

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

JUNE 30, 2010

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CHEROKEE COUNTY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Leeds	Board of Supervisors	Jan. 2011
Jeffrey Simonsen	Board of Supervisors	Jan. 2011
Terry Graybill	Board of Supervisors	Jan. 2013
Larry Prunty	Board of Supervisors	Jan. 2013
Dean Schmidt	Board of Supervisors	Jan. 2013
Kris Glienke	County Auditor	Jan. 2013
Roswitha (Hedgie) Brandt	County Treasurer	Jan. 2011
Dawn Jones Coombs	County Recorder	Jan. 2011
Dave Scott	County Sheriff	Jan. 2013
Ryan Kolpin	County Attorney	Jan. 2011
Robert S. Hart	County Assessor	Jan. 2016

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Officials of Cherokee County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Cherokee 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 Cherokee County at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2011, on our consideration of Cherokee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 6 through 14 and 41 through 44 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 Cherokee 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 each of the years in the eight year period ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. 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.

March 1, 2011

Hungelman, Pitzer & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee County provides this Management's Discussion and Analysis of its financial statements. This report contains an overview and analysis of the financial activities for the fiscal year ended June 30, 2010. The following information should be considered in relation to the County's financial statements included in this report.

This is the seventh year that Cherokee County has been required to report all activities on a full accrual basis, as required by the reporting standards of GASB 34. The following comprehensive comparison to fiscal year 2009 makes it more meaningful for the public to understand the County's financial position and results of operations.

2010 FINANCIAL HIGHLIGHTS

- Cherokee County's governmental fund revenues increased approximately \$632,000 or 7% from fiscal year 2009 to fiscal year 2010. Property taxes and other county tax increased approximately \$308,000 or 6%.
- Cherokee County's overall governmental fund expenditures increased approximately \$1,771,000 or 20% from fiscal year 2009 to fiscal year 2010. The breakdown by service areas include: public safety and legal services increased approximately \$142,000 or 10%; physical health and social services increased by approximately \$29,000 or 9%; mental health expenditures decreased by approximately \$61,000 or 5%; county environment and education increased approximately \$59,000 or 11%; roads and transportation increased by approximately \$849,000 or 26%; governmental services to residents decreased approximately \$70,000 or 20%; administration increased approximately \$15,000 or 1%; and capital projects expenditures increased approximately \$808,000 or 174%.
- Cherokee County's net assets increased 10%, or approximately \$2,763,000, from June 30, 2009 to June 30, 2010.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Cherokee 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 Cherokee 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 Cherokee 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.

USING THIS ANNUAL REPORT - (Continued)

- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

Accounting methods similar to those used in private-sector businesses are used in preparing the County-wide financial statements. The information contained in these reports helps the public to understand if Cherokee County's financial position is better or worse after the fiscal year has ended.

The Statement of Net Assets includes all of Cherokee County's assets and liabilities with "net assets" being reported as the difference between assets and liabilities. Over time, increases or decreases in the County's net assets will indicate if the financial position of the county is improving or deteriorating.

The Statement of Activities includes all of the current year's revenues and expenses. All changes in net assets are reported as soon as the change occurs, regardless of when the cash was received or paid. Therefore, revenues and expenditures for some items will be reported in this statement and their resulting cash flows will be reported in future fiscal reports.

Cherokee 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, and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed data about Cherokee County's funds. Funds are used to keep track of sources of funding and spending on particular programs. Most "major" funds are required by state law while the County establishes other funds to control and manage money for specific purposes or to show that it is properly using certain revenues such as federal grants.

Cherokee County has three categories 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 and Secondary Roads. 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 Cherokee County's programs.

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES – (Continued)

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 Cherokee County's own programs.

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. Cherokee County's combined net assets were \$29,628,908 for fiscal year 2010. This reflects a \$2,763,272 (10%) increase over fiscal year 2009 net assets of \$26,865,636. This increase can be substantially attributed to roadway construction. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Cherokee County's Governmental Activities

	June 30	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 15,002,163	\$ 15,105,658
Capital assets	<u>22,680,093</u>	<u>19,603,416</u>
Total assets	<u>37,682,256</u>	<u>34,709,074</u>
Long term liabilities	5,273,660	2,987,659
Other liabilities	<u>2,779,688</u>	<u>4,855,779</u>
Total liabilities	<u>8,053,348</u>	<u>7,843,438</u>
Net assets		
Invested in capital assets, net of related debt	22,680,093	19,603,416
Restricted	4,514,379	4,344,700
Unrestricted	<u>2,434,436</u>	<u>2,917,520</u>
Total net assets	<u>\$ 29,628,908</u>	<u>\$ 26,865,636</u>

Net assets of Cherokee County's governmental activities increased by \$2,763,272 compared to fiscal year 2009. The largest portion of Cherokee County's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets – 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, are reported at approximately \$2,434,000 as of June 30, 2010.

Changes in Net Assets of Cherokee County's Governmental Activities

	Year Ended June 30	
	2010	2009
Revenues:		
Program revenues:		
Charges for service	\$ 1,037,450	\$ 976,406
Operating grants, contributions, and restricted interest	4,201,772	3,845,510
Capital grants, contributions, and restricted interest	2,266,431	551,347
General revenues:		
Property tax	4,616,425	4,328,621
Penalty and interest on property tax	30,525	31,865
State tax credits	200,222	199,110
Local option sales tax	518,469	500,090
Unrestricted investment earnings	82,390	122,265
Other general revenues	29,000	24,301
Total revenues	12,982,684	10,579,515
Program expenses:		
Public safety and legal services	1,523,045	1,387,952
Physical health and social services	339,544	311,610
Mental health	1,197,611	1,257,260
County environment and education	627,846	573,751
Roads and transportation	4,432,218	3,912,560
Governmental services to residents	291,913	347,636
Administration	1,807,235	1,733,694
Total expenses	10,219,412	9,524,463
Increase in net assets	2,763,272	1,055,052
Net assets beginning of year	26,865,636	25,810,584
Net assets end of year	\$ 29,628,908	\$ 26,865,636

Cherokee County reduced the Mental Health levy by 5.674 cents, and the County maintained the prior levy rates in the General, General Supplemental, and Rural Funds. This decision resulted in \$287,804 of additional property tax revenue due to a 6 percent increase in taxable valuations.

INDIVIDUAL MAJOR FUND ANALYSIS

As Cherokee County completed the year, its governmental funds reported a combined fund balance of approximately \$6,909,000, a decrease of approximately \$268,000 from last year's approximately \$7,177,000 ending fund balance. The decrease in fund balance is attributable to a 13% increase (\$519,658) of capital project expenditures for infrastructure and road network. The Cherokee County Board of Supervisors chose to reduce levy rates slightly in an inverse relationship to marginal increases in taxable valuations. Levy rates are carefully considered in order to maintain minimal fund balances in the regular cash flow of business. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

INDIVIDUAL MAJOR FUND ANALYSIS – (Continued)

- General Fund activities reflect increases in revenues directly related to a 6 percent increase in taxable valuations. Expenditures and non tax related revenues increased marginally. The ending fund balance showed an increase of \$333,000 from the prior year to approximately \$2,432,000.
- Cherokee County has continued to look for ways to effectively manage the cost of mental health services. Revenues decreased for the Mental Health Fund in Fiscal Year 2010 to approximately \$1,457,000 while expenditures decreased to approximately \$1,193,000. The County levied at 100% with a 5.674 cent reduced levy rate and the resulting June 30, 2010 fund balance increased to approximately \$536,000.
- Rural Services ending fund balance for fiscal year 2010 was approximately \$383,000, which is a \$57,000 decrease from the prior year's balance of approximately \$440,000.
- Secondary Roads ending fund balance decreased by approximately \$819,000 for the year ending June 30, 2010. The prior year fund balance was approximately \$4,072,000 and was decreased to an approximately \$3,253,00 fund balance after completion of the 2010 year.
- Other Special Revenue Funds which include County Recorder Records Management, Conservation Land Acquisition Trust, Resource Enhancement and Protection, and the Country Betterment Fund, are classified as nonmajor special revenue funds. The combined activities of these funds resulted in an increase in fund balance of approximately \$12,000. The ending fund balance for 2010 was approximately \$306,000 compared to the prior year's ending fund balance of approximately \$294,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, Cherokee County amended its budget once. The amendment was made on April 27, 2010 by the County Board of Supervisors for the following reasons:

- Intergovernmental revenues were increased by \$90,000, including \$15,000 for Local Public Health Grant pass through funds and \$75,000 for Public Health Emergency Preparedness Grant funds.
- Miscellaneous revenues were increased by \$15,000 for additional County Attorney collections.
- Expenditures in the Public Safety service area were increased by \$116,000 to allow for the following additional expenditures: inmate housing (\$20,000), County Attorney collections process (\$10,000), fire alarm system in jail (\$31,000), wage settlement in the Sheriff's Department (\$20,000), support of ambulance paramedics (\$10,000), and juvenile detention costs (\$25,000).
- The Physical Health service area was increased by \$90,000 to provide budget authority correlating to additional Public Health Grant pass through funds received.
- Budgeted expenditures within the Administration area were increased by \$25,000 relating to unanticipated expenses for outside legal services.

CAPITAL ASSETS

Cherokee County's Capital Assets activity for the year ended June 30, 2010, was as follows:

	<u>Capital Assets of Governmental Activities at Year End</u>	
	<u>June 30</u>	
	<u>2010</u>	<u>2009</u>
Governmental activities:		
Capital assets not being depreciated:		
Land	\$ 488,286	\$ 488,286
Construction in progress	<u>1,170,877</u>	<u>644,329</u>
Total capital assets not being depreciated	<u>1,659,163</u>	<u>1,132,615</u>
Capital assets being depreciated/amortized:		
Buildings	3,798,757	3,767,897
Improvements other than buildings	9,750	9,750
Equipment and vehicles	6,223,546	5,621,012
Intangibles	28,494	28,494
Infrastructure, road network	<u>19,424,506</u>	<u>16,381,244</u>
Total capital assets being depreciated/amortized	<u>29,485,053</u>	<u>25,808,397</u>
Less accumulated depreciation/amortization for:		
Buildings	1,891,664	1,836,562
Improvements other than buildings	4,572	4,084
Equipment and vehicles	2,787,883	2,620,548
Intangibles	17,715	14,311
Infrastructure, road network	<u>3,762,289</u>	<u>2,862,091</u>
Total accumulated depreciation/amortization	<u>8,464,123</u>	<u>7,337,596</u>
Total capital assets being depreciated/amortized, net	<u>21,020,930</u>	<u>18,470,801</u>
Governmental activities capital assets, net	<u>\$ 22,680,093</u>	<u>\$ 19,603,416</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES

Cherokee County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and the fees that will be charged for various county services.

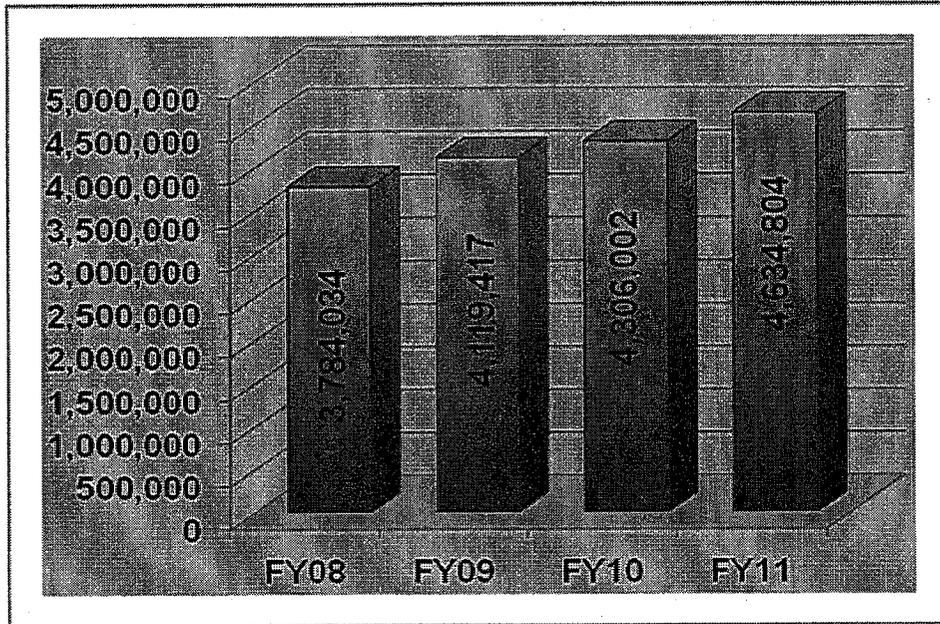
State revenue cutbacks, health insurance increases, a generally flat economy and a decreasing balance in available funds have influenced the Cherokee County Board of Supervisors' decision concerning tax rates for the 2011 fiscal year budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES – (Continued)

The fiscal year 2011 budget certified tax revenues, broken down by the major funds that Cherokee County receives are as follows:

	<u>Fiscal Year 2011 Dollars Certified</u>	<u>Fiscal Year 2010 Dollars Certified</u>	<u>Fiscal Year 2009 Dollars Certified</u>	<u>Fiscal Year 2008 Dollars Certified</u>
General Fund	\$2,277,205	\$2,051,146	\$1,954,968	\$1,816,618
General Supplemental Fund	357,846	422,225	402,427	340,917
Mental Health Fund	471,032	446,025	454,150	449,603
Rural Basic Fund	<u>1,528,721</u>	<u>1,386,606</u>	<u>1,307,872</u>	<u>1,176,896</u>
Total Taxes Assessed	<u>\$4,634,804</u>	<u>\$4,306,002</u>	<u>\$4,119,417</u>	<u>\$3,784,034</u>

**Cherokee County Property Taxes Assessed
4 Year History**



Levy Rates (based on \$/\$1,000 taxable valuation) for Cherokee County have been:

	<u>Fiscal Year 2011 Levy Rates</u>	<u>Fiscal Year 2010 Levy Rates</u>	<u>Fiscal Year 2009 Levy Rates</u>	<u>Fiscal Year 2008 Levy Rates</u>
General Fund	\$ 3.50	\$ 3.50	\$ 3.50	\$ 3.50
General Supplemental Fund	.55	.72047	.72047	.65683
Mental Health Fund	.72396	.76108	.81782	.86623
Rural Basic Fund	3.25	3.25	3.25	3.25

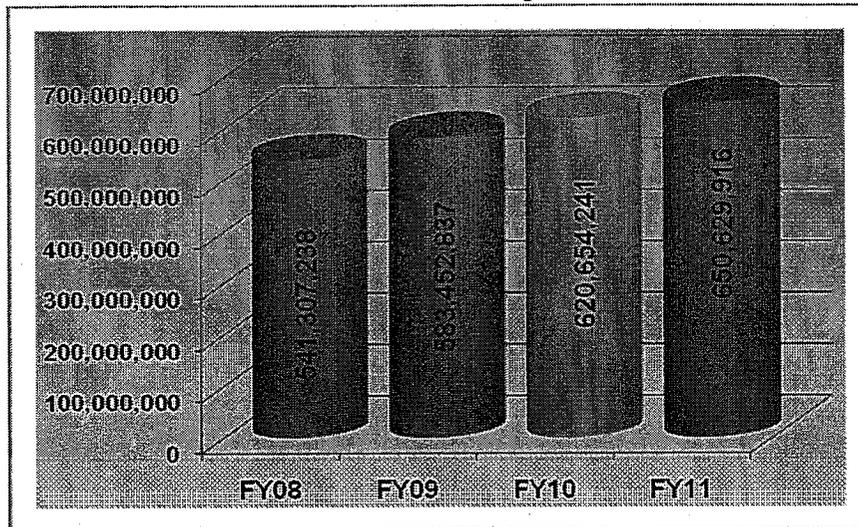
Iowa Code limits the General Fund levy rate to \$3.50 per \$1,000 of taxable value. A majority of Iowa Counties are at that limit and levy in the General Supplemental Fund which allows them to exceed the \$3.50 general basic levy for certain expenditures which include employee benefits (i.e. health insurance, 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. Each year, more counties are reaching that limit and are using the Rural Supplemental levy as allowed by Iowa law for expenditures such as employee benefits and aviation authority contributions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES – (Continued)

Cherokee County's taxable valuations reflect a slight increase for fiscal year 2011:

	Fiscal Year 2011 <u>Valuations</u>	Fiscal Year 2010 <u>Valuations</u>	Fiscal Year 2009 <u>Valuations</u>	Fiscal Year 2008 <u>Valuations</u>
Rural Taxable	\$470,375,624	\$456,476,836	\$422,537,961	\$379,840,825
Urban Taxable	<u>180,254,292</u>	<u>164,177,405</u>	<u>160,914,876</u>	<u>161,466,413</u>
Total Taxable Valuation	<u>\$650,629,916</u>	<u>\$620,654,241</u>	<u>\$583,452,837</u>	<u>\$541,307,238</u>

**Cherokee County Taxable Valuations
4 Year History**



Cherokee County has been fortunate that there have been slight increases in property valuations in past years and that most county departments have held the line on expenditures. This combination allowed the County to reduce the General Basic Supplemental levy for fiscal year 2011 while utilizing carryover fund balances to absorb the County's slight annual increase in budgetary expenses. Previous methods of spending down reserves have now reduced fund balances to basic levels needed to conduct normal business cash flow and have resulted in potential increases in levy rates to support expenditures of future budgets.

The fiscal year 2012 budget projects a volatile financial environment causing the General Basic Supplemental levy to be increased by 31.807 cents and the Rural Basic levy increased by 15 cents. The County may need to assist the Cherokee County Solid Waste Commission with its annual General Obligation (GO) bond payment in fiscal year 2012. Increased expenses in law enforcement and local funding support of Secondary Roads maintenance are the basis for additional taxation in the Rural Basic Fund. It is the desire of the County to maintain a fiscally sound fund balance to support critical services to local citizens, particularly with predictions of continued reductions in State funding.

Looking forward into future budget years, Cherokee County will need to address increasing wage related benefits with potential levy rate increases in the Rural Basic levy and continuation of the General Basic Supplemental levy to maintain a desired 25% ending fund balance. This ending fund balance is needed to cover expenses incurred during the first quarter of the fiscal year, before revenues are received via property tax payments. Another area of growing crisis is the revenue limitations of the Mental Health Fund. The maximum levy will not generate sufficient funds to cover expected expenditures. The County is faced with the possibility of cutting services to clients if the State does not provide funding.

Cherokee County anticipates a gradual increase in valuations in the upcoming budgets; however, it will present difficult balancing of covering mandated services and expenditures while maintaining a conservative attitude with the tax levy rates.

CONTACTING CHEROKEE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Cherokee County's citizens, taxpayers, customers, and creditors with a general overview of Cherokee 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 Cherokee County Auditor's Office, 520 West Main, Cherokee, Iowa.

CHEROKEE COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2010

Exhibit A

Governmental
Activities

ASSETS

Cash and pooled investments	\$ 6,609,085
Receivables:	
Property tax:	
Delinquent	2,216
Succeeding year	4,590,900
Interest and penalty on property tax	4,679
Accounts	47,292
Accrued interest	7,572
Notes receivable	2,602,992
Due from other governments	357,006
Inventories	532,017
Prepaid expenses	248,404
Land	488,286
Construction in progress	1,170,877
Infrastructure, property and equipment, net of accumulated depreciation/amortization	21,020,930
Total assets	37,682,256

LIABILITIES

Accounts payable	493,393
Accrued interest payable	12,992
Due to other governments	167,447
Deferred revenue:	
Succeeding year property tax	4,590,900
Other	8,928
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	245,000
Compensated absences	168,137
Portion due or payable after one year:	
General obligation bonds	2,345,000
Net OPEB liability	21,551
Total liabilities	8,053,348

NET ASSETS

Invested in capital assets	22,680,093
Restricted for:	
Supplemental levy purposes	225,567
Mental health purposes	527,985
Rural service purposes	381,590
Secondary roads purposes	3,055,569
Other purposes	323,668
Unrestricted	2,434,436
Total net assets	\$ 29,628,908

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	Charges for <u>Service</u>	Operating Grants, Contributions, and Restricted <u>Interest</u>	Capital Grants, Contributions, and Restricted <u>Interest</u>	
Governmental activities:					
Public safety and legal services	\$ 1,528,864	\$ 251,600	\$ 76,081	\$ -	\$ (1,201,183)
Physical health and social services	339,544	22,853	17,666	-	(299,025)
Mental health	1,198,473	19,666	1,028,432	-	(150,375)
County environment and education	628,924	36,276	25,493	-	(567,155)
Roads and transportation	4,420,796	298,963	2,970,539	2,266,431	1,115,137
Governmental services to residents	292,775	245,089	83,561	-	35,875
Administration	1,810,036	163,003	-	-	(1,647,033)
Total	<u>\$10,219,412</u>	<u>\$ 1,037,450</u>	<u>\$ 4,201,772</u>	<u>\$ 2,266,431</u>	<u>(2,713,759)</u>
General Revenues:					
Property and other county tax levied for:					
General purposes					4,363,043
Penalty and interest on property tax					30,525
State tax credits					200,222
Local option sales tax					518,469
Tax increment financing					253,382
Unrestricted investment earnings					82,390
Miscellaneous					29,000
Total general revenues					<u>5,477,031</u>
Change in net assets					2,763,272
Net assets beginning of year					<u>26,865,636</u>
Net assets end of year					<u>\$ 29,628,908</u>

See notes to financial statements.

CHEROKEE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

Exhibit C

	<u>Special Revenue</u>					<u>Total</u>
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>	<u>Nonmajor</u>	
<u>ASSETS</u>						
Cash and pooled investments	\$2,237,940	\$ 680,193	\$ 317,508	\$ 2,863,243	\$288,304	\$ 6,387,188
Receivables:						
Accounts	38,256	7,340	-	1,048	648	47,292
Property tax:						
Delinquent	1,607	287	322	-	-	2,216
Succeeding year	2,518,529	450,201	1,444,700	-	177,470	4,590,900
Interest and penalty on property tax	4,679	-	-	-	-	4,679
Accrued interest	7,572	-	-	-	-	7,572
Due from other governments	88,072	9,569	64,004	165,154	30,207	357,006
Prepaid expense	155,046	1,200	1,583	81,206	-	239,035
Inventories	-	-	-	532,017	-	532,017
Total assets	<u>\$5,051,701</u>	<u>\$1,148,790</u>	<u>\$1,828,117</u>	<u>\$ 3,642,668</u>	<u>\$496,629</u>	<u>\$12,167,905</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 87,819	\$ 5,986	\$ 244	\$ 386,353	\$ 12,991	\$ 493,393
Due to other governments	7,548	156,526	-	3,373	-	167,447
Deferred revenue:						
Succeeding year property tax	2,518,529	450,201	1,444,700	-	177,470	4,590,900
Other	6,181	279	312	-	-	6,772
Total liabilities	<u>2,620,077</u>	<u>612,992</u>	<u>1,445,256</u>	<u>389,726</u>	<u>190,461</u>	<u>5,258,512</u>
Fund balances:						
Reserved for:						
Supplemental levy purposes	225,567	-	-	-	-	225,567
Prepays	155,046	1,200	1,583	81,206	-	239,035
Inventories	-	-	-	532,017	-	532,017
Unreserved, reported in:						
General fund	2,051,011	-	-	-	-	2,051,011
Special revenue funds	-	534,598	381,278	2,639,719	306,168	3,861,763
Total fund balances	<u>2,431,624</u>	<u>535,798</u>	<u>382,861</u>	<u>3,252,942</u>	<u>306,168</u>	<u>6,909,393</u>
Total liabilities and fund balances	<u>\$5,051,701</u>	<u>\$1,148,790</u>	<u>\$1,828,117</u>	<u>\$ 3,642,668</u>	<u>\$496,629</u>	<u>\$12,167,905</u>

See notes to financial statements.

CHEROKEE COUNTY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Exhibit D

Total governmental fund balances	\$ 6,909,393
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 \$31,144,216 and the accumulated depreciation/amortization is \$8,464,123.	22,680,093
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	6,772
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 and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	222,338
Long-term liabilities, including bonds payable, compensated absences payable, other postemployment benefits payable, and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(189,688)</u>
Net assets of governmental activities	<u>\$ 29,628,908</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

Exhibit E

	Special Revenue					Total
	General	Mental Health	Rural Services	Secondary Roads	Nonmajor	
Revenues:						
Property and other County tax	\$ 2,496,063	\$ 449,682	\$ 1,806,938	\$ -	\$ 382,999	\$ 5,135,682
Interest and penalty on property tax	29,444	-	-	-	-	29,444
Intergovernmental	334,335	1,006,723	60,250	2,970,777	45,409	4,417,494
Licenses and permits	20,444	-	375	42,708	-	63,527
Charges for service	294,461	19	525	273	2,159	297,437
Use of money and property	92,276	-	-	-	19,357	111,633
Miscellaneous	92,724	374	-	10,464	21,413	124,975
Total revenues	3,359,747	1,456,798	1,868,088	3,024,222	471,337	10,180,192
Expenditures:						
Operating:						
Public safety and legal services	1,233,719	-	284,670	-	16,427	1,534,816
Physical health and social services	335,661	-	-	-	1,500	337,161
Mental health	-	1,192,857	-	-	-	1,192,857
County environment and education	343,620	-	205,716	-	54,721	604,057
Roads and transportation	-	-	63,997	3,949,075	-	4,013,072
Governmental services to residents	275,919	-	-	-	2,798	278,717
Administration	838,012	-	-	-	384,149	1,222,161
Capital projects	-	-	-	1,272,699	-	1,272,699
Total expenditures	3,026,931	1,192,857	554,383	5,221,774	459,595	10,455,540
Excess (deficiency) of revenues over expenditures	332,816	263,941	1,313,705	(2,197,552)	11,742	(275,348)
Other financing sources (uses):						
Sale of capital assets	-	-	-	7,500	-	7,500
Operating transfers in (out)	-	-	(1,371,000)	1,371,000	-	-
Total other financing sources (uses)	-	-	(1,371,000)	1,378,500	-	7,500
Net change in fund balances	332,816	263,941	(57,295)	(819,052)	11,742	(267,848)
Fund balances, beginning of year	2,098,808	271,857	440,156	4,071,994	294,426	7,177,241
Fund balances, end of year	\$ 2,431,624	\$ 535,798	\$ 382,861	\$ 3,252,942	\$ 306,168	\$ 6,909,393

See notes to financial statements.

CHEROKEE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Exhibit F

Net change in fund balances - Total governmental funds \$ (267,848)

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

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

Expenditures for capital assets	\$ 1,663,784	
Capital assets contributed by the Iowa Department of Transportation	2,766,193	
Depreciation/amortization expense	<u>(1,319,477)</u>	3,110,500

In the Statement of Activities, the net effect of various transactions involving
 capital assets (i.e., sales and trade-ins) is reflected in depreciation/amortization
 expense, whereas the governmental funds report any proceeds from the
 disposition of capital assets as an increase in financial resources. (33,823)

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	(788)	
Other	<u>1,081</u>	293

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

Compensated absences	(478)	
Other postemployment benefits	<u>(21,551)</u>	(22,029)

The Internal Service Fund is used by management to charge the costs of the
 Partial self funding of the County's health insurance benefit plan to individual
 funds. The change in net assets of the Internal Service Fund is reported with
 governmental activities. (23,821)

Change in net assets of governmental activities \$ 2,763,272

CHEROKEE COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

Exhibit G

Internal Service-
Employee
Group Health

ASSETS

Cash and cash equivalents
Prepaid expense
Total assets

\$ 221,897
41,390
263,287

LIABILITIES

Deferred revenue

40,949

NET ASSETS

Unrestricted

\$ 222,338

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

Exhibit H

		<u>Internal Service- Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds	\$ 426,603	
Reimbursements from employees	<u>80,996</u>	\$ 507,599
Operating expenses:		
Insurance premiums	523,491	
Administrative fees	<u>9,294</u>	<u>532,785</u>
Operating loss		(25,186)
Non-operating revenues:		
Interest income		<u>1,365</u>
Net loss		(23,821)
Net assets beginning of year		<u>246,159</u>
Net assets end of year		<u>\$ 222,338</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

Exhibit I

	<u>Internal Service- Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 425,806
Cash received from employees and others	81,091
Cash payments to suppliers for services	<u>(534,045)</u>
Net cash used by operating activities	(27,148)
Cash flows from investing activities:	
Interest on investments	<u>1,365</u>
Net decrease in cash and cash equivalents	(25,783)
Cash and cash equivalents at beginning of year	<u>247,680</u>
Cash and cash equivalents at end of year	<u>\$ 221,897</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (25,186)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in deferred revenue	(702)
Increase in prepaid expenses	<u>(1,260)</u>
Net cash used by operating activities	<u>\$ (27,148)</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2010

Exhibit J

ASSETS

Cash and pooled investments:

County Treasurer	\$ 796,878
Other County officials	52,485

Receivables:

Property tax:

Delinquent	11,009
Succeeding year	12,468,387

Accounts	19,341
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Special assessments	85,843
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Total assets	<u>13,433,943</u>
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LIABILITIES

Trusts payable	525
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Due to other governments	<u>13,433,418</u>
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Total liabilities	<u>13,433,943</u>
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Net Assets	<u>\$ -</u>
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See notes to financial statements.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee 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, Cherokee 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. The County has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County 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: Cherokee County Assessor's Conference Board, Cherokee County E911 Service Board, Plains Area Mental Health, Cherokee County Solid Waste Commission, and the Northwest Iowa Multi-county Regional Juvenile Detention Center. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship, if any, 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. 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/amortization.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

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 that do not meet 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 main 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.

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.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

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 they occur 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 property tax revenues to be available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

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.

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 are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

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, they 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 become 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 revenues recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008, assessed property valuations; is for the tax accrual period July 1, 2009, through June 30, 2010; and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2009.

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

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

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles, intangibles, and infrastructure assets (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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$ 65,000
Buildings	25,000
Equipment and vehicles	10,000
Intangibles	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-100
Infrastructure	12-65
Equipment and vehicles	5-25
Intangibles	5

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 the succeeding year property tax receivable as well as delinquent property tax receivable not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and contributions from external customers in the Employee Group Health Fund.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Compensated Absences - County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, and Secondary Roads Funds.

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted in any functions.

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2010, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure 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 Government Accounting Standards Board Statement Number 3.

The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the County.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 1,371,000</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, 2010, was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 488,286	\$ -	\$ -	\$ 488,286
Construction in progress	<u>644,329</u>	<u>1,228,569</u>	<u>(702,021)</u>	<u>1,170,877</u>
Total capital assets not being depreciated	<u>1,132,615</u>	<u>1,228,569</u>	<u>(702,021)</u>	<u>1,659,163</u>
Capital assets being depreciated/amortized:				
Buildings	3,767,897	30,860	-	3,798,757
Improvements other than buildings	9,750	-	-	9,750
Equipment and vehicles	5,621,012	829,307	(226,773)	6,223,546
Intangibles	28,494	-	-	28,494
Infrastructure, road network	<u>16,381,244</u>	<u>3,043,262</u>	<u>-</u>	<u>19,424,506</u>
Total capital assets being depreciated/amortized	<u>25,808,397</u>	<u>3,903,429</u>	<u>(226,773)</u>	<u>29,485,053</u>
Less accumulated depreciation/amortization for:				
Buildings	1,836,562	55,102	-	1,891,664
Improvements other than buildings	4,084	488	-	4,572
Equipment and vehicles	2,620,548	360,285	(192,950)	2,787,883
Intangibles	14,311	3,404	-	17,715
Infrastructure, road network	<u>2,862,091</u>	<u>900,198</u>	<u>-</u>	<u>3,762,289</u>
Total accumulated depreciation/amortization	<u>7,337,596</u>	<u>1,319,477</u>	<u>(192,950)</u>	<u>8,464,123</u>
Total capital assets being depreciated/amortized, net	<u>18,470,801</u>	<u>2,583,952</u>	<u>(33,823)</u>	<u>21,020,930</u>
Governmental activities capital assets, net	<u>\$ 19,603,416</u>	<u>\$ 3,812,521</u>	<u>\$ (735,844)</u>	<u>\$ 22,680,093</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4. CAPITAL ASSETS - (Continued)

Depreciation/amortization expense was charged to the following functions:

Governmental activities:		
Public safety and legal services		\$ 56,767
Physical health and social services		3,003
Mental health		3,274
County environment and education		20,230
Roads and transportation		1,173,607
Governmental services to residents		11,461
Administration		<u>51,135</u>
Total depreciation/amortization expense - governmental activities		<u>\$ 1,319,477</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. The Agency Fund collections also include accruals of property tax for the succeeding year. The tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	<u>\$ 7,548</u>
Special Revenue:		
Mental Health	Services	156,526
Secondary Roads		<u>3,373</u>
		<u>159,899</u>
Total for governmental funds		<u>\$ 167,447</u>
Agency:		
County Assessor	Collections	\$ 437,312
Schools		8,225,626
Community Colleges		483,961
Corporations		3,193,814
Townships		251,813
Auto License and Use Tax		345,442
Agricultural Extension		188,548
All other		<u>306,902</u>
Total for agency funds		<u>\$ 13,433,418</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6. LONG-TERM LIABILITIES

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

	Balance beginning of year	<u>Increases</u>	<u>Decreases</u>	Balance end of year	Due within <u>one year</u>
General obligation bonds	\$ 2,820,000	\$ -	\$ 230,000	\$ 2,590,000	\$ 245,000
Compensated absences	167,659	478	-	168,137	168,137
Net OPEB liability	-	<u>21,551</u>	-	<u>21,551</u>	-
Total	<u>\$ 2,987,659</u>	<u>\$ 22,029</u>	<u>\$ 230,000</u>	<u>\$ 2,779,688</u>	<u>\$ 413,137</u>

In August 2007, Cherokee County issued \$2,920,000 of general obligation bonds for Cherokee County Sanitary Landfill and Recycling Center (Landfill). The County has a separate agreement with the Landfill that requires the Landfill to make all principal and interest payments on these bonds. As a result, there is a note receivable reflected on the County's statement of net assets that is offset by a corresponding liability for the principal and interest payable on this debt.

The future principal payments are as follows:

Year Ending <u>June 30,</u>	Loan <u>Principal</u>
2011	\$ 245,000
2012	260,000
2013	275,000
2014	290,000
2015	330,000
2016-2018	<u>1,190,000</u>
	<u>\$ 2,590,000</u>

7. 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, IA, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the County is required to contribute 6.65% of annual covered payroll. 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 contribution to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$210,566, \$197,185, and \$179,309, respectively, equal to the required contributions for each year.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8. RISK MANAGEMENT

Cherokee County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official 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, claim expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2010, were \$104,674.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that 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 that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2010, no liability has been recorded in the County's financial statements. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8. RISK MANAGEMENT - (Continued)

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 casualty 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty 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 \$5,000,000 and \$100,000, respectively, except the amount of public official blanket bond coverage for the Sheriff and Treasurer is \$150,000 and \$100,000, 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.

9. EMPLOYEE HEALTH INSURANCE PLAN

Cherokee County entered into an administrative services agreement with Employee Benefit Systems to administer the employee partial self-funded health plan. Monthly payments of service fees and plan contributions are recorded as expenditures in the operating funds at the time of payment to the Internal Service, Employee Partial Self-Funded Health Plan Fund maintained by the County Treasurer. Under the agreement, deductible and coinsurance expenses are processed by Employee Benefit Systems with payments from the Internal Service, Employee Partial Self-Funded Health Plan Fund. The employer sponsors a group insurance policy which provides comprehensive hospital and medical coverage for eligible employees and, if elected, their spouses and dependents. Under the partial self-funded plan, the Plan will reimburse an eligible employee for a portion of the deductible and coinsurance expenses under the contract.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Cherokee County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2010.

Plan Description. The County operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 77 active members and 1 retired member in the plan. Participants must have retired from service with the County.

The medical/prescription drug coverage, which is a medical plan, is administered by Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the County. Retirees pay the full premium. The County currently finances the retiree benefit plan on a pay-as-you-go basis. For fiscal year 2010, the County contributed \$10,258. Retirees receiving benefits have required monthly contributions of:

	<u>Single</u>	<u>Family</u>
Health Insurance	\$ 343.61	\$ 859.02

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) -(Continued)

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

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

Annual required contribution	\$ 31,809
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>31,809</u>
Contributions made	<u>(10,258)</u>
Increase in net OPEB obligation	21,551
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 21,551</u>

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

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 31,809	32.2%	\$ 21,551

Funding Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$167,893, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$167,893. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,872,000 and the ratio of the UAAL to covered payroll was 5.85%. As of June 30, 2010, there were no trust fund assets.

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

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

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - (Continued)

As of the July 1, 2009 actuarial valuation date, the alternative measurement method was used. The actuarial assumption includes a 4.5% discount rate based on the County's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender specific basis. Annual retirement and termination probabilities were based on 50% for active currently electing coverage.

Projected claim costs of the medical plan are \$725 per month for retirees less than age 65. The salary increase rate was assumed to be 2% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

11. INTERGOVERNMENTAL AGREEMENT

The County participates in an agreement with Cherokee County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and municipalities. Payments to that commission totaled \$105,975 during the year ended June 30, 2010.

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$2,247,219 as of June 30, 2009, and the portion of the liability that has been recognized is \$1,040,225. The Commission has begun to accumulate resources to fund these costs, and at June 30, 2009, deposits of \$338,479 are restricted for these purposes. The local government guaranty was used in prior years by the Commission to demonstrate financial assurance for post-closure care costs. The Commission obtained the local government guaranty from Cherokee County on June 10, 1997. No estimate has been made as to the effect of possible future assessments to the County.

12. DEVELOPMENT AND REBATE AGREEMENT

The County has entered into development agreements to assist in urban renewal projects. The County agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. Under the first agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated on a minimum value of \$4,000,000. During the year ended June 30, 2010, the County rebated \$85,272 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the second agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

12. DEVELOPMENT AND REBATE AGREEMENT – (Continued)

The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2010, the County rebated \$11,245 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the third agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the thirteen year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2010, the County rebated \$156,866 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

13. COMMITMENTS

The County has entered into the following contracts which were not completed as of June 30, 2010:

<u>Project</u>	<u>Total Contract Amount</u>	<u>Costs Incurred As of 6-30-10</u>	<u>Remaining Commitment As of 6-30-10</u>
Bridge inspection	\$ 57,711	\$ 49,716	\$ 7,995
Addition/remodel Cherokee Work Service	297,088	34,149	262,939
Sprinkler system LEC	34,800	-	34,800
	<u>\$ 389,599</u>	<u>\$ 83,865</u>	<u>\$ 305,734</u>

The balance remaining at June 30, 2010, will be paid as work on the projects progresses.

14. JUVENILE DETENTION CENTER

The County participates in Northwest Iowa Multi-county Regional Juvenile Detention Center, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Center is to establish and maintain a juvenile detention facility and related services. The Center does not determine capital allocations of the equity interest for individual participating jurisdictions. The Center issues separate financial statements on the accrual basis and the transactions of the Center are not included in the financial statements of the County. The Center's activity for the fiscal year ending June 30, 2009, which is the latest information available, is summarized as follows:

Net assets, beginning of year	\$ 537,390
Revenues	789,452
Expenses	<u>928,819</u>
Net assets, end of year	<u>\$ 398,023</u>

The financial statements of the Center are available at the Center's administrative office in Cherokee, Iowa.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

15. RELATED PARTY TRANSACTIONS

The County had business transactions between the County and County officials or employees totaling \$48,824 during the year ended June 30, 2010.

16. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

17. OPERATING LEASE

The County has two leases. The Auditor's office leases a postage machine and the County Attorney's office leases a copy machine. Rental expense incurred for the leases was \$10,074 for the year ended June 30, 2010. Minimum amounts payable under these operating leases are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Auditor</u>	<u>County</u> <u>Attorney</u>	<u>Total Minimum</u> <u>Lease Payments</u>
2011	\$ 6,888	\$ 3,186	\$ 10,074
2012	6,888	1,328	8,216
2013	6,888		6,888
2014	5,166		5,166

REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY
BUDGETARY COMPARISON
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN BALANCES - BUDGET
AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
Receipts:				
Property and other County tax	\$5,133,833	\$5,106,686	\$ 5,106,686	\$ 27,147
Interest and penalty on property tax	29,384	-	-	29,384
Intergovernmental	4,441,559	4,231,596	4,321,596	119,963
Licenses and permits	75,946	35,160	35,160	40,786
Charges for service	276,098	233,675	233,675	42,423
Use of money and property	101,995	154,320	154,320	(52,325)
Miscellaneous	131,509	53,450	68,450	63,059
Total receipts	<u>10,190,324</u>	<u>9,814,887</u>	<u>9,919,887</u>	<u>270,437</u>
Disbursements:				
Public safety and legal services	1,544,598	1,625,982	1,741,982	197,384
Physical health and social services	319,055	349,549	439,549	120,494
Mental health	1,198,136	1,418,407	1,418,407	220,271
County environment and education	602,419	621,450	621,450	19,031
Roads and transportation	3,651,632	3,973,997	3,973,997	322,365
Governmental services to residents	281,700	331,489	331,489	49,789
Administration	1,192,171	1,414,551	1,439,551	247,380
Capital projects	1,262,107	1,615,000	1,615,000	352,893
Total disbursements	<u>10,051,818</u>	<u>11,350,425</u>	<u>11,581,425</u>	<u>1,529,607</u>
Excess (deficiency) of receipts over disbursements	138,506	(1,535,538)	(1,661,538)	1,800,044
Other financing sources, net	<u>7,500</u>	<u>1,000</u>	<u>1,000</u>	<u>6,500</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	146,006	(1,534,538)	(1,660,538)	1,806,544
Balance beginning of year	<u>6,241,182</u>	<u>4,180,099</u>	<u>4,180,099</u>	<u>2,061,083</u>
Balance end of year	<u>\$6,387,188</u>	<u>\$2,645,561</u>	<u>\$ 2,519,561</u>	<u>\$ 3,867,627</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
BUDGETARY COMPARISON SCHEDULE-BUDGET
TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	<u>Governmental Funds</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Modified</u> <u>Accrual</u> <u>Basis</u>
Revenues	\$ 10,190,324	\$ (10,132)	\$10,180,192
Expenditures	<u>10,051,818</u>	<u>403,722</u>	<u>10,455,540</u>
Net	138,506	(413,854)	(275,348)
Other financing sources, net	7,500	-	7,500
Beginning fund balances	<u>6,241,182</u>	<u>936,059</u>	<u>7,177,241</u>
Ending fund balances	<u>\$ 6,387,188</u>	<u>\$ 522,205</u>	<u>\$ 6,909,393</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2010

The 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 Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund 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, one budget amendment increased budgeted disbursements by \$231,000. The budget amendment is reflected in the final budgeted amounts.

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

CHEROKEE COUNTY
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	-	\$ 167,893	\$ 167,893	0.00%	\$ 2,872,000	5.85%

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

SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

Schedule 1

Special Revenue

	Resource Enhancement and Protection	County Recorder's Records Management	County County Betterment	Forfeited Property Fund	Hotel and Flood Relief Grants	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	Total
ASSETS										
Cash and pooled investments	\$ 24,925	\$ 7,476	\$ 181,852	\$ 31,943	\$ -	\$ -	\$ 1,386	\$ 12,750	\$ 27,972	\$ 288,304
Receivables:										
Accounts	-	548	-	100	-	-	-	-	-	648
Property tax:										
Succeeding year	-	-	-	-	-	177,470	-	-	-	177,470
Due from other governments	-	-	21,334	1,487	7,386	-	-	-	-	30,207
Total assets	<u>\$ 24,925</u>	<u>\$ 8,024</u>	<u>\$ 203,186</u>	<u>\$ 33,530</u>	<u>\$ 7,386</u>	<u>\$ 177,470</u>	<u>\$ 1,386</u>	<u>\$ 12,750</u>	<u>\$ 27,972</u>	<u>\$ 496,629</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 7,386	\$ -	\$ -	\$ 5,021	\$ 584	\$ 12,991
Deferred revenue:										
Succeeding year property tax	-	-	-	-	-	177,470	-	-	-	177,470
Total liabilities	-	-	-	-	7,386	177,470	-	5,021	584	190,461
Fund balances:										
Unreserved	24,925	8,024	203,186	33,530	-	-	1,386	7,729	27,388	306,168
Total liabilities and fund balances	<u>\$ 24,925</u>	<u>\$ 8,024</u>	<u>\$ 203,186</u>	<u>\$ 33,530</u>	<u>\$ 7,386</u>	<u>\$ 177,470</u>	<u>\$ 1,386</u>	<u>\$ 12,750</u>	<u>\$ 27,972</u>	<u>\$ 496,629</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

Schedule 2

	Special Revenue									Total
	Resource Enhancement and Protection	County Recorder's Records Management	County County Betterment	Forfeited Property Fund	Hotel and Flood Relief Grants	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	
Revenues:										
Property and other County tax	\$ -	\$ -	\$ 129,617	\$ -	\$ -	253,382	\$ -	\$ -	\$ -	\$ 382,999
Intergovernmental	15,706	-	-	-	9,643	-	-	-	20,060	45,409
Charges for service	-	2,159	-	-	-	-	-	-	-	2,159
Use of money and property	49	13	-	-	-	-	-	19,295	-	19,357
Miscellaneous	-	-	-	21,269	-	-	144	-	-	21,413
Total revenues	<u>15,755</u>	<u>2,172</u>	<u>129,617</u>	<u>21,269</u>	<u>9,643</u>	<u>253,382</u>	<u>144</u>	<u>19,295</u>	<u>20,060</u>	<u>471,337</u>
Expenditures:										
Operating:										
Public safety and legal services	-	-	-	3,273	-	-	-	-	13,154	16,427
Physical health and social services	-	-	1,500	-	-	-	-	-	-	1,500
County environment and education	29,252	-	-	-	-	-	679	24,790	-	54,721
Governmental services to residents	-	2,798	-	-	-	-	-	-	-	2,798
Administration	-	-	121,124	-	9,643	253,382	-	-	-	384,149
Total expenditures	<u>29,252</u>	<u>2,798</u>	<u>122,624</u>	<u>3,273</u>	<u>9,643</u>	<u>253,382</u>	<u>679</u>	<u>24,790</u>	<u>13,154</u>	<u>459,595</u>
Excess (deficiency) of revenues over expenditures	(13,497)	(626)	6,993	17,996	-	-	(535)	(5,495)	6,906	11,742
Fund balances beginning of year	<u>38,422</u>	<u>8,650</u>	<u>196,193</u>	<u>15,534</u>	<u>-</u>	<u>-</u>	<u>1,921</u>	<u>13,224</u>	<u>20,482</u>	<u>294,426</u>
Fund balances end of year	<u>\$ 24,925</u>	<u>\$ 8,024</u>	<u>\$ 203,186</u>	<u>\$ 33,530</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,386</u>	<u>\$ 7,729</u>	<u>\$ 27,388</u>	<u>\$ 306,168</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF FIDUCIARY ASSETS
AND LIABILITIES - AGENCY FUNDS
JUNE 30, 2010

Schedule 3

	<u>County Offices</u>	<u>Agricultural Extension</u>	<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>Auto License and Use Tax</u>	<u>Other</u>	<u>Total</u>
<u>ASSETS</u>										
Cash and pooled investments:										
County Treasurer	\$ -	\$ 2,052	\$ 168,404	\$ 86,178	\$ 5,270	\$ 39,266	\$ 2,623	\$ 345,442	\$ 147,643	\$ 796,878
Other County officials	52,485	-	-	-	-	-	-	-	-	52,485
Receivables:										
Property tax:										
Delinquent	-	119	172	5,677	317	4,669	54	-	1	11,009
Succeeding year	-	186,377	268,736	8,133,771	478,374	3,149,879	249,136	-	2,114	12,468,387
Accounts	19,341	-	-	-	-	-	-	-	-	19,341
Special assessments	-	-	-	-	-	-	-	-	85,843	85,843
Total assets	<u>\$ 71,826</u>	<u>\$ 188,548</u>	<u>\$ 437,312</u>	<u>\$ 8,225,626</u>	<u>\$ 483,961</u>	<u>\$ 3,193,814</u>	<u>\$ 251,813</u>	<u>\$ 345,442</u>	<u>\$ 235,601</u>	<u>\$13,433,943</u>
<u>LIABILITIES</u>										
Trusts payable	\$ 525	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 525
Due to other governments	71,301	188,548	437,312	8,225,626	483,961	3,193,814	251,813	345,442	235,601	13,433,418
Total liabilities	<u>\$ 71,826</u>	<u>\$ 188,548</u>	<u>\$ 437,312</u>	<u>\$ 8,225,626</u>	<u>\$ 483,961</u>	<u>\$ 3,193,814</u>	<u>\$ 251,813</u>	<u>\$ 345,442</u>	<u>\$ 235,601</u>	<u>\$13,433,943</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS
AND LIABILITIES - AGENCY FUNDS
YEAR ENDED JUNE 30, 2010

Schedule 4

	<u>County Offices</u>	<u>Agricultural Extension</u>	<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>Auto License and Use Tax</u>	<u>Other</u>	<u>Total</u>
<u>ASSETS AND LIABILITIES</u>										
Balances beginning of year	\$ 63,984	\$ 178,059	\$ 455,559	\$7,388,796	\$ 453,059	\$ 3,232,390	\$ 243,553	\$ 266,468	\$246,931	\$12,528,799
Additions:										
Property and other County tax	-	187,812	271,286	8,167,181	480,586	3,066,793	252,916	-	11,142	12,437,716
E911 surcharge	-	-	-	-	-	-	-	-	71,577	71,577
State tax credits	-	8,450	15,275	352,467	21,591	171,335	10,396	-	84	579,598
Office fees and collections	295,628	-	3,693	-	-	3,605	-	-	34,853	337,779
Auto licenses, use tax, and postage	-	-	-	-	-	-	-	3,545,774	-	3,545,774
Trusts	-	-	-	-	-	-	-	-	56,186	56,186
Miscellaneous	-	-	-	-	-	-	-	-	178,127	178,127
Total additions	<u>295,628</u>	<u>196,262</u>	<u>290,254</u>	<u>8,519,648</u>	<u>502,177</u>	<u>3,241,733</u>	<u>263,312</u>	<u>3,545,774</u>	<u>351,969</u>	<u>17,206,757</u>
Deductions:										
Agency remittances:										
To other governments	287,786	185,773	308,501	7,682,818	471,275	3,280,309	255,052	3,466,800	335,062	16,273,376
Trusts paid out	-	-	-	-	-	-	-	-	28,237	28,237
Total deductions	<u>287,786</u>	<u>185,773</u>	<u>308,501</u>	<u>7,682,818</u>	<u>471,275</u>	<u>3,280,309</u>	<u>255,052</u>	<u>3,466,800</u>	<u>363,299</u>	<u>16,301,613</u>
Balances end of year	\$ 71,826	\$ 188,548	\$ 437,312	\$8,225,626	\$ 483,961	\$ 3,193,814	\$ 251,813	\$ 345,442	\$235,601	\$13,433,943

See accompanying independent auditor's report.

CHEROKEE COUNTY
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY
FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST NINE YEARS

Schedule 5

	Modified Accrual Basis								
	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:									
Property and other County tax	\$ 5,135,682	\$4,827,438	\$4,446,332	\$4,030,004	\$3,663,265	\$3,309,962	\$ 3,545,524	\$3,433,492	\$3,048,959
Interest and penalty on property tax	29,444	31,361	33,491	28,115	26,574	28,397	35,093	35,966	37,817
Intergovernmental	4,417,494	4,086,764	3,891,160	4,901,523	4,892,279	4,459,666	4,232,454	5,161,854	4,065,881
Licenses and permits	63,527	118,817	71,445	62,677	48,679	108,040	103,453	39,489	37,266
Charges for service	297,437	256,256	309,839	278,784	304,764	335,183	321,542	242,519	220,468
Use of money and property	111,633	148,048	394,117	253,578	183,677	130,554	123,060	187,829	287,402
Miscellaneous	124,975	79,839	56,231	56,269	223,054	135,606	59,516	45,934	104,829
Total	<u>\$10,180,192</u>	<u>\$9,548,523</u>	<u>\$9,202,615</u>	<u>\$9,610,950</u>	<u>\$9,342,292</u>	<u>\$8,507,408</u>	<u>\$ 8,420,642</u>	<u>\$9,147,083</u>	<u>\$7,802,622</u>
Expenditures:									
Operating:									
Public safety and legal services	\$ 1,534,816	\$1,393,237	\$1,355,121	\$1,334,472	\$1,454,137	\$1,454,196	\$ 1,370,125	\$1,320,597	\$1,231,163
Physical health and social services	337,161	308,147	342,797	872,551	718,458	707,775	663,044	647,641	654,557
Mental health	1,192,857	1,253,326	1,451,519	1,239,044	1,227,280	1,058,419	942,271	936,183	994,105
County environment and education	604,057	545,212	771,436	510,401	447,528	477,898	454,172	443,347	430,844
Roads and transportation	4,013,072	3,163,632	2,908,855	3,102,927	3,008,202	2,695,879	2,764,505	2,410,874	2,460,040
Governmental services to residents	278,717	349,214	328,342	320,000	408,544	278,675	250,100	223,760	213,477
Administration	1,222,161	1,207,259	1,055,096	986,367	881,385	964,982	911,033	873,962	853,086
Capital projects	1,272,699	464,266	995,770	839,872	1,132,415	1,474,330	2,656,062	2,128,600	1,590,394
Total	<u>\$10,455,540</u>	<u>\$8,684,293</u>	<u>\$9,208,936</u>	<u>\$9,205,634</u>	<u>\$9,277,949</u>	<u>\$9,112,154</u>	<u>\$10,011,312</u>	<u>\$8,984,964</u>	<u>\$8,427,666</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
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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 Cherokee County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated March 1, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee 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 an opinion on the effectiveness of Cherokee County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cherokee County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies, or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee 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 instances of noncompliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

March 1, 2011

Hungelman, Butzler & Co.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that 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. We noted that generally one or two individuals in an office may have control over the following areas for which no compensating controls exist.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The 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. Following are controls which should be implemented whenever possible:

1. All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.
2. Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks, handle, or record cash.
3. Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety. After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or who approve vouchers for payment.

Response - Each office maintains their own level of supervision for segregation of duties and corresponding risk controls to the extent that is possible with limited staff.

1. The County Treasurer opens the mail but does not post it to the accounts.
2. The Treasurer's clerk reconciles the month end statements and is not authorized to sign or withdraw from accounts.
3. The Deputy Treasurer prepares the orders and the Treasurer signs the orders. The checks that are written are usually requested by the Treasurer's staff and signed by the Treasurer and Deputy Treasurer. Both signatures are required on checks written.

Conclusion - Response accepted.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements: - (Continued)

INTERNAL CONTROL DEFICIENCIES: - (Continued)

I-B-10 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional GAAP knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - Conducting business within a small county with limited staffing results in the need to employ the services of a private professional CPA business to ensure that all financial reporting is completed per state regulations. A management level employee has been assigned to oversee, review, and approve financial statements and related notes.

Conclusion - Response accepted.

I-C-10 Sheriff's Vehicles - Two Sheriff's vehicles were traded for computer equipment and software. Appropriate documentation of this transaction was not presented to the Board of Supervisors.

Recommendation - The Sheriff should provide this documentation to the Board of Supervisors to support this transaction.

Response - The County Sheriff discussed disposal of two vehicles with the Board of Supervisors during their August 18, 2009 meeting. The board minutes reflect that the supervisors would "allow this practice subject to the appropriate documentation of the vehicles' disposal value as well as the fair market value of the products being received in exchange." The Board of Supervisors have not received documentation as requested and have received the following response from the County Sheriff:

"The Cherokee County Sheriff's Office does not replace patrol cars on a rotation every year. On this particular year of concern, these vehicles were traded to Gregg Computers for computer equipment and also for Microsoft software. This trading of equipment was discussed with the Board of Supervisors. When we trade patrol vehicles and purchase vehicles, the Board of Supervisors are made aware of the transactions. In the future it will be put on the agenda for the Board of Supervisors; therefore it will be in the Board of Supervisors minutes." Dave Scott, Sheriff.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

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

II-B-10 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Required Statutory Reporting: - (Continued)

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

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Sara Lucas, Auditor's office, Spouse and in-laws own Modern Heating and Cooling	Repairs and ADA showers	\$ 38,079
Barb Staver, Sheriff's department employee, husband owns High Country Auto Body	Parts and repairs	\$ 1,736
Sara Lucas, Auditor's office, parents own Lundell Construction Co.	Repairs	\$ 8,584
Charles Baumann, Secondary Roads employee Son Tucker Baumann	Mowing	\$ 100
Jeff Holmes, Secondary Roads employee Son, Tim Holmes, owns Holmes mowing	Mowing	\$ 325

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Tucker Baumann, and Tim Holmes do not appear to be conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The other transactions may represent a conflict of interest.

Recommendation - The County should review those transactions closely and may want to consult their attorney to determine that they are in compliance with the Code of Iowa.

County Attorney Response - During the 2009-10 fiscal year, Modern was paid an amount of approximately \$38,079. Of that amount, approximately \$34,318 were amounts paid/contracted before Sara Lucas was hired or were part of a competitive bidding process and, therefore, exempt under Iowa Code 331.341. The remaining amounts paid appear on their face to be a conflict of interest under 331.342. However, the departments which contracted with Modern were unaware at the time of contract that there was a conflict in amounts paid over \$1,500.00. I would advise that procedures be put in place so that when there is a new hire or it is found that there is a potential conflict with a business in the area, that all departments are so advised and reminded, at least annually, of all the businesses with which there may be a potential conflict. These businesses should not be used unless hired by a competitive bidding process or it is ensured that the annual amount paid in the fiscal year to the business is under \$1,500.00.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Required Statutory Reporting: - (Continued)

II-D-10 Business Transactions – (Continued)

During the 2009-10 fiscal year, an amount of approximately \$8,584 was paid to Lundell Construction Co. Of that amount, approximately \$6,555 were amounts paid/contracted before Sara Lucas was hired or were part of a competitive bidding process and, therefore, exempt under Iowa Code 331.341. Also, as in the payment to Modern, it appears that the various departments that contracted with Lundell were unaware of any potential conflict. As a further response to this potential conflict, I would advise the same types of policies or procedure be instituted as listed in the previous paragraph.

During the 2009-10 fiscal year, an amount of approximately \$1,736 was paid to High County Auto Body. Of that amount, \$929.45 was part of four different transactions involving two different departments. The last transaction of \$806.70 was approved by the insurance company for repairs due to an accident, after various estimates were given to said insurance company. I find that there is a conflict for these types of transactions, but that in these instances it was inadvertent. If the policies and procedures outlined in the previous paragraphs are instituted, it should correct this potential problem in the future.

Conclusion – Response accepted.

- II-E-10 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-F-10 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- II-H-10 Resource Enhancement and Protection Certification - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-10 County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B. Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.