,239	9,665,320
(41,594)	127,280	(4,584)	560,724
-	-	35,000	993,284
-	-	-	(993,284)
40,378	-	-	40,378
40,378	-	35,000	40,378
(1,216)	127,280	30,416	601,102
135,973	87,749	89,701	7,102,913
134,757	215,029	120,117	7,704,015

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, 2007

Net change in fund balances - Total governmental funds (page 23) \$ 601,102

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

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

Expenditures for capital assets	\$ 843,256	
Capital assets contributed by the Iowa Department of Transportation	245,027	
Depreciation expense	(546,760)	541,523

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	424	
Other	(6,126)	(5,702)

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

Issued	(40,378)	
Repaid	228,332	187,954

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

Compensated absences	443	
Interest on long-term debt	(4,104)	(3,661)

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.

56,054

Change in net assets of governmental activities (page 17) \$ 1,377,270

See notes to financial statements.

Palo Alto County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2007

	Internal Service - Employee Group Health
Assets	
Cash and cash equivalents	\$ 340,230
Accrued interest	1,836
Prepaid insurance	65,340
Total assets	407,406
Liabilities	
Accounts payable	82,000
Net Assets	
Unrestricted	\$ 325,406

See notes to financial statements.

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

Year ended June 30, 2007

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 909,299
Reimbursements from employees		19,135
Total operating revenues		<u>928,434</u>
Operating expenses:		
Insurance premiums	\$ 711,552	
Medical claims	145,600	
Administrative fees	17,064	874,216
Operating income		<u>54,218</u>
Non-operating revenues		
Interest income		1,836
Net income		<u>56,054</u>
Net assets beginning of year		<u>269,352</u>
Net assets end of year		<u><u>\$ 325,406</u></u>

See notes to financial statements.

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2007

	<u>Internal Service - Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 909,299
Cash received from employees	19,135
Cash paid to suppliers for services	<u>(799,546)</u>
Net cash provided by operating activities	128,888
Cash and cash equivalents beginning of year	<u>211,342</u>
Cash and cash equivalents end of year	<u><u>\$ 340,230</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 54,218
Adjustment to reconcile operating income to net cash provided by operating activities:	
Increase in accounts payable	82,000
(Increase) in prepaid insurance	<u>(7,330)</u>
Net cash provided by operating activities	<u><u>\$ 128,888</u></u>

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007

Assets

Cash and pooled investments:	
County Treasurer	\$ 763,618
Other County officials	24,955
Receivables:	
Property tax:	
Delinquent	8,254
Succeeding year	9,088,000
Accounts	15,557
Accrued interest	277
Special assessments	101,742
Due from other governments	6,462
Total assets	<u>10,008,865</u>

Liabilities

Accounts payable	3,604
Due to other governments	9,968,031
Trusts payable	31,964
Compensated absences	5,266
Total liabilities	<u>10,008,865</u>

Net assets \$ -

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2006.

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Rural Services and Secondary Roads Funds.

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

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

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

Net Assets – The net assets of the Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 958,284
Economic Development Conservation Land Acquisition	General	20,000 15,000
Total		<u>\$ 993,284</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, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,015,425	-	-	1,015,425
Construction in progress	3,524,119	845,824	(3,933,581)	436,362
Total capital assets not being depreciated	<u>4,539,544</u>	<u>845,824</u>	<u>(3,933,581)</u>	<u>1,451,787</u>
Capital assets being depreciated:				
Buildings	1,499,953	-	-	1,499,953
Improvements other than buildings	55,096	38,303	-	93,399
Equipment and vehicles	5,918,121	204,156	-	6,122,277
Infrastructure, road network	469,075	3,933,581	-	4,402,656
Total capital assets being depreciated	<u>7,942,245</u>	<u>4,176,040</u>	<u>-</u>	<u>12,118,285</u>
Less accumulated depreciation for:				
Buildings	608,091	26,659	-	634,750
Improvements other than buildings	19,603	3,504	-	23,107
Equipment and vehicles	2,832,281	293,713	-	3,125,994
Infrastructure, road network	11,006	222,884	-	233,890
Total accumulated depreciation	<u>3,470,981</u>	<u>546,760</u>	<u>-</u>	<u>4,017,741</u>
Total capital assets being depreciated, net	<u>4,471,264</u>	<u>3,629,280</u>	<u>-</u>	<u>8,100,544</u>
Governmental activities capital assets, net	<u>\$ 9,010,808</u>	<u>4,475,104</u>	<u>(3,933,581)</u>	<u>9,552,331</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 15,110
County environment and education	37,406
Roads and transportation	491,544
Administration	<u>2,700</u>
Total depreciation expense - governmental activities	<u>\$ 546,760</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	\$ 28,481
Special Revenue:		
Mental Health	Services	120,349
Rural Services	Services	13,734
Secondary Roads	Services	1,698
		<u>135,781</u>
Total for governmental funds		<u>\$ 164,262</u>
Agency:		
County Offices	Collections	\$ 10,255
Agricultural Extension Education		73,381
County Assessor		420,637
Schools		5,692,667
Community Colleges		310,369
Corporations		1,962,405
Townships		102,174
City Special Assessments		104,542
Auto License and Use Tax		203,786
All other		1,087,815
Total for agency funds		<u>\$ 9,968,031</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 loan recipients, the funds remain in the Palo Alto County Economic Development Fund for subsequent loans to other businesses.

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

Loaned to	Date of Loan	Maturity Date	Loan Amount	Interest Rate	Term of Loan	Loan Balance June 30, 2007
Mike and Kim Gehrt	Feb 24, 1998	Jun 1, 2008	\$ 10,000	5.0%	10 years	\$ 4,232
Jason White	Jun 27, 2000	Aug 1, 2003	2,500	6.0%	3 years	1,528
Stanley Propane and Appliance	Mar 26, 2002	Jul 1, 2012	<u>20,000</u>	5.0%	10 years	<u>9,909</u>
Total			<u>\$ 32,500</u>			<u>\$ 15,669</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Urban Renewal Tax Increment Revenue Bonds	Capital Lease Purchase Agreement	Drainage Warrants	Drainage Improvement Certificates	Compen- sated Absences	Total
Balance beginning of year	\$ 2,276,898	11,921	364,494	4,017	166,898	2,824,228
Increases	-		40,378	-	205,436	245,814
Decreases	181,406	11,921	30,988	4,017	205,879	434,211
Balance end of year	\$ 2,095,492	-	373,884	-	166,455	2,635,831
Due within one year	\$ 181,952	-	373,884	-	148,785	704,621

Urban Renewal Tax Increment Revenue Bonds

On October 15, 1998, the County issued \$73,000 of urban renewal tax increment revenue bonds to defray a portion of the costs of an urban renewal project in the Palo Alto County/Graettinger Urban Renewal Area. During the year ended June 30, 2007, principal of \$8,406 and interest of \$1,748 were paid.

On November 23, 2004, the County issued urban renewal tax increment revenue bonds of \$2,250,000. The bonds were issued to defray a portion of the costs of carrying out an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area of the County. During the year ended June 30, 2007, principal of \$173,000 and interest of \$99,303 were paid.

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

A summary of the County's June 30, 2007 annual debt service requirements to maturity for urban renewal tax increment revenue bonds are as follows:

Year ending June 30,	Interest Rates	October 15, 1998 Issue		
		Principal	Interest	Total
2008	6.50%	\$ 8,952	1,202	10,154
2009	6.50	9,540	619	10,159
Total		\$ 18,492	1,821	20,313

Year ending June 30,	Interest Rates	November 23, 2004 Issue			Total		
		Principal	Interest	Total	Principal	Interest	Total
2008	4.50%	\$ 173,000	91,518	264,518	181,952	92,720	274,672
2009	4.50	173,000	83,734	256,734	182,540	84,353	266,893
2010	4.50	173,000	75,949	248,949	173,000	75,949	248,949
2011	4.50	173,000	68,164	241,164	173,000	68,164	241,164
2012	4.50	173,000	60,379	233,378	173,000	60,379	233,378
2013-2017	4.50	865,000	185,120	1,050,120	865,000	185,120	1,050,120
2018-2019	4.50	347,000	19,552	366,553	347,000	19,552	366,553
Total		\$ 2,077,000	584,416	2,661,416	2,095,492	586,237	2,681,729

Capital Lease Purchase Agreement

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

The lease was paid off during the year ended June 30, 2007. Payments under the capital lease purchase agreement totaled \$12,636 for the year ended June 30, 2007.

Drainage Warrants/Drainage Improvement Certificates Payable

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

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

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

(8) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$186,299, \$180,355 and \$177,624, 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 556 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2007 were \$118,718.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2007, no liability has been recorded in the County's financial statements. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$600,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Employee Group Health Insurance Plan

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

Payments to the Employee Group Health Fund were recorded as expenditures by the operating funds. Payments to Wellmark, Blue Cross and Blue Shield are for insurance premiums and payments to Group Services, Inc. are for service fees and medical claims. The County's contributions for the year ended June 30, 2007 were \$711,553 and \$197,746 for insurance premiums and the self funded insurance plan, respectively.

Amounts payable from the Employee Group Health Fund at June 30, 2007 total \$82,000, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$325,406 at June 30, 2007 and is reported as a designation of the Internal Service, Employee Group Health Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ -
Incurred claims (including claims incurred but not reported at June 30, 2007)	145,600
Payment on claims during the fiscal year	<u>63,600</u>
Unpaid claims end of year	<u>\$ 82,000</u>

(11) Transfer Station Closure Care

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

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

The total closure care costs for the County as of June 30, 2007 have been estimated at \$4,603. A balance of \$5,000 has been deposited in the Closure/Postclosure Fund. The balance is restricted and the estimated closure care costs are fully funded at June 30, 2007.

(12) Subsequent Events

The County issued \$5,000,000 of general obligation county road improvement bonds on December 31, 2007 and \$5,000,000 of general obligation county road improvement bonds, Series 2008 on May 6, 2008 for the purpose of paying the cost of constructing improvements to county roads to assist economic development which creates jobs and wealth.

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, 2007

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 5,281,587	-	5,281,587
Interest and penalty on property tax	26,079	-	26,079
Intergovernmental	3,691,607	-	3,691,607
Licenses and permits	9,787	-	9,787
Charges for service	455,663	-	455,663
Use of money and property	399,173	-	399,173
Miscellaneous	219,954	87,196	132,758
Total receipts	<u>10,083,850</u>	<u>87,196</u>	<u>9,996,654</u>
Disbursements:			
Public safety and legal services	1,298,998	-	1,298,998
Physical health and social services	268,570	-	268,570
Mental health	1,358,592	-	1,358,592
County environment and education	992,514	-	992,514
Roads and transportation	2,999,114	-	2,999,114
Governmental services to residents	330,224	-	330,224
Administration	1,069,872	-	1,069,872
Non-program	84,599	84,599	-
Debt service	338,078	55,620	282,458
Capital projects	733,686	-	733,686
Total disbursements	<u>9,474,247</u>	<u>140,219</u>	<u>9,334,028</u>
Excess (deficiency) of receipts over (under) disbursements	609,603	(53,023)	662,626
Other financing sources, net	40,378	40,378	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	649,981	(12,645)	662,626
Balance beginning of year	6,422,021	150,336	6,271,685
Balance end of year	<u>\$ 7,072,002</u>	<u>137,691</u>	<u>6,934,311</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
4,621,061	4,621,061	660,526
8,200	8,200	17,879
3,591,341	4,032,988	(341,381)
4,450	4,450	5,337
388,130	388,130	67,533
125,532	126,032	273,141
37,600	151,224	(18,466)
8,776,314	9,332,085	664,569
1,289,135	1,336,035	37,037
351,512	360,059	91,489
1,454,337	1,454,337	95,745
1,014,895	1,408,795	416,281
3,319,419	3,358,419	359,305
354,533	354,533	24,309
1,074,354	1,120,009	50,137
-	66,000	66,000
407,480	407,480	125,022
468,250	879,674	145,988
9,733,915	10,745,341	1,411,313
(957,601)	(1,413,256)	2,075,882
-	-	-
(957,601)	(1,413,256)	2,075,882
4,644,535	4,644,535	1,627,150
3,686,934	3,231,279	3,703,032

Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 10,083,850	142,194	10,226,044
Expenditures	9,474,247	191,073	9,665,320
Net	609,603	(48,879)	560,724
Other financing sources, net	40,378	-	40,378
Beginning fund balances	6,422,021	680,892	7,102,913
Ending fund balances	\$ 7,072,002	632,013	7,704,015

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$1,011,426. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

Palo Alto County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2007

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Assets			
Cash and pooled investments	\$ 19,734	5,960	84
Receivables:			
Economic development loans	-	-	-
Accrued interest	27	9	-
Due from other governments	2,659	-	-
Total assets	\$ 22,420	5,969	84
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 464	-	-
Deferred revenue	-	-	-
Total liabilities	464	-	-
Fund equity:			
Unreserved fund balances	21,956	5,969	84
Total liabilities and fund equity	\$ 22,420	5,969	84

See accompanying independent auditor's report.

Revenue				
Palo Alto County Economic Development	Closure/ Postclosure	Conservation Land Acquisition		Total
15,485	5,000	71,623		117,886
15,669	-	-		15,669
-	-	-		36
-	-	-		2,659
<u>31,154</u>	<u>5,000</u>	<u>71,623</u>		<u>136,250</u>
-	-	-		464
15,669	-	-		15,669
15,669	-	-		16,133
<u>15,485</u>	<u>5,000</u>	<u>71,623</u>		<u>120,117</u>
<u>31,154</u>	<u>5,000</u>	<u>71,623</u>		<u>136,250</u>

Palo Alto County

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

Year ended June 30, 2007

	Resource Enhancement and Protection	County Recorder's Records Management	Special County Recorder's Electronic Transaction Fee
Revenues:			
Intergovernmental	\$ 14,237	-	-
Charges for service	-	2,589	-
Use of money and property	320	91	1
Total revenues	<u>14,557</u>	<u>2,680</u>	<u>1</u>
Expenditures:			
Operating:			
County environment and education	9,108	-	-
Governmental services to residents	-	1,131	-
Total expenditures	<u>9,108</u>	<u>1,131</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	5,449	1,549	1
Other financing sources:			
Operating transfers in	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	5,449	1,549	1
Fund balances beginning of year	16,507	4,420	83
Fund balances end of year	<u>\$ 21,956</u>	<u>5,969</u>	<u>84</u>

See accompanying independent auditor's report.

Revenue				
Palo Alto County Economic Development	Closure/ Postclosure	Conservation Land Acquisition		Total
-	-	-		14,237
-	-	-		2,589
3,759	-	4,658		8,829
3,759	-	4,658		25,655
20,000	-	-		29,108
-	-	-		1,131
20,000	-	-		30,239
(16,241)	-	4,658		(4,584)
20,000	-	15,000		35,000
3,759	-	19,658		30,416
11,726	5,000	51,965		89,701
15,485	5,000	71,623		120,117

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

June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	1,325	189,468	102,531	6,129
Other County officials	24,955	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	56	185	4,136	240
Succeeding year	-	72,000	236,000	5,586,000	304,000
Accounts	1,117	-	75	-	-
Accrued interest	-	-	-	-	-
Special assessments	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ 26,072	73,381	425,728	5,692,667	310,369
Liabilities					
Accounts payable	\$ -	-	2,010	-	-
Due to other governments	10,255	73,381	420,637	5,692,667	310,369
Trusts payable	15,817	-	-	-	-
Compensated absences	-	-	3,081	-	-
Total liabilities	\$ 26,072	73,381	425,728	5,692,667	310,369

See accompanying independent auditor's report.

Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
31,537	2,132	2,800	203,786	223,910	763,618
-	-	-	-	-	24,955
2,868	42	-	-	727	8,254
1,928,000	100,000	-	-	862,000	9,088,000
-	-	-	-	14,365	15,557
-	-	-	-	277	277
-	-	101,742	-	-	101,742
-	-	-	-	6,462	6,462
1,962,405	102,174	104,542	203,786	1,107,741	10,008,865
-	-	-	-	1,594	3,604
1,962,405	102,174	104,542	203,786	1,087,815	9,968,031
-	-	-	-	16,147	31,964
-	-	-	-	2,185	5,266
1,962,405	102,174	104,542	203,786	1,107,741	10,008,865

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Schools	Community Colleges
Assets and Liabilities					
Balances beginning of year	\$ 14,408	73,431	373,231	5,643,588	340,040
Additions:					
Property and other county tax	-	71,979	234,147	5,596,729	302,471
E911 surcharge	-	-	-	-	-
State tax credits	-	4,652	15,335	359,485	21,506
Drivers license fees	-	-	-	-	-
Office fees and collections	286,294	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	123,515	-	-	-	-
Miscellaneous	-	-	2,120	-	-
Total additions	409,809	76,631	251,602	5,956,214	323,977
Deductions:					
Agency remittances:					
To other funds	133,530	-	-	-	-
To other governments	151,025	76,681	199,105	5,907,135	353,648
Trusts paid out	113,590	-	-	-	-
Total deductions	398,145	76,681	199,105	5,907,135	353,648
Balances end of year	\$ 26,072	73,381	425,728	5,692,667	310,369

See accompanying independent auditor's report.

Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
1,780,331	101,979	138,996	170,747	1,021,427	9,658,178
1,940,318	100,355	-	-	850,627	9,096,626
-	-	-	-	79,584	79,584
132,514	6,152	-	-	66,262	605,906
-	-	-	13,741	-	13,741
-	-	-	-	-	286,294
-	-	-	-	2,589	2,589
-	-	-	2,299,494	-	2,299,494
-	-	11,871	-	-	11,871
-	-	-	-	-	123,515
-	-	-	-	243,281	245,401
2,072,832	106,507	11,871	2,313,235	1,242,343	12,765,021
-	-	-	86,139	-	219,669
1,890,758	106,312	46,325	2,194,057	1,156,029	12,081,075
-	-	-	-	-	113,590
1,890,758	106,312	46,325	2,280,196	1,156,029	12,414,334
1,962,405	102,174	104,542	203,786	1,107,741	10,008,865

Palo Alto County

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

For the Last Seven Years

	Modified Accrual Basis			
	2007	2006	2005	2004
Revenues:				
Property and other county tax	\$ 5,306,470	4,500,878	4,492,404	4,865,348
Interest and penalty on property tax	25,995	25,929	25,423	27,410
Intergovernmental	3,804,731	3,885,266	3,781,399	3,483,391
Licenses and permits	9,782	11,150	6,621	6,756
Charges for service	477,541	450,315	380,075	402,237
Use of money and property	391,148	241,490	148,718	104,798
Miscellaneous	210,377	852,455	154,374	376,283
Total	\$ 10,226,044	9,967,483	8,989,014	9,266,223
Expenditures:				
Operating:				
Public safety and legal services	1,307,407	1,223,356	1,181,247	1,138,496
Physical health and social services	346,957	377,459	242,172	241,273
Mental health	1,379,738	1,217,605	1,265,563	1,330,115
County environment and education	985,940	983,662	2,861,490	838,259
Roads and transportation	3,091,246	2,898,948	3,402,536	1,815,008
Governmental services to residents	329,024	462,226	384,667	306,606
Administration	1,078,010	1,012,503	1,045,164	970,837
Non-program	73,170	100,355	318,393	477,850
Debt service	338,077	832,476	163,711	368,499
Capital projects	735,751	221,044	471,050	144,343
Total	\$ 9,665,320	9,329,634	11,335,993	7,631,286

See accompanying independent auditor's report.

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

Palo Alto County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Palo Alto County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated May 19, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palo Alto County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Palo Alto County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Palo Alto County's internal control over financial reporting.

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

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

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

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

Compliance and Other Matters

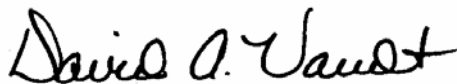
As part of obtaining reasonable assurance about whether Palo Alto County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 19, 2008

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

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

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

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

Responses –

Treasurer – All employees in the Treasurer’s office are authorized to post entries to the accounting records. One Treasurer’s office employee walks to the post office to get the mail. County Treasurer opens the mail and then distributes it to employees to post. In the future, each morning I will log a sampling of 3 or 4 pieces of the mail. Once employees have posted our incoming mail for the day, I will follow the transaction through to make sure it has posted properly to the accounting records and all funds involved in the transaction have been deposited to the appropriate bank account.

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

All bank reconciliations are performed monthly once bank statements are received. Since all employees are authorized to handle or record cash it is difficult to use a neutral party to reconcile statements. However, the Treasurer does balance statements one month and the next month another office employee balances the statements in an attempt to exercise dual control of the reconciliation process.

In the future, bank reconciliations will be initialed by both the person actually balancing the statements and also by the person that double checked them. Such reviews will be evidenced by initials or signature to the reviewer and the date of the review.

Sheriff – The Sheriff and Office secretary both have access to items mentioned in sections (1) and (2). The Sheriff and Office secretary both review and sign off on these items currently. Incoming mail is handled by the Sheriff and Office secretary.

Recorder – Currently, the Deputy Recorder checks out and does the daily balancing one day a week or when the Recorder is gone. Both employees work on the month end balancing and make sure the reports are balanced with the monthly totals from the daily balancing. In some months the Deputy Recorder also reconciles the checking account, but in the future the Recorder will make an effort to alternate the duties of balancing the daily and monthly reports, the Department of Natural Resources direct deposit and the bank reconciliations and will initial them.

Conclusion – Responses accepted.

- (B) Financial Reporting – Material amounts of receivables and payables were not recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

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

Response – In the future the County will ensure all receivables and payables are identified and included in the financial statements.

Conclusion – Response accepted.

- (C) Compensatory Time – The County’s personnel policy states employees may accumulate up to 40 hours of compensatory time. One employee had compensatory time exceeding 40 hours.

Recommendation – The County should limit the amount of compensatory time to the maximum amount allowed by the County’s personnel policy.

Response – We will watch this closer in the future. This was due to a new employee just starting and learning the full cycle of claims and payroll fulltime, but is a part-time employee.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

- (D) 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 – Job evaluations will be done annually in the future.

Conclusion – Response accepted.

- (E) Landfill Transfer Station – The County does not have written policies or procedures for collecting delinquent accounts.

Recommendation –The County should establish policies and procedures for collecting delinquent accounts, including a provision for assessing penalties.

Response – The County will develop policies and procedures concerning the collection of delinquent accounts, including a provision for assessing penalties.

Conclusion – Response accepted.

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

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

Response – Grants received by the County Board of Health are now receipted by the County Treasurer and disbursed by County warrant.

Conclusion – Response accepted.

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

Recommendation – A written disaster recovery plan should be developed.

Response – A written disaster recovery plan will be completed in the near future for the electronic data processing system.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

- (H) Commissary Account – The Sheriff’s commissary account had a balance of \$2,635 at June 30, 2007. The Sheriff has not established a maximum balance for the commissary account to determine when any excess amount is to be remitted to the General Fund.

Recommendation – The County Sheriff should establish a maximum balance for the commissary account and the remaining balance should be remitted to the General Fund of the County.

Response – I would like the maximum balance of the commissary account set at \$10,000. I will contact the County Auditor regarding this.

Conclusion – Response accepted.

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

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

Response – Reports can be queried through the Sleuth accounting program which shows all receipts and disbursements. In addition all bank account information is kept in the Quicken program and reports can be queried through that program for any income/disbursements for a given time period. Monthly statements are printed to ensure that the accounting records are accurate and the same are kept with the monthly bank statements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

Paid To	Purpose	Amount
Edward Noonan, Board of Supervisor	Reimbursement for 80 meals at \$3 per meal, \$120 for beer and sales tax of \$14 for expenses for a County employee party	\$374

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

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

The County should also contact legal counsel to determine the disposition of this matter, including a determination if the County should be reimbursed for these expenditures.

Response – We will not do this in the future. The County Attorney opined the Board of Supervisors should reimburse the County for these expenditures.

Conclusion – Response accepted.

- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – No business transactions between the County and County officials were noted.
- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not.

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) Credit Card Policy – The County adopted a Palo Alto County Credit Card Usage Policy for all departments. The policy states, in part: "all charges will be accompanied by a detailed itemized receipt. Charges not accompanied with a receipt will be the responsibility of the employee." In addition, Chapter 331.504(8) of the Code of Iowa states, in part: "claims, before being audited or paid shall be itemized to clearly show the basis of the claim." Certain credit card claims did not have sufficient documentation attached to the claim.

Recommendation – The Board of Supervisors should scrutinize claims to ensure the policy is complied with.

Response – In the future all charges will be accompanied by a detailed, itemized receipt.

Conclusion – Response accepted.

- (10) Outstanding Warrants – The County Auditor did not cancel warrants outstanding more than one year as required by Chapter 331.554(7) of the Code of Iowa.

Recommendation – County warrants outstanding more than one year should be cancelled as required by the Code of Iowa.

Response – There will be no warrants outstanding more than one year, but if there are, they will be cancelled as required by the Code of Iowa.

Conclusion – Response accepted.

- (11) County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

Recommendation – This compilation of County ordinances should be prepared and published as required by Section 331.302(9) of the Code of Iowa.

Response – A compilation of County ordinances will be completed in the near future.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

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

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

Response – We will comply with this July 1, 2008.

Conclusion – Response accepted.

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

Recommendation – Unspent balances, if any, should be tracked by the County Sheriff and the Board of Supervisors since the use of the funds is restricted.

Response – We will comply with this July 1, 2008 because this fiscal year is almost over. We will amend the budget as is necessary so as to not overspend the amount budgeted.

Conclusion – Response accepted.

- (14) Mileage Reimbursements – The County paid mileage reimbursements of 50 cents per mile on certain claims paid to individuals for the transportation of veterans. This rate was approved by the Board on May 2, 2006. The rate approved does not comply with Chapter 70A.9 of the Code of Iowa since it exceeds the maximum allowable under Internal Revenue Service rules of 44½ cents per mile from July 1, 2006 to January 31, 2007 and 48½ cents from February 1, 2007 to June 30, 2007.

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

Response – The drivers are only paid mileage and nothing for their time. That is the reason for paying them over the limit. This problem is now being corrected.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2007

- (15) 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.

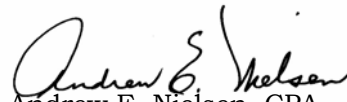
Disbursements during the year ended June 30, 2007 for the County Extension Office did not exceed the amount budgeted.

Palo Alto County

Staff

This audit was performed by:

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