

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

JUNE 30, 2017

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CHEROKEE COUNTY

OFFICIALS

(Before January 2017)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bush	Board of Supervisors	Jan. 2017
Rick Mongan	Board of Supervisors	Jan. 2017
Jim Peck	Board of Supervisors	Jan. 2017
Gary Lundquist	Board of Supervisors	Jan. 2019
Jeffry Simonsen	Board of Supervisors	Jan. 2019
Kris Glienke	County Auditor	Jan. 2017
Roswitha (Hedgie) Brandt	County Treasurer	Jan. 2019
Mark Murphy	County Recorder	Jan. 2019
Dave Scott	County Sheriff	Jan. 2017
Ryan Kolpin	County Attorney	Jan. 2019
Gregory Zarr	County Assessor	Jan. 2022

(After January 2017)

Gary Lundquist	Board of Supervisors	Jan. 2019
Jeffry Simonsen	Board of Supervisors	Jan. 2019
Dennis Bush	Board of Supervisors	Jan. 2021
Rick Mongan	Board of Supervisors	Jan. 2021
Duane Mummert	Board of Supervisors	Jan. 2021
Kris Glienke	County Auditor	Jan. 2021
Roswitha (Hedgie) Brandt	County Treasurer	Jan. 2019
Mark Murphy	County Recorder	Jan. 2019
Jerod Clyde	County Sheriff	Jan. 2021
Ryan Kolpin	County Attorney	Jan. 2019
Gregory Zarr	County Assessor	Jan. 2022

# HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
STEVE C. CAMPBELL, C.P.A.  
JEFFORY B. STARK, C.P.A. (RETIRED)  
RICHARD R. MOORE, C.P.A. (RETIRED)  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
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## INDEPENDENT AUDITOR'S REPORT

To the Officials of Cherokee County:

### Report on the Financial Statements

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, 2017, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on an auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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 as of June 30, 2017, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 6 through 13 and 45 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2018, on our consideration of Cherokee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County's internal control over financial reporting and compliance.

*Hunzelman, Putzier, & Co., PLLC*

March 13, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2017. The following information should be considered in relation to the County's financial statements included in this report.

### **2017 FINANCIAL HIGHLIGHTS**

- Cherokee County's governmental activities revenues decreased approximately \$1,247,000 or 9.3% from fiscal year 2016 to fiscal year 2017. Property taxes and other county tax increased \$76,197 or 1.2%.
- Cherokee County's overall governmental activities expenses increased approximately \$1,390,000 or 13.2% from fiscal year 2016 to fiscal year 2017. The breakdown by service areas include: public safety and legal services increased approximately \$136,000 or 6.6%; physical health and social services increased about \$1,000 or .3%; mental health expenditures decreased by approximately \$55,000 or 10.6%; county environment and education increased by approximately \$82,000 or 8.9%; roads and transportation increased by approximately \$522,000 or 10.3%; governmental services to residents increased approximately \$97,600 or 24.4%; administration increased approximately \$265,600 or 22.7%, and non-program increased approximately 341,000.
- Cherokee County's net position increased 7.4%, or approximately \$2,719,000, from June 30, 2016 to June 30, 2017.

### **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 Position 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 financial statements provide 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.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, the County's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

## **REPORTING THE COUNTY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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 Position presents financial information on all of Cherokee County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the County's net position 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 position 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 Position 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) A proprietary fund accounts for the County's Internal Service, Employee Group Health Insurance Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in fund net position, 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 governmental fund financial statements follow the governmental fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of financial position. Cherokee County’s combined net position was \$39,243,899 for fiscal year 2017. This reflects a \$2,719,059 (7.44%) increase over fiscal year 2016 net position of \$36,524,840. The analysis that follows focuses on the changes in the net position for governmental activities.

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**Net Position of Cherokee County’s Governmental Activities**

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	June 30,	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 21,207,772	\$ 21,479,462
Capital assets	29,249,780	26,237,047
Total assets	50,457,552	47,716,509
Deferred outflows of resources	924,871	433,524
Long-term liabilities	5,887,336	5,227,005
Other liabilities	291,452	314,848
Total liabilities	6,178,788	5,541,853
Deferred inflows of resources	5,959,736	6,083,340
Net position		
Net investment in capital assets	29,249,781	26,237,047
Restricted	9,158,753	9,759,329
Unrestricted	835,365	528,464
Total net position	\$ 39,243,899	\$ 36,524,840

Net position of Cherokee County’s governmental activities increased by \$2,719,059 compared to fiscal year 2016. The largest portion of Cherokee County’s net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings, and equipment). Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position – the part of net position 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 \$835,365 as of June 30, 2017.

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**Changes in Net Position of Cherokee County's Governmental Activities**

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	Year Ended June 30,	
	2017	2016
Revenues:		
Program revenues:		
Charges for service	\$ 798,038	\$ 848,386
Operating grants, contributions, and restricted interest	4,645,818	4,019,270
Capital grants, contributions, and restricted interest	2,134,659	1,477,482
General revenues:		
Property tax	5,894,301	5,851,133
Penalty and interest on property tax	33,335	26,137
State tax credits	393,771	419,509
Local option sales tax	561,432	528,403
Grants and contributions not restricted to specific purposes	87,500	106,107
Unrestricted investment earnings	72,163	66,682
Other general revenues	19,217	49,998
Total revenues	14,640,234	13,393,107
Program expenses:		
Public safety and legal services	2,195,340	2,059,558
Physical health and social services	332,957	332,010
Mental health	467,576	523,045
County environment and education	1,005,359	923,591
Roads and transportation	5,609,723	5,087,678
Governmental services to residents	497,323	399,729
Administration	1,434,608	1,169,035
Non-Program	378,289	37,014
Total expenses	11,921,175	10,531,660
Increase in net position	2,719,059	2,861,447
Net position beginning of year, as restated	36,524,840	33,663,393
Net position end of year	\$ 39,243,899	\$ 36,524,840

Cherokee County maintained the prior levy rate in the General Fund, decreased the General Supplemental by 63 cents, implemented a 26 cent Mental Health levy, and decreased the Rural levy by 30 cents. This decision resulted in a decrease of \$17,430 in property tax revenue due to a 7.8 percent increase in taxable valuations.

The cost of all governmental activities this year was approximately \$11.9 million compared to approximately \$10.6 million last year. However, as shown in the Statement of Activities on page 15, the amount taxpayers ultimately financed for these activities was approximately \$4.3 million because some of the cost was paid by those directly benefited from the programs (approximately \$798,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$6.8 million). Overall, the County's governmental program revenues, including intergovernmental aid and charges for service, increased in fiscal year 2017 from approximately \$6.3 million to approximately \$7.6 million.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Cherokee County completed the year, its governmental funds reported a combined fund balance of approximately \$12,320,000, a decrease of approximately \$185,000 from last year's approximate \$12,505,000 ending fund balance. The decrease in fund balance is attributable to increased roadway construction expenses in the Secondary Roads department including FEMA disaster projects. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- General Fund activities resulted in an approximate increase of \$373,000 from the prior year's \$1,811,000 ending fund balance.
- Cherokee County has continued to look for ways to effectively manage the cost of mental health services. Revenues increased for the Mental Health Fund in Fiscal Year 2017 to approximately \$308,000 and expenditures decreased to approximately \$458,000. The resulting June 30, 2017 fund balance decreased to approximately \$65,000.
- Rural Services ending fund balance for fiscal year 2017 was approximately \$359,000, which is a \$60,000 decrease from the prior year's balance of approximately \$419,000.
- Secondary Roads ending fund balance decreased by approximately \$307,000 for the year ending June 30, 2017. The prior year fund balance was approximately \$9,653,000 and was decreased to an approximate \$9,346,000 fund balance after completion of the 2017 year.
- Other Nonmajor Funds which include County Recorder Records Management, Conservation Land Acquisition Trust, Conservation Education, Resource Enhancement and Protection, County Rural Betterment Fund, Urban Renewal Tax Increment Financing (TIF), Drug Court Grant, County Attorney Recovery Fees, Forfeited Property, County Case Management, and Capital Projects are classified as nonmajor special revenue funds. The combined activities of these funds resulted in a decrease in fund balance of approximately \$75,000. The ending fund balance for 2017 was approximately \$367,000 compared to the prior year's ending fund balance of approximately \$442,000.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Cherokee County amended its budget once on May 2, 2017 for the following reasons:

- Increased Intergovernmental Revenues by \$57,341 for conservation grant funds.
- Miscellaneous Revenues were increased by \$425,000 for pipeline inspection pass through funds.
- Public Safety Expenditures increased \$1,500 for courtroom security updates.
- Expenses in County Environment increased \$67,341 to make grant funds of \$57,341 available for park projects and \$10,000 of capital improvements.
- Roads and Transportation expenses were increased by \$23,700 for additional employee wages and travel expenses.
- Administration expenses were increased by \$87,000 including \$50,000 for parking lot and sidewalk repairs and \$37,000 for Rural Betterment projects.
- Nonprogram Current expenditures were increased by \$425,000 for pipeline inspection pass through funds.
- Expenditures in Capital Projects were increased \$550,000 including \$270,000 for land purchase, \$80,000 for bridge replacement costs, and \$200,000 for additional roadway paving costs.
- Operating Transfers In/Out were increased by \$35,000 to return Case Management Program cash balances to the Community Services Fund.

## **CAPITAL ASSETS**

Cherokee County's Capital Assets activity for the year ended June 30, 2017, was as follows:

	<b>Capital Assets of Governmental Activities at Year End</b>	
	<b>June 30</b>	
	<u>2017</u>	<u>2016</u>
Governmental activities:		
Capital assets not being depreciated:		
Land	\$ 779,862	\$ 508,186
Construction in progress	712,585	249,665
Total capital assets not being depreciated	<u>1,492,447</u>	<u>757,851</u>
Capital assets being depreciated/amortized:		
Buildings	5,879,710	5,653,434
Improvements other than buildings	9,750	9,750
Equipment and vehicles	7,877,765	7,676,267
Intangibles	44,304	44,304
Infrastructure, road network	<u>31,956,577</u>	<u>28,639,438</u>
Total capital assets being depreciated/amortized	<u>45,768,106</u>	<u>42,023,193</u>
Less accumulated depreciation/amortization for:		
Buildings	2,349,476	2,268,817
Improvements other than buildings	7,986	7,498
Equipment and vehicles	4,169,707	4,002,833
Intangibles	35,082	33,501
Infrastructure, road network	<u>11,448,522</u>	<u>10,231,348</u>
Total accumulated depreciation/amortization	<u>18,010,773</u>	<u>16,543,997</u>
Total capital assets being depreciated/amortized, net	<u>27,757,333</u>	<u>25,479,196</u>
Governmental activities capital assets, net	<u>\$29,249,780</u>	<u>\$26,237,047</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES**

Cherokee County's department managers and elected officials considered many factors when setting the fiscal year 2018 budget, tax rates, and the fees that will be charged for various county services.

Continued concerns about potential funding cuts from the State in addition to standard cost of living increases for wages and benefits are the baseline for the Cherokee County Board of Supervisors' decision in setting tax rates for the 2018 fiscal year. Modest increases in taxable valuations and the desire to maintain sufficient ending fund balances were the basis for the Board's decision when determining levy rates and overall taxation of properties.

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

The fiscal year 2018 budget certified tax revenues, broken down by the major funds that Cherokee County receives are as follows:

	Fiscal Year 2018 <u>Dollars Certified</u>	Fiscal Year 2017 <u>Dollars Certified</u>	Fiscal Year 2016 <u>Dollars Certified</u>	Fiscal Year 2015 <u>Dollars Certified</u>
General Fund	\$ 2,972,891	\$ 2,897,548	\$ 2,675,168	\$ 2,609,793
General Supplemental Fund	394,970	596,067	1,031,850	633,195
Mental Health Fund	348,253	215,246	-	455,051
Rural Basic Fund	<u>2,171,783</u>	<u>2,115,563</u>	<u>2,134,844</u>	<u>1,885,374</u>
Total Taxes Assessed	<u>\$ 5,887,897</u>	<u>\$ 5,824,424</u>	<u>\$ 5,841,862</u>	<u>\$ 5,583,413</u>

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

	Fiscal Year 2018 <u>Levy Rates</u>	Fiscal Year 2017 <u>Levy Rates</u>	Fiscal Year 2016 <u>Levy Rates</u>	Fiscal Year 2015 <u>Levy Rates</u>
General Fund	\$3.50	\$3.50	\$ 3.50	\$ 3.50
General Supplemental Fund	.465	0.72	1.35	.84918
Mental Health Fund	.41	0.26	-	.61027
Rural Basic Fund	3.50	3.50	3.80	3.45

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.

Cherokee County’s taxable valuations reflect a slight increase for fiscal year 2017:

	Fiscal Year 2018 <u>Valuations</u>	Fiscal Year 2017 <u>Valuations</u>	Fiscal Year 2016 <u>Valuations</u>	Fiscal Year 2015 <u>Valuations</u>
Rural Taxable	\$ 651,337,450	\$ 633,312,985	\$ 591,697,396	\$ 578,054,400
Urban Taxable	<u>232,999,827</u>	<u>227,865,951</u>	<u>207,097,794</u>	<u>203,826,131</u>
Total Taxable Valuation	<u>\$ 884,337,277</u>	<u>\$ 861,178,936</u>	<u>\$ 798,795,190</u>	<u>\$ 781,880,531</u>

Cherokee County has been fortunate that there have been consistent increases in property valuations in past years and that most county departments have held the line on expenditures. The County decreased levy rates for fiscal year 2017 to maintain level tax revenues which supported slight increases in budgetary expenses. Previous methods of spending down reserves have now reduced fund balances to basic levels needed to conduct normal business cash flow while consistent valuation growth has supported minor fluctuations in levy rates to support expenditures of future budgets.

The fiscal year 2018 budget projects a solid financial climate as the result of conservative budget increases, minimal tax revenue increases and sufficient fund balances. The General Basic Supplemental levy will be decreased by 25.5 cents and there will be a 15 cent levy increase for mental health services in fiscal year 2018 as fund balances are sufficient to absorb a portion of local expenditures. 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.

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

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 from property tax payments.

Cherokee County anticipates gradual property valuation increases for upcoming budgets; however, it will require strategic planning to cover mandated services and expenditures while maintaining a conservative attitude with 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 POSITION  
JUNE 30, 2017

Exhibit A

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 10,244,743
Receivables:	
Property tax:	
Delinquent	4,914
Succeeding year	5,835,311
Interest and penalty on property tax	16,412
Accrued interest	435
Notes receivable	2,506,117
Due from other governments	1,337,271
Inventories	949,560
Prepaid expenses	313,009
Land	779,862
Construction in progress	712,585
Infrastructure, property and equipment, net of accumulated depreciation/amortization	<u>27,757,333</u>
Total assets	<u>50,457,552</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension related deferred outflows	<u>924,871</u>
<u>LIABILITIES</u>	
Accounts payable	268,930
Accrued interest payable	5,117
Due to other governments	17,405
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	237,000
Compensated absences	253,537
Portion due or payable after one year:	
General obligation bonds	2,264,000
Net pension liability	2,914,015
Net OPEB liability	<u>218,784</u>
Total liabilities	<u>6,178,788</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unavailable revenues:	
Succeeding year property tax	5,835,311
Other	24,141
Pension related deferred inflows	<u>100,284</u>
Total deferred inflows of resources	<u>5,959,736</u>
<u>NET POSITION</u>	
Net investment in capital assets	29,249,781
Restricted for:	
Mental health purposes	48,065
Rural service purposes	223,110
Secondary roads purposes	8,555,045
Other purposes	332,533
Unrestricted	<u>835,365</u>
Total net position	<u>\$ 39,243,899</u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 2,195,340	\$ 158,545	\$ 61,157	\$ -	\$ (1,975,638)
Physical health and social services	332,957	7,556	143,690	-	(181,711)
Mental health	467,576	1,838	80,538	-	(385,200)
County environment and education	1,005,359	122,292	13,595	-	(869,472)
Roads and transportation	5,609,723	204,739	3,965,324	2,134,659	694,999
Governmental services to residents	497,323	266,604	1,666	-	(229,053)
Administration	1,434,608	36,464	-	-	(1,398,144)
Non-program	378,289	-	379,848	-	1,559
Total	\$ 11,921,175	\$ 798,038	\$ 4,645,818	\$ 2,134,659	\$ (4,342,660)
General Revenues:					
Property and other county tax levied for:					
General purposes					5,781,233
Penalty and interest on property tax					33,335
State tax credits and replacements					393,771
Local option sales tax					561,432
Tax increment financing					113,068
Grants and contributions not restricted to specific purposes					87,500
Unrestricted investment earnings					72,163
Miscellaneous					19,217
Total general revenues					7,061,719
Change in net position					2,719,059
Net position beginning of year, as restated					36,524,840
Net position end of year					\$ 39,243,899

See notes to financial statements.

CHEROKEE COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

Exhibit C

	Special Revenue					
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>	<u>Nonmajor</u>	<u>Total</u>
<u>ASSETS</u>						
Cash	\$ 1,888,005	\$ 63,478	\$ 295,303	\$ 7,432,385	\$ 344,306	\$ 10,023,477
Receivables:						
Property tax:						
Delinquent	3,740	386	788	-	-	4,914
Succeeding year	3,269,190	338,050	2,105,498	-	122,573	5,835,311
Interest and penalty on property tax	16,412	-	-	-	-	16,412
Accrued interest	435	-	-	-	-	435
Due from other governments	169,454	-	60,200	1,085,757	21,861	1,337,272
Prepaid expense	196,624	1,339	3,407	86,029	6,840	294,239
Inventories	-	-	-	949,560	-	949,560
Total assets	<u>\$ 5,543,860</u>	<u>\$ 403,253</u>	<u>\$ 2,465,196</u>	<u>\$ 9,553,731</u>	<u>\$ 495,580</u>	<u>\$ 18,461,620</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 57,242	\$ -	\$ 119	\$ 204,195	\$ 6,046	\$ 267,602
Due to other governments	13,553	-	-	3,790	62	17,405
Total liabilities	<u>70,795</u>	<u>-</u>	<u>119</u>	<u>207,985</u>	<u>6,108</u>	<u>285,007</u>
Deferred inflows of resources:						
Unavailable revenues:						
Succeeding year property tax	3,269,190	338,050	2,105,498	-	122,573	5,835,311
Other	19,868	375	692	-	-	20,935
Total deferred inflows of resources	<u>3,289,058</u>	<u>338,425</u>	<u>2,106,190</u>	<u>-</u>	<u>122,573</u>	<u>5,856,246</u>
Fund balances:						
Nonspendable:						
Inventories	-	-	-	949,560	-	949,560
Prepays	196,624	1,339	3,407	86,029	6,840	294,239
Restricted for:						
Supplemental levy purposes	403,262	-	-	-	-	403,262
Mental health purposes	-	63,489	-	-	-	63,489
Rural services purposes	-	-	355,480	-	-	355,480
Secondary roads purposes	-	-	-	8,310,157	-	8,310,157
Other purposes	-	-	-	-	360,059	360,059
Unassigned	1,584,121	-	-	-	-	1,584,121
Total fund balances	<u>2,184,007</u>	<u>64,828</u>	<u>358,887</u>	<u>9,345,746</u>	<u>366,899</u>	<u>12,320,367</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,543,860</u>	<u>\$ 403,253</u>	<u>\$ 2,465,196</u>	<u>\$ 9,553,731</u>	<u>\$ 495,580</u>	<u>\$ 18,461,620</u>

See notes to financial statements.

CHEROKEE COUNTY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017

Exhibit D

Total governmental fund balances	\$ 12,320,367
Amounts reported for governmental activities in the Statement of Net Position 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 capital assets is \$47,260,553 and the accumulated depreciation/amortization is \$18,010,773.	29,249,780
Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	20,936
The Internal Service Fund is used by management to charge the costs of the partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Position.	214,557
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:	
Deferred outflows of resources	924,871
Deferred inflows of resources	(100,284)
Long-term liabilities, including bonds payable, compensated absences payable, other postemployment benefits payable, net pension liability, and accrued interest payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(3,386,328)</u>
Net position of governmental activities	<u>\$ 39,243,899</u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017

Exhibit E

	Special Revenue					Total
	General	Mental Health	Rural Services	Secondary Roads	Nonmajor	
Revenues:						
Property and other County tax	\$ 3,430,194	\$ 211,194	\$ 2,558,573	\$ -	\$ 253,426	\$ 6,453,387
Interest and penalty on property tax	33,335	-	-	-	-	33,335
Intergovernmental	524,354	97,169	107,212	3,940,054	13,595	4,682,384
Licenses and permits	5,785	-	925	80,755	-	87,465
Charges for services	403,064	-	1,050	36	2,695	406,845
Use of money and property	83,200	-	-	-	9	83,209
Miscellaneous	475,134	-	-	33,101	10,949	519,184
Total revenues	<u>4,955,066</u>	<u>308,363</u>	<u>2,667,760</u>	<u>4,053,946</u>	<u>280,674</u>	<u>12,265,809</u>
Expenditures:						
Operating:						
Public safety and legal services	1,644,835	-	412,441	-	18,389	2,075,665
Physical health and social services	328,302	-	-	-	1,500	329,802
Mental health	-	457,886	-	-	1,964	459,850
County environment and education	532,736	-	352,174	-	110,625	995,535
Roads and transportation	-	-	63,331	4,253,199	-	4,316,530
Governmental services to residents	464,510	-	-	-	307	464,817
Administration	1,183,167	-	-	-	139,207	1,322,374
Non-program	378,289	-	-	-	-	378,289
Capital projects	-	-	-	2,019,832	100,000	2,119,832
Total expenditures	<u>4,531,839</u>	<u>457,886</u>	<u>827,946</u>	<u>6,273,031</u>	<u>371,992</u>	<u>12,462,694</u>
Excess (deficiency) of revenues over expenditures	<u>423,227</u>	<u>(149,523)</u>	<u>1,839,814</u>	<u>(2,219,085)</u>	<u>(91,318)</u>	<u>(196,885)</u>
Other financing sources (uses):						
Sale of capital assets	-	-	-	11,710	-	11,710
Operating transfers in (out)	(50,000)	33,598	(1,900,000)	1,900,000	16,402	-
Total other financing sources (uses)	<u>(50,000)</u>	<u>33,598</u>	<u>(1,900,000)</u>	<u>1,911,710</u>	<u>16,402</u>	<u>11,710</u>
Net change in fund balances	373,227	(115,925)	(60,186)	(307,375)	(74,916)	(185,175)
Fund balances, beginning of year	<u>1,810,780</u>	<u>180,753</u>	<u>419,073</u>	<u>9,653,121</u>	<u>441,815</u>	<u>12,505,542</u>
Fund balances, end of year	<u>\$ 2,184,007</u>	<u>\$ 64,828</u>	<u>\$ 358,887</u>	<u>\$ 9,345,746</u>	<u>\$ 366,899</u>	<u>\$ 12,320,367</u>

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, 2017

Exhibit F

Net change in fund balances - Total governmental funds \$ (185,175)

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	\$ 2,611,087	
Capital assets contributed by the Iowa Department of Transportation	2,170,283	
Depreciation/amortization expense	<u>(1,696,995)</u>	3,084,375

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. (71,643)

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

Property tax	(241)	
Other	<u>2,594</u>	2,353

The county employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflows of resources in the Statement of Net Position as follows:  
 Current year contributions 334,550

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

Compensated absences	(6,347)	
Pension expense	(358,672)	
Other postemployment benefits	<u>(25,259)</u>	(390,278)

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 position of the Internal Service Fund is reported with governmental activities. (55,123)

Change in net position of governmental activities \$ 2,719,059

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2017

Exhibit G

	<u>Internal Service- Employee Group Health</u>
<u>ASSETS</u>	
Cash	\$ 221,265
Prepaid expense	<u>77,332</u>
Total assets	298,597
 <u>LIABILITIES</u>	
Accounts payable	<u>1,335</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Unavailable revenues	<u>82,705</u>
 <u>NET POSITION</u>	
Unrestricted	<u>\$ 214,557</u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2017

Exhibit H

		<u>Internal Service- Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds	\$ 692,454	
Reimbursements from employees and others	<u>230,546</u>	\$ 923,000
Operating expenses:		
Medical Claims	64,499	
Insurance premiums	909,565	
Administrative fees	<u>4,950</u>	<u>979,014</u>
Operating income		(56,014)
Non-operating revenues:		
Interest income		<u>891</u>
Net income		(55,123)
Net position beginning of year		<u>269,680</u>
Net position end of year		<u>\$ 214,557</u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2017

Exhibit I

	<u>Internal Service- Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 694,973
Cash received from employees and others	230,546
Cash payments to suppliers for services	<u>(974,395)</u>
Net cash used by operating activities	(48,876)
Cash flows from investing activities:	
Interest on investments	<u>891</u>
Net decrease in cash	(47,985)
Cash at beginning of year	<u>269,250</u>
Cash at end of year	<u><u>\$ 221,265</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ (56,014)
Adjustments to reconcile operating income to net cash used by operating activities:	
Increase in deferred revenue	2,520
Increase in accounts payable	1,302
Decrease in prepaid expenses	<u>3,316</u>
Net cash used by operating activities	<u><u>\$ (48,876)</u></u>

See notes to financial statements.

CHEROKEE COUNTY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2017

Exhibit J

ASSETS

Cash:	
County Treasurer	\$ 1,255,311
Other County officials	64,996
Receivables:	
Property tax:	
Delinquent	22,846
Succeeding year	13,872,946
Accounts	17,253
Prepays	49,115
Due from other governments	55,156
Special assessments	<u>160,428</u>
Total assets	<u>15,498,051</u>

LIABILITIES

Accounts payable	2,307
Trusts payable	9,592
Due to other governments	<u>15,486,152</u>
Total liabilities	<u>15,498,051</u>

Net Position	<u>\$ -</u>
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See notes to financial statements.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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 Position 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 Position presents the County's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories.

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

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints 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 to be used to fund mental health, intellectual disabilities, 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 the road use tax allocation from the State of Iowa, required transfers from the Special Revenue, Rural Services Fund and other revenues to be used for secondary roads 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, 2017

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 earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. 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 position 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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned, and then unassigned fund balances.

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, 2017

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, Deferred Outflow of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash - 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.

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, 2015, assessed property valuations; is for the tax accrual period July 1, 2016, through June 30, 2017; and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2016.

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.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles, intangibles acquired after July 1, 1980, 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 Position. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. 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. Capital assets are defined by the County as assets with an initial, individual cost 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

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the County after the measurement date but before the end of the County’s reporting period.

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.

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, 2017. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services, and Secondary Roads Funds.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (Continued)

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consists of the succeeding year property tax receivable as well as delinquent property tax receivable not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, contributions from external customers in the Employee Group Health Fund, and the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws; or are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Supervisors through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned – Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

Net Position - The net position 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.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH

The County's deposits in banks at June 30, 2017, 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.

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2017, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:	Special Revenue:	
Mental Health	County Case Management	\$ 33,598
Secondary Roads	Rural Services	1,900,000
Conservation Land Acquisition	General	50,000
		<u>\$ 1,983,598</u>

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

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	Balance Beginning of <u>Year</u>	<u>Increases</u>	<u>Decreases</u>	Balance End of <u>Year</u>
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 508,186	\$ 271,676	\$ -	\$ 779,862
Construction in progress	249,665	1,401,903	(938,983)	712,585
Total capital assets not being depreciated/amortized	<u>757,851</u>	<u>1,673,579</u>	<u>(938,983)</u>	<u>1,492,447</u>
Capital assets being depreciated/amortized:				
Buildings	5,653,434	226,276	-	5,879,710
Improvements other than buildings	9,750	-	-	9,750
Equipment and vehicles	7,676,267	503,360	(301,862)	7,877,765
Intangibles	44,304	-	-	44,304
Infrastructure, road network	28,639,438	3,317,139	-	31,956,577
Total capital assets being depreciated/amortized	<u>42,023,193</u>	<u>4,046,775</u>	<u>(301,862)</u>	<u>45,768,106</u>
Less accumulated depreciation/amortization for:				
Buildings	2,268,817	80,659	-	2,349,476
Improvements other than buildings	7,498	488	-	7,986
Equipment and vehicles	4,002,833	397,093	(230,219)	4,169,707
Intangibles	33,501	1,581	-	35,082
Infrastructure, road network	10,231,348	1,217,174	-	11,448,522
Total accumulated depreciation/amortization	<u>16,543,997</u>	<u>1,696,995</u>	<u>(230,219)</u>	<u>18,010,773</u>
Total capital assets being depreciated/amortized, net	<u>25,479,196</u>	<u>2,349,780</u>	<u>(71,643)</u>	<u>27,757,333</u>
Governmental activities capital assets, net	<u>\$26,237,047</u>	<u>\$ 4,023,359</u>	<u>\$(1,010,626)</u>	<u>\$29,249,780</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 57,183
Physical health and social services	636
Mental health	3,274
County environment and education	26,367
Roads and transportation	1,527,108
Governmental services to residents	12,336
Administration	70,091
Total depreciation/amortization expense-governmental activities	<u>\$ 1,696,995</u>

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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	\$ 13,553
Special Revenue:		
Secondary Roads		\$ 3,790
Nonmajor		<u>62</u>
		<u>3,852</u>
Total for governmental funds		<u>\$ 17,405</u>
Agency:		
County Assessor	Collections	\$ 838,482
Schools		9,070,445
Community Colleges		663,370
Corporations		3,415,103
Townships		353,220
Auto License and Use Tax		360,603
Agricultural Extension		212,335
All other		<u>572,594</u>
Total for agency funds		<u>\$ 15,486,152</u>

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2017, is as follows:

	Balance, beginning of year	Increases	Decreases	Balance, end of year	Due within one year
General obligation bonds	\$ 2,590,000	\$2,253,000	\$ 2,342,000	\$ 2,501,000	\$ 237,000
Compensated absences	247,190	6,347	-	253,537	253,537
Net pension liability	2,196,290	717,725	-	2,914,015	-
Net OPEB liability	<u>193,525</u>	<u>25,259</u>	<u>-</u>	<u>218,784</u>	<u>-</u>
Total	<u>\$ 5,227,005</u>	<u>\$3,002,331</u>	<u>\$ 2,342,000</u>	<u>\$ 5,887,336</u>	<u>\$ 490,537</u>

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

6. LONG-TERM LIABILITIES – (Continued)

Notes Payable

During the year ended June 30, 2012 Cherokee County issued \$2,775,000 of general obligation refunding capital loan notes and an additional \$445,000 general obligation capital loan notes for Cherokee County Sanitary Landfill and Recycling Center (Landfill). The proceeds from the refunding capital loan notes were used to pay costs of refunding the existing general obligation indebtedness of the County for the Landfill. The proceeds of the additional capital loan notes were used to pay costs of constructing works and facilities for the operation of the landfill. The County has a separate agreement with the Landfill that requires the Landfill to make all principal and interest payments on these notes. As a result, there is a note receivable reflected on the County’s statement of net position that is offset by a corresponding liability for the principal and interest payable on this debt. In January 2017, the County issued \$1,740,000 and \$513,000 of general obligation refunding capital loan notes for the purpose of paying costs to refund the existing general obligation indebtedness of the County for the Landfill.

The future principal payments are as follows:

Year Ending <u>June 30,</u>	Loan <u>Principal</u>
2018	\$ 237,000
2019	243,000
2020	250,000
2021	255,000
2022	262,000
2023-2026	<u>1,254,000</u>
	<u>\$2,501,000</u>

7. PENSION AND RETIREMENT BENEFITS

Plan Description – IPERS membership is mandatory for employees of the County, except for those covered by another retirement system. Employees of the County are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

7. PENSION AND RETIREMENT BENEFITS – (Continued)

Pension Benefits – (Continued)

Sheriffs, deputies and protection occupation members may retire at normal retirement age, which is generally age 55. Sheriffs, deputies and protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula to calculate a sheriff's, deputy's or protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50 percent for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the County contributed 8.93 percent of covered payroll, for a total rate of 14.88 percent. The Sheriff, deputies and the County each contributed 9.63 percent of covered payroll, for a total rate of 19.26 percent. Protection occupation members contributed 6.56 percent of covered payroll and the County contributed 9.84 percent of covered payroll, for a total rate of 16.40 percent.

The County's contributions to IPERS for the year ended June 30, 2016 were \$334,550.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

7. PENSION AND RETIREMENT BENEFITS – (Continued)

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the County reported a liability of \$2,914,015 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the County's proportion was .046303%, which was an increase of .000019% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the County recognized pension expense of \$358,672. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,453	\$ 52,742
Changes of assumptions	42,213	8,926
Net difference between projected and actual earnings on IPERS' investments	497,340	-
Changes in proportion and differences between County contributions and the County's proportionate share of contributions	26,315	38,615
County contributions subsequent to the measurement date	<u>334,550</u>	<u>-</u>
Total	<u>\$ 924,871</u>	<u>\$ 100,283</u>

\$334,550 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2017	\$ 43,548
2018	43,548
2019	254,335
2020	149,824
2021	<u>(1,217)</u>
	<u>\$ 490,038</u>

There were no non-employer contributing entities to IPERS.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

7. PENSION AND RETIREMENT BENEFITS – (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00 percent per annum, based on 3.00 percent inflation and 1.00 percent real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS’ investments was determined using a building block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28 %	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	<u>1</u>	(0.26)
Total	<u>100</u> %	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the County will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS’ fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS’ investments was applied to all periods of projected benefit payments to determine the total pension liability.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

7. PENSION AND RETIREMENT BENEFITS – (Continued)

Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate  
– The following presents the County’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease <u>6.50%</u>	Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
County's proportionate share of the net pension liability:	\$5,020,282	\$2,914,015	\$1,137,620

IPERS’ Fiduciary Net Position – Detailed information about IPERS’ fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS – All legally required County contributions and legally required employee contributions which had been withheld from employee wages were remitted by the County to IPERS by June 30, 2017.

8. RISK MANAGEMENT

Cherokee County is a member of 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 753 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials’ liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The County's contributions to the Pool for the year ended June 30, 2017, were \$120,647.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

8. RISK MANAGEMENT- (Continued)

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 \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and, excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the County's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

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, 2017, no liability has been recorded in the County's financial statements. As of June 30, 2017, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 80 active members and one retired member in the plan.

The medical/prescription drug benefits are provided through a partially self-funded medical plan administered by Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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.

The required contribution is based on projected pay-as-you-go financing. Retirees receiving benefits have required monthly contributions of:

	<u>Single</u>	<u>Family</u>
Health Insurance	\$ 687.68	\$ 1,660.74

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, 2017, the amount actually contributed to the plan, and changes in the County's net OPEB obligation

Annual required contribution	\$ 28,172
Interest on net OPEB obligation	9,676
Adjustment to annual required contribution	<u>(12,589)</u>
Annual OPEB cost	25,259
Contributions made	<u>-</u>
Increase in net OPEB obligation	25,259
Net OPEB obligation beginning of year	<u>193,525</u>
Net OPEB obligation end of year	<u>\$ 218,784</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, 2017.

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, 2017 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 30,993	0.0%	\$ 168,108
June 30, 2016	\$ 25,417	0.0%	\$ 193,525
June 30, 2017	\$ 25,259	0.0%	\$ 218,784

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Funding Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2016 through June 30, 2017, the actuarial accrued liability was \$162,012, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$162,012. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,491,599 and the ratio of the UAAL to covered payroll was 4.64%. As of June 30, 2017, 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.

As of the July 1, 2015 actuarial valuation date, the alternative measurement method was used. The actuarial assumptions include 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. An inflation rate of 3% is assumed for the purpose of this computation.

Mortality rates are from the 2011 United States Life Tables, applied on a gender specific basis. Annual retirement and termination probabilities were based on 25% for active currently electing coverage.

Projected claim costs of the medical plan are \$1,214 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 \$272,260 during the year ended June 30, 2017.

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 \$3,465,799 as of June 30, 2017, and the portion of the liability that has been recognized is \$2,855,755. The Commission has begun to accumulate resources to fund these costs, and at June 30, 2017, deposits of \$776,983 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.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

12. DEVELOPMENT AGREEMENTS

The County has entered into development agreements to assist in urban renewal projects.

Under the first agreement, the County agreed to abate incremental taxes to be received by the County under Chapter 404 of the Code of Iowa from the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban revitalization plan. The total amount that will be abated over the ten year period under the development and abatement agreement cannot be determined. The amount to be abated each year will be 75% of the incremental value. 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 were to be rebated for a period of fifteen years beginning with the tax year in which the property taxes on the completed value of the improvements were first paid. The total amount that was to be rebated over the fifteen year period under the development and rebate agreement was not to exceed \$575,000. The amount to be rebated each year was 75% of the property taxes calculated. No bonds or notes were issued for this construction project. This agreement was revised on June 28, 2016 as a result of a new agreement entered into between the developer and the County, whereby the County will retain all Tax Increment Financing (TIF) payments currently being collected under the existing agreement until time the existing urban renewal agreement expires or terminates. In addition to the moneys retained from the TIF payments, the developer has agreed to pay the County \$1,000,000 in consideration for two roadway paving projects to be completed by the County.

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 ten year period under the development and rebate agreement is not to exceed \$415,750. The amount to be rebated each year will be 75% of the property taxes calculated. During the year ended June 30, 2017, the County rebated \$22,207 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

13. TAX ABATEMENTS

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

County tax abatements – The County provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the County enters into agreements with developers which require the County, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the County as part of these agreements.

For the year ended June 30, 2017, the County abated \$113,068 of property tax under the urban renewal and economic development projects.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

13. TAX ABATEMENTS - (Continued)

County tax abatements – Property tax revenues of the County were reduced by the following amounts for the year ended June 30, 2017 under agreements entered into by the following entities:

<u>Entity</u>	<u>Tax Abatement Program</u>	<u>Amount of Tax Abated</u>
City of Larrabee	Urban renewal and economic development projects	\$ 3,289
City of Cherokee	Urban renewal and economic development projects	\$ 3,445
	Urban revitalization and economic development projects	\$ 24,395

14. COMMITMENTS

The County has entered into the following contracts which were not completed as of June 30, 2017:

The balance remaining at June 30, 2017, will be paid as work on the project progresses.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Costs Incurred As of 6-30-17</u>	<u>Remaining Commitment As of 6-30-17</u>
480th Street Paving	\$ 1,197,814	\$ 712,586	\$ 485,228

15. 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 cash 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, 2016, is summarized as follows:

Cash balance, beginning of year	\$ 113,220
Receipts	717,584
Disbursements	<u>662,925</u>
Cash balance, end of year	<u>\$ 167,879</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, 2017

16. OPERATING LEASE

The County has four leases. The Auditor's office leases a postage machine and the Law Enforcement Center, County Attorney's office, Community Services, and the Engineer's office lease copy machines. Rental expense incurred for the leases was \$11,633 for the year ended June 30, 2017. Minimum amounts payable under these operating leases are as follows:

Year ending <u>June 30,</u>	Total Minimum <u>Lease Payments</u>
2018	10,868
2019	6,499
2020	2,131
2021	2,131
2022	735

17. ACCOUNTING RESTATEMENT

Beginning net assets for governmental activities has been restated to reflect a correction of capital assets. This restatement is summarized below:

Net assets, June 30, 2016 as previously reported	\$ 36,504,960
Restatement of beginning net assets	<u>19,880</u>
Restated net assets, June 30, 2016	<u>\$ 36,524,840</u>

18. CONTINGENCIES

There currently is a claim and lawsuit against the County seeking damages for various reasons. The outcome and eventual liability of the County, if any, from this is not known at this time. County officials believe the outcome of these matters will not have a material effect on the County's financial statements.

CHEROKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

19. CHEROKEE COUNTY FINANCIAL INFORMATION INCLUDED IN THE ROLLING HILLS COMMUNITY SERVICE REGION

Rolling Hills Community Services Region, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective July 1, 2014, includes the following member counties: Buena Vista, Calhoun, Carroll, Cherokee, Crawford, Ida, and Sac. Cherokee County joined this region effective January 1, 2015. A portion of the financial activity of Cherokee County's Special Revenue, Mental Health Fund is included in the Rolling Hills Community Services Region for the year end June 30, 2017 as follows:

Revenues:		
Property and other county tax	\$	211,195
Intergovernmental revenues:		
Payments from regional fiscal agent	\$	80,538
State tax credits	<u>16,631</u>	97,169
Transfer from County Case Management Fund		<u>33,598</u>
Total revenues		<u>341,962</u>
Expenditures:		
General administration:		
Direct administration		72,625
Distribution to regional fiscal agent		<u>385,262</u>
Total expenditures		<u>457,887</u>
Deficiency of revenues over expenditures		(115,925)
Fund balance at beginning of the year		<u>180,753</u>
Fund balance end of the year	\$	<u>64,828</u>

20. NEW ACCOUNT PRONOUNCEMENT

The County adopted the tax abatement disclosures guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transaction more transparent to the financial statement users. Adoption of the guidance did not have an impact on the amounts reports in the financial statements. The Note to Financial Statements include information about the County's tax abatements and tax abatements of other entities which impact the County.

21. PROSPECTIVE ACCOUNTING CHANGE

The Governmental Accounting Standards Board has issued Statement No., 75 Accounting and Financial Report for Postemployment Benefits Other Than Pensions. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's other postemployment benefits.

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, 2017

	<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	\$ 6,460,703	\$6,451,722	\$6,451,722	\$ 8,981
Interest and penalty on property tax	33,206	24,185	24,185	9,021
Intergovernmental	4,897,991	5,625,301	5,682,642	(784,651)
Licenses and permits	88,013	67,000	67,000	21,013
Charges for service	402,939	314,965	314,965	87,974
Use of money and property	82,832	46,200	46,200	36,632
Miscellaneous	505,606	1,128,800	1,553,800	(1,048,194)
Total receipts	<u>12,471,290</u>	<u>13,658,173</u>	<u>14,140,514</u>	<u>(1,669,224)</u>
Disbursements:				
Public safety and legal services	2,081,276	2,316,068	2,317,568	236,292
Physical health and social services	324,800	389,761	389,761	64,961
Mental health	458,734	465,800	465,800	7,066
County environment and education	997,220	974,912	1,042,253	45,033
Roads and transportation	4,587,921	5,290,631	5,314,331	726,410
Governmental services to residents	465,585	558,589	558,589	93,004
Administration	1,312,796	1,536,598	1,623,598	310,802
Nonprogram current	375,658	-	425,000	49,342
Capital projects	2,146,668	3,206,000	3,756,000	1,609,332
Total disbursements	<u>12,750,658</u>	<u>14,738,359</u>	<u>15,892,900</u>	<u>3,142,242</u>
Excess (deficiency) of receipts over disbursements	(279,368)	(1,080,186)	(1,752,386)	1,473,018
Other financing sources, net	<u>11,710</u>	<u>1,000</u>	<u>1,000</u>	<u>10,710</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(267,658)	(1,079,186)	(1,751,386)	1,483,728
Balance beginning of year	<u>10,291,135</u>	<u>8,580,434</u>	<u>10,291,136</u>	<u>(1)</u>
Balance end of year	<u>\$ 10,023,477</u>	<u>\$ 7,501,248</u>	<u>\$ 8,539,750</u>	<u>\$ 1,483,727</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY  
BUDGETARY COMPARISON SCHEDULE - BUDGET  
TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2017

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 12,471,290	\$ (205,481)	\$ 12,265,809
Expenditures	12,750,658	(287,964)	12,462,694
Net	(279,368)	82,483	(196,885)
Other financing sources, net	11,710	-	11,710
Beginning fund balances	10,291,135	2,214,407	12,505,542
Ending fund balances	\$ 10,023,477	\$ 2,296,890	\$ 12,320,367

See accompanying independent auditor's report.

CHEROKEE COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2017

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, and Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$1,154,541. The budget amendment is reflected in the final budgeted amounts.

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

CHEROKEE COUNTY  
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST THREE FISCAL YEARS\*  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
County's collective proportion of the net pension liability (asset)	0.046303%	0.044455%	0.043472%
County's collective proportionate share of the net pension liability (asset)	\$2,914,015	\$2,196,290	\$1,724,075
County's covered-employee payroll	\$3,740,039	\$3,558,014	\$3,481,271
County's collective proportionate share of the net pension liability as a percentage of it covered-employee payroll	77.91%	61.73%	49.52%
Plan fiduriary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

\*In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

See accompanying independent auditor's report.

CHEROKEE COUNTY  
SCHEDULE OF COUNTY CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST EIGHT FISCAL YEARS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Statutorily required contribution	\$ 334,550	\$ 339,464	\$ 323,240	\$ 316,506	\$ 306,474	\$ 262,120	\$ 217,331	\$ 210,566
Contributions in relation to the statutorily required contributions	<u>(334,550)</u>	<u>(339,464)</u>	<u>(323,240)</u>	<u>(316,506)</u>	<u>(306,474)</u>	<u>(262,120)</u>	<u>(217,331)</u>	<u>(210,566)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
County's covered-employee payroll	\$3,698,805	\$3,740,039	\$3,558,014	\$3,481,271	\$3,453,765	\$3,144,965	\$3,003,371	\$3,068,820
Contributions as a percentage of covered-employee payroll	9.04%	9.08%	9.08%	9.09%	8.87%	8.33%	7.24%	6.86%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

See accompanying independent auditor's report.

CHEROKEE COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION – PENSION LIABILITY  
YEAR ENDED JUNE 30, 2017

**Changes of Benefit Terms**

Legislation enacted in 2010 modified benefit terms for Regular member. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

**Changes of Assumptions**

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year
- Adjusted male mortality rates for retirees in the Regular membership group
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions
- Modified retirement rates to reflect fewer retirements
- Lowered disability rates at most ages
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit
- Modified salary increase assumptions based on various service duration

CHEROKEE COUNTY  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2017

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets  (a)	Actuarial Accrued Liability (AAL)  (b)	Unfunded AAL (UAAL)  (b-a)	Funded Ratio  (a/b)	Covered Payroll  (c)	UAAL as a Percentage of Covered Payroll  ((b-a)/c)
2010	July 1, 2009	-	\$167,893	\$167,893	0.00%	\$2,872,000	5.85%
2011	July 1, 2009	-	\$167,893	\$167,893	0.00%	\$2,929,440	5.73%
2012	July 1, 2009	-	\$167,893	\$167,893	0.00%	\$2,988,029	5.61%
2013	July 1, 2012	-	\$211,481	\$211,481	0.00%	\$3,189,633	6.63%
2014	July 1, 2012	-	\$211,481	\$211,481	0.00%	\$3,253,426	6.50%
2015	July 1, 2012	-	\$211,481	\$211,481	0.00%	\$3,318,495	6.37%
2016	July 1, 2015	-	\$162,012	\$162,012	0.00%	\$3,423,136	4.73%
2017	July 1, 2015	-	\$162,012	\$162,012	0.00%	\$3,491,599	4.64%

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, 2017

Schedule 1

	Special Revenue										Total
	Resource Enhancement and Protection	County Recorder's Records Management	County Rural Betterment	Forfeited Property	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	County Attorney Recovery Fees	County Case Management	
<u>ASSETS</u>											
Cash	\$ 5,861	\$ 3,840	\$ 9,420	\$ 2,724	\$ 108,584	\$ 1,758	\$ 78,220	\$ 53,304	\$ 80,595	\$ -	\$ 344,306
Receivables:											
Property tax:											
Succeeding year	-	-	-	-	122,573	-	-	-	-	-	122,573
Due from other governments	-	632	20,066	-	-	150	-	-	1,013	-	21,861
Prepaid expense	-	-	-	-	-	-	-	-	6,840	-	6,840
Total assets	<u>\$ 5,861</u>	<u>\$ 4,472</u>	<u>\$ 29,486</u>	<u>\$ 2,724</u>	<u>\$ 231,157</u>	<u>\$ 1,908</u>	<u>\$ 78,220</u>	<u>\$ 53,304</u>	<u>\$ 88,448</u>	<u>\$ -</u>	<u>\$ 495,580</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,092	\$ -	\$ 1,954	\$ -	\$ 6,046
Due to other governments	-	-	-	-	-	-	-	-	62	-	62
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,092</u>	<u>-</u>	<u>\$ 2,016</u>	<u>-</u>	<u>6,108</u>
Deferred inflows of resources:											
Unavailable revenues	-	-	-	-	122,573	-	-	-	-	-	122,573
Fund balances:											
Nonspendable:											
Prepays	-	-	-	-	-	-	-	-	6,840	-	6,840
Restricted	<u>5,861</u>	<u>4,472</u>	<u>29,486</u>	<u>2,724</u>	<u>108,584</u>	<u>1,908</u>	<u>74,128</u>	<u>53,304</u>	<u>79,592</u>	<u>-</u>	<u>360,059</u>
Total fund balances	<u>5,861</u>	<u>4,472</u>	<u>29,486</u>	<u>2,724</u>	<u>108,584</u>	<u>1,908</u>	<u>74,128</u>	<u>53,304</u>	<u>86,432</u>	<u>-</u>	<u>366,899</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,861</u>	<u>\$ 4,472</u>	<u>\$ 29,486</u>	<u>\$ 2,724</u>	<u>\$ 231,157</u>	<u>\$ 1,908</u>	<u>\$ 78,220</u>	<u>\$ 53,304</u>	<u>\$ 88,448</u>	<u>\$ -</u>	<u>\$ 495,580</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, 2017

Schedule 2

	Special Revenue										
	Resource Enhancement and Protection	County Recorder's Records Management	County Rural Betterment	Forfeited Property	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	County Attorney Recovery Fees	County Case Management	Total
Revenues:											
Property and other County tax	\$ -	\$ -	\$ 140,358	\$ -	\$ 113,068	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,426
Intergovernmental	13,595	-	-	-	-	-	-	-	-	-	13,595
Charges for service	-	2,695	-	-	-	-	-	-	-	-	2,695
Use of money and property	7	2	-	-	-	-	-	-	-	-	9
Miscellaneous	-	-	-	-	-	1,300	-	37	9,612	-	10,949
Total revenues	<u>13,602</u>	<u>2,697</u>	<u>140,358</u>	<u>-</u>	<u>113,068</u>	<u>1,300</u>	<u>-</u>	<u>37</u>	<u>9,612</u>	<u>-</u>	<u>280,674</u>
Expenditures:											
Operating:											
Public safety and legal services	-	-	-	1,000	-	-	-	1,160	16,229	-	18,389
Physical health and social services	-	-	1,500	-	-	-	-	-	-	-	1,500
Mental Health	-	-	-	-	-	-	-	-	-	1,964	1,964
County environment and education	11,864	-	80,000	-	-	1,752	17,009	-	-	-	110,625
Governmental services to residents	-	307	-	-	-	-	-	-	-	-	307
Administration	-	-	117,000	-	22,207	-	-	-	-	-	139,207
Capital projects	-	-	-	-	100,000	-	-	-	-	-	100,000
Total expenditures	<u>11,864</u>	<u>307</u>	<u>198,500</u>	<u>1,000</u>	<u>122,207</u>	<u>1,752</u>	<u>17,009</u>	<u>1,160</u>	<u>16,229</u>	<u>1,964</u>	<u>371,992</u>
Excess (deficiency) of revenues over expenditures	1,738	2,390	(58,142)	(1,000)	(9,139)	(452)	(17,009)	(1,123)	(6,617)	(1,964)	(91,318)
Other financing sources:											
Operating transfers in (out)	-	-	-	-	-	-	50,000	-	-	(33,598)	16,402
Excess (deficiency) of revenues and other financing sources over expenditures	1,738	2,390	(58,142)	(1,000)	(9,139)	(452)	32,991	(1,123)	(6,617)	(35,562)	(74,916)
Fund balances beginning of year	<u>4,123</u>	<u>2,082</u>	<u>87,628</u>	<u>3,724</u>	<u>117,723</u>	<u>2,360</u>	<u>41,137</u>	<u>54,427</u>	<u>93,049</u>	<u>35,562</u>	<u>441,815</u>
Fund balances end of year	<u>\$ 5,861</u>	<u>\$ 4,472</u>	<u>\$ 29,486</u>	<u>\$ 2,724</u>	<u>\$ 108,584</u>	<u>\$ 1,908</u>	<u>\$ 74,128</u>	<u>\$ 53,304</u>	<u>\$ 86,432</u>	<u>\$ -</u>	<u>\$ 366,899</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY  
COMBINING SCHEDULE OF FIDUCIARY ASSETS  
AND LIABILITIES – AGENCY FUNDS  
JUNE 30, 2017

Schedule 3

	<u>County</u> <u>Offices</u>	<u>Agricultural</u> <u>Extension</u>	<u>County</u> <u>Assessor</u>	<u>Schools</u>	<u>Community</u> <u>Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>Auto</u> <u>License</u> <u>and</u> <u>Use Tax</u>	<u>Other</u>	<u>Total</u>
<u>ASSETS</u>										
Cash:										
County Treasurer	\$ -	\$ 2,314	\$ 504,510	\$ 100,241	\$ 6,707	\$ 34,855	\$ 3,819	\$ 360,603	\$ 242,262	\$ 1,255,311
Other County officials	64,996	-	-	-	-	-	-	-	-	64,996
Receivables:										
Property tax:										
Delinquent	-	240	372	10,894	750	10,491	97	-	2	22,846
Succeeding year	-	209,781	326,325	8,959,310	655,913	3,369,757	349,304	-	2,556	13,872,946
Accounts	17,253	-	-	-	-	-	-	-	-	17,253
Prepays	-	-	8,562	-	-	-	-	-	40,553	49,115
Due from other governments	-	-	-	-	-	-	-	-	55,156	55,156
Special assessments	-	-	-	-	-	-	-	-	160,428	160,428
Total assets	<u>\$ 82,249</u>	<u>\$ 212,335</u>	<u>\$ 839,769</u>	<u>\$ 9,070,445</u>	<u>\$ 663,370</u>	<u>\$ 3,415,103</u>	<u>\$ 353,220</u>	<u>\$ 360,603</u>	<u>\$ 500,957</u>	<u>\$15,498,051</u>
<u>LIABILITIES</u>										
Accounts payable	\$ -	\$ -	\$ 1,287	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,020	\$ 2,307
Trusts payable	9,592	-	-	-	-	-	-	-	-	9,592
Due to other governments	72,657	212,335	838,482	9,070,445	663,370	3,415,103	353,220	360,603	499,937	15,486,152
Total liabilities	<u>\$ 82,249</u>	<u>\$ 212,335</u>	<u>\$ 839,769</u>	<u>\$ 9,070,445</u>	<u>\$ 663,370</u>	<u>\$ 3,415,103</u>	<u>\$ 353,220</u>	<u>\$ 360,603</u>	<u>\$ 500,957</u>	<u>\$15,498,051</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY  
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS  
AND LIABILITIES – AGENCY FUNDS  
YEAR ENDED JUNE 30, 2017

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	\$ 74,293	\$ 211,448	\$ 1,256,463	\$ 8,980,791	\$ 617,880	\$ 3,358,094	\$ 342,740	\$ 369,003	\$ 537,185	\$ 15,747,897
Additions:										
Property and other County tax	-	212,226	329,932	9,026,493	663,496	3,144,378	364,147	-	8,693	13,749,365
E911 surcharge	-	-	-	-	-	-	-	-	136,511	136,511
State tax credits	-	16,713	24,512	732,298	48,450	506,804	17,379	-	110	1,346,266
Office fees and collections	462,232	-	9,100	-	-	-	-	-	29,337	500,669
Auto licenses, use tax, and postage	-	-	-	-	-	-	-	4,462,064	-	4,462,064
Trusts	-	-	-	-	-	-	-	-	84,559	84,559
Miscellaneous	-	-	-	-	-	-	-	-	189,681	189,681
Total additions	<u>462,232</u>	<u>228,939</u>	<u>363,544</u>	<u>9,758,791</u>	<u>711,946</u>	<u>3,651,182</u>	<u>381,526</u>	<u>4,462,064</u>	<u>448,891</u>	<u>20,469,115</u>
Deductions:										
Agency remittances:										
To other governments	454,276	228,052	780,238	9,669,137	666,456	3,594,173	371,046	4,470,464	454,666	20,688,508
Trusts paid out	-	-	-	-	-	-	-	-	30,453	30,453
Total deductions	<u>454,276</u>	<u>228,052</u>	<u>780,238</u>	<u>9,669,137</u>	<u>666,456</u>	<u>3,594,173</u>	<u>371,046</u>	<u>4,470,464</u>	<u>485,119</u>	<u>20,718,961</u>
Balances end of year	\$ <u>82,249</u>	\$ <u>212,335</u>	\$ <u>839,769</u>	\$ <u>9,070,445</u>	\$ <u>663,370</u>	\$ <u>3,415,103</u>	\$ <u>353,220</u>	\$ <u>360,603</u>	\$ <u>500,957</u>	\$ <u>15,498,051</u>

See accompanying independent auditor's report.

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

Schedule 5

	Modified Accrual Basis									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:										
Property and other County tax	\$ 6,453,387	\$ 6,375,840	\$ 6,241,729	\$ 6,037,785	\$ 5,392,024	\$ 5,617,625	\$ 5,184,468	\$ 5,135,682	\$ 4,827,438	\$ 4,446,332
Interest and penalty on property tax	33,335	26,137	31,602	31,300	24,408	30,529	29,060	29,444	31,361	33,491
Intergovernmental	4,682,384	5,641,237	5,384,619	5,233,966	3,800,183	4,025,531	4,211,620	4,417,494	4,086,764	3,891,160
Licenses and permits	87,465	70,849	70,650	40,560	78,165	104,926	66,829	63,527	118,817	71,445
Charges for service	406,845	397,771	340,483	382,186	344,155	331,022	275,541	297,437	256,256	309,839
Use of money and property	83,209	72,981	60,734	53,338	64,582	77,019	93,411	111,633	148,048	394,117
Miscellaneous	519,184	185,289	158,108	242,077	263,958	155,630	155,253	124,975	79,839	56,231
Total	<u>\$12,265,809</u>	<u>\$12,770,104</u>	<u>\$12,287,925</u>	<u>\$12,021,212</u>	<u>\$ 9,967,475</u>	<u>\$10,342,282</u>	<u>\$10,016,182</u>	<u>\$10,180,192</u>	<u>\$ 9,548,523</u>	<u>\$ 9,202,615</u>
Expenditures:										
Operating:										
Public safety and legal services	\$ 2,075,665	\$ 2,006,589	\$ 2,009,740	\$ 2,073,475	\$ 1,906,297	\$ 1,635,097	\$ 1,626,862	\$ 1,534,816	\$ 1,393,237	\$ 1,355,121
Physical health and social services	329,802	330,261	281,905	290,508	294,137	271,496	319,837	337,161	308,147	342,797
Mental health	459,850	517,214	641,603	439,342	593,479	1,461,138	1,188,984	1,192,857	1,253,326	1,451,519
County environment and education	995,535	922,793	936,250	910,339	1,170,097	751,928	664,222	604,057	545,212	771,436
Roads and transportation	4,316,530	3,854,971	3,917,789	3,889,648	3,462,004	3,613,525	3,455,983	4,013,072	3,163,632	2,908,855
Governmental services to residents	464,817	435,792	375,110	492,777	532,873	400,032	300,111	278,717	349,214	328,342
Administration	1,322,374	1,143,361	1,235,264	1,150,066	1,436,573	1,425,471	1,514,140	1,222,161	1,207,259	1,055,096
Non-program	378,289	37,014	-	-	-	-	-	-	-	-
Capital projects	2,119,832	2,163,726	1,168,383	1,469,774	514,486	494,413	133,608	1,272,699	464,266	995,770
Total	<u>\$12,462,694</u>	<u>\$11,411,721</u>	<u>\$10,566,044</u>	<u>\$10,715,929</u>	<u>\$ 9,909,946</u>	<u>\$10,053,100</u>	<u>\$ 9,203,747</u>	<u>\$10,455,540</u>	<u>\$ 8,684,293</u>	<u>\$ 9,208,936</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & Co.,PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
STEVE C. CAMPBELL, C.P.A.  
JEFFORY B. STARK, C.P.A. (RETIRED)  
RICHARD R. MOORE, C.P.A. (RETIRED)  
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 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, the 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, 2017, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 13, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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-C)-17 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 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 one instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item I-D-17. We noted certain immaterial 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, 2017, 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

Cherokee County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Cherokee County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hunzelman, Putzier, & Co., PLLC*

March 13, 2018

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2017

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-17      Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. Proper controls over financial reporting include adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the County's financial statements.

Condition – A concentration of closely related duties and responsibilities, such as the recording and processing of cash receipts and disbursements, voiding transactions, reconciliation of bank accounts, preparing journal entries for posting, analyzing financial information, and reporting financial information, exists in most county offices.

Cause – Most County offices have limited number of employees and certain procedures have not been designed to adequately segregate duties or provide countering controls through additional oversight of transactions and processes.

Effect – This concentration with a limited number of employees makes it difficult to establish an adequate system of internal checks on the accuracy and reliability of the accounting records. There is a reasonable possibility that the County would not be able to detect misstatements that would be material to the financial statements in a timely manner by employees in the normal course of performing assigned functions.

Recommendation – While we do recognize that the County is not large enough to allow for adequate segregation of duties for an effective internal control, we believe that it is important the Board be aware that this condition does exist. Each department head should review the operating procedures of their office to obtain the best segregation of duties as possible under the circumstances. The department head should utilize current employees to provide internal checks through review of financial transactions, voids, 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.

Response – A departmental meeting will be conducted for all county management to discuss the importance of providing internal checks on all financial documents and operating processes including review and notation by initials or signatures of multiple staff members including dates of verification.

Conclusion – Response accepted.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2017

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

I-B-17      Financial Reporting

Criteria – Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the County’s financial statements. A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis.

Condition – We noted material amounts of receivables and a payable were not properly recorded in the County’s financial statements.

Cause – Although the County has policies and procedures in place to identify and record year-end cut-off transactions in the proper fiscal year, it appears there was a lack of adequate preparation and review to ensure all necessary transactions were initially recorded.

Effect – Material adjustments were subsequently made by the County to properly include these amounts in the financial statements.

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

Response – Earned dates need to be entered on miscellaneous receipts. An email to all department heads should be sent at the end of fiscal year as a reminder that the Treasurer’s Office needs earned dates on miscellaneous receipts for revenues received after July 1<sup>st</sup> that were for the previous fiscal year.

Conclusion – Response accepted.

I-C-17      Property Tax Credit Calculation and Receipt

Criteria – The Treasurer is responsible to collect property tax on behalf of taxing authorities within the County and to remit collections to these authorities monthly. Some of these taxes are collected as property tax credits from the State in lieu of taxes by submittal of a Property Tax Credit Request Affidavit by the Treasurer.

Condition – During the year, the Treasurer submitted the incorrect amount for the military exemption replacement tax credit resulting in an overpayment from the State. As a result of another error in the process of correcting the overpayment, the County collected less than the correct amount of the disabled veterans property tax credit claim from the State.

Cause – Although the Treasurer’s policies and procedures identified the overpayment, they failed to ultimately follow through with the situation to ensure the proper corrected amounts were received.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2017

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

I-C-17     Property Tax Credit Calculation and Receipt - (Continued)

Effect – Because the correct amount was not collected, the County and other taxing authorities within the County did not receive the amounts to which they were entitled.

Recommendation – The Treasurer should review carefully the payments and correspondence received from the State for property tax credits. The payments and amounts in the correspondence should be compared to the amounts expected from the abstract of taxes report and to the amounts received in previous years. The Treasurer should investigate any differences found in these amounts and determine if the differences are valid. The Treasurer should resolve any invalid differences.

Response – The correct amount has been collected from the State and careful review of further State tax payments will be taken.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

I-D-17     Mileage Expense Reimbursement

Criteria – All claims for payment of County expenses should be submitted to the County Auditor, as a clerk to the Board of Supervisors for approval before payment. Submitting a claim ensures that proper approval processes are followed and the disbursement is recorded in the County's records.

Condition – We noted a check was written by the Treasurer for an employee's mileage reimbursement claim which did not appear to go through the County's claim process.

Cause – Although the County has policies and procedures generally understood and consistently followed by all County personnel, it appears there was a misunderstanding of the requirement to submit this claim for approval because the expense was being reimbursed by another entity. The result being the County's policies and procedures were not properly followed in this instance.

Effect – The expense was not properly approved by the Board of Supervisors, the expense was not properly charged to an expenditure account due to the reimbursement, and a comparison was not made to the budget appropriations of the department.

Recommendation – The Treasurer's department should implement procedures to ensure checks written by the department are for authorized purposes only.

Response – This was not a County expense. The Employee did not submit a claim for mileage reimbursement to the County. This claim was submitted to the State and paid by EFT to our account. This will not happen again as any reimbursement due from the State will be paid directly to the Employee.

Conclusion – Response accepted.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2017

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-17 Certified Budget – Disbursements during the year ended June 30, 2017 did not exceed the amounts budgeted.
- II-B-17 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-17 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- II-D-17 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connections</u>	<u>Transaction Description</u>	<u>Amount</u>
Charles Baumann, Secondary Roads employee, Son Tucker Baumann, owns Baumann Mowing	Mowing	\$ 275
Jeff Holmes, Secondary Roads employee, Son Tim Holmes, owns Holmes Mowing	Mowing	\$ 700
Barb Staver, Sheriff's office employee, Husband owns High Country Auto	Services	\$ 75
Samantha Boothby, Auditor's office, father-in-law owns Boothby Funeral Home	Services	\$ 3,000
Frank Pigott, Secondary Roads employee, Son owns Pigott Electric	Services	\$ 34,177
Rick Mongan, Board of Supervisor, owns Mongan Painting Co., Inc.	Services	\$ 209

In accordance with Chapter 331.342(2)(j) of the Code of Iowa, the transactions with Tucker Baumann, Tim Holmes, High Country Auto, and Mongan Painting Co., Inc. do not appear to be conflicts of interest since total transactions were \$1,500 or less 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 – Samantha Boothby’s father-in-law owns Boothby Funeral Home. During the 2016-17 fiscal year, Boothby Funeral Home was paid an amount of approximately \$3,000.00 from general relief for two separate funeral services during the fiscal year. It is my understanding that Samantha is not involved in the procuring of any contracts between the County and Boothby Funeral Home. Further, it is my understanding that neither Samantha nor her spouse have a financial interest in the company. The company, as stated, is owned by the employee’s father-in-law. It is my belief that contemporary conflict analysis requires more than mere blood familial likes to create a conflict. It would require an actual financial benefit or favorable treatment of the relatives. That does not appear to be the case in this instance.

CHEROKEE COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2017

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

II-D-17 Business Transactions – (Continued)

County Attorney Response – (Continued)

Frank Pigott's son owns Pigott Electric. During the 2016-17 fiscal year, an amount of approximately \$34,177.00 was paid to Pigott Electric for electrical work performed for two different departments at various times during the fiscal year. Much like Boothby Funeral it is my understanding that Frank Pigott is not involved in the procuring of contracts with Pigott Electric nor does he have any financial interest in the company. Therefore, it is the undersigned's position that here is not a conflict of interest at this time.

Conclusion – Response accepted.

- II-E-17 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-17 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-17 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-17 Resource Enhancement and Protection Certification - The County dedicated property tax revenue to conservation purposes sufficient to meet the requirements of Chapter 455 A.19(1)(b) of the Code of Iowa in order to receive additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-17 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, 2017, did not exceed the amount budgeted.
- II-J-17 Annual Urban Renewal Report - The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.