



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

Mary Mosiman, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

March 17, 2015

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on Palo Alto County, Iowa.

The County had local tax revenue of \$18,454,209 for the year ended June 30, 2014, which included \$864,718 in tax credits from the state. The County forwarded \$12,177,367 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$6,276,842 of the local tax revenue to finance County operations, a less than 1% increase over the prior year. Other revenues included charges for service of \$1,951,820, operating grants, contributions and restricted interest of \$3,127,856, capital grants, contributions and restricted interest of \$531,069, local option sales tax of \$433,932, tax increment financing of \$310,002, gaming tax of \$154,545, unrestricted investment earnings of \$41,892 and other general revenues of \$89,510.

Expenses for County operations for the year ended June 30, 2014 totaled \$12,635,859, a 27.2% decrease from the prior year. Expenses included \$5,440,341 for roads and transportation, \$1,713,151 for public safety and legal services and \$1,332,174 for county environment and education.

The significant decrease in expenses is primarily due to a decrease in drainage district projects.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1410-0074-B00F.pdf>.

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**PALO ALTO COUNTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2014**

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**Palo Alto County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Hofstad	Board of Supervisors	(Deceased)
Craig Merrill	Board of Supervisors	Jan 2015
Linus Solberg	Board of Supervisors	Jan 2015
Keith Wirtz	Board of Supervisors	Jan 2015
Ronald Graettinger	Board of Supervisors	Jan 2017
Edward Noonan	Board of Supervisors	Jan 2017
Carmen Moser	County Auditor	Jan 2017
Mary Hilfiker	County Treasurer	Jan 2015
Bonnie Whitney	County Recorder	Jan 2015
Lynn Schultes	County Sheriff	Jan 2017
Lyssa Henderson	County Attorney	Jan 2015
Lois Naig	County Assessor	Jan 2016

**Palo Alto County**



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Independent Auditor's Report

To the Officials of Palo Alto 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 Palo Alto County, Iowa, as of and for the year ended June 30, 2014, 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 from 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 the 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 Palo Alto County as of June 30, 2014, 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 and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 17 and 52 through 56 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 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 Palo Alto 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, 2013 (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 January 8, 2015 on our consideration of Palo Alto County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Palo Alto County's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 8, 2015

**Palo Alto County**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Palo Alto County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

- Palo Alto County's total governmental activities revenues decreased approximately \$7,888,000 from fiscal year 2013, primarily due to a decrease in contributions from the Iowa Department of Transportation for farm-to-market projects. Capital grants, contributions and restricted interest decreased approximately \$5,429,000 from fiscal year 2013. In addition, charges for service decreased approximately \$2,669,000 from fiscal year 2013, primarily due to a decrease in drainage assessments after a sharp increase in the prior year.
- Palo Alto County's governmental activities expenses decreased approximately \$4,718,000 from fiscal year 2013, primarily due to a decrease in drainage district projects.
- The County's net position increased 1.1%, or approximately \$281,000, from June 30, 2013 to June 30, 2014.

### **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 Palo Alto County as a whole and present an overall view of the County's finances.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

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

### *Government-wide Financial Statements*

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

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

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

The 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, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services, Secondary Roads, Drainage Districts and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

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

The required financial statements for proprietary funds include a Statement of Net 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 the County's own programs. These fiduciary funds include Agency Funds that account for city special assessments, emergency management services and the County Assessor, to name a few.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

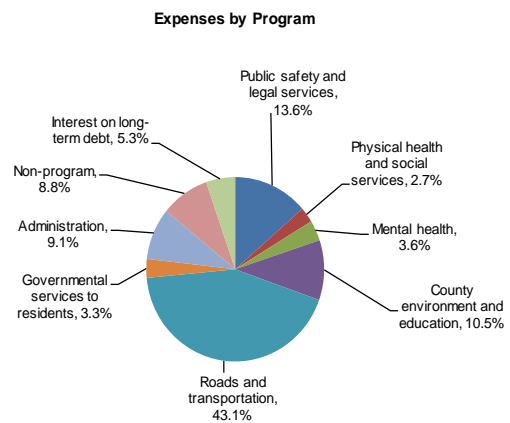
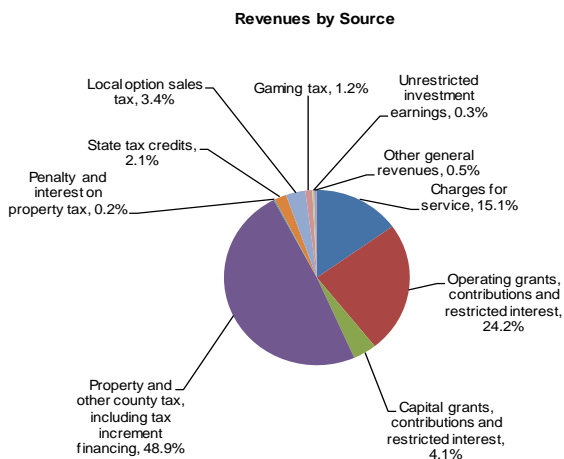
As noted earlier, net position may serve over time as a useful indicator of financial position. Palo Alto County's combined net position increased from approximately \$26,342,000 to approximately \$26,623,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities.

Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2014	2013
Current and other assets	\$ 31,475	33,214
Capital assets	26,569	25,544
Total assets	58,044	58,758
Long-term liabilities	24,029	24,935
Other liabilities	1,149	1,194
Total liabilities	25,178	26,129
Deferred inflows of resources	6,243	6,287
Net position:		
Net investment in capital assets	17,237	17,277
Restricted	8,360	8,071
Unrestricted	1,026	994
Total net position	\$ 26,623	26,342

Net position of Palo Alto County's governmental activities increased approximately \$281,000. The largest portion of the County's net position is net investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources 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 – increased from approximately \$994,000 at June 30, 2013 to approximately \$1,026,000 at June 30, 2014, an increase of 3.2%.

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

	Year ended June 30,	
	2014	2013
Revenues:		
Program revenues:		
Charges for service	\$ 1,952	4,621
Operating grants, contributions and restricted interest	3,128	2,977
Capital grants, contributions and restricted interest	531	5,960
General revenues:		
Property and other county tax, including tax increment financing	6,312	6,307
Penalty and interest on property tax	30	37
State tax credits	274	242
Local option sales tax	434	362
Gaming tax	154	161
Unrestricted investment earnings	42	25
Other general revenues	60	113
Total revenues	12,917	20,805
Program expenses:		
Public safety and legal services	1,713	1,662
Physical health and social services	334	324
Mental health	453	498
County environment and education	1,332	1,274
Roads and transportation	5,440	5,458
Governmental services to residents	422	399
Administration	1,149	1,215
Non-program	1,124	5,911
Interest on long-term debt	669	613
Total expenses	12,636	17,354
Change in net position	281	3,451
Net position beginning of year	26,342	22,891
Net position end of year	\$ 26,623	26,342



Palo Alto County's net position of governmental activities increased approximately \$281,000 during the year. Revenues for governmental activities decreased approximately \$7,888,000 to approximately \$12,917,000, with capital grants, contributions and restricted interest down approximately \$5,429,000, or 91.1%, from the prior year. Additionally, charges for service decreased approximately \$2,669,000, or 57.8%, from the prior year, primarily due to a decrease in drainage assessments after a sharp increase in assessments in the prior year.

The County decreased overall property tax rates for fiscal year 2014 by 3.6%. However, the total taxable valuation increased approximately \$40 million, or 6.3%. Property tax revenue is budgeted to remain stable next year.

The cost of all governmental activities this year was approximately \$12.6 million compared to approximately \$17.4 million last year. However, as shown in the Statement of Activities on page 21, the amount taxpayers ultimately financed for these activities was approximately \$7 million because some of the cost was paid by those directly benefited from the programs (approximately \$1,952,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$3,659,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased from approximately \$13,558,000 in fiscal year 2013 to approximately \$5,611,000 in fiscal year 2014, principally due to receiving more grant proceeds for construction improvements to county roads in the prior year. The County paid for the remaining "public benefit" portion of governmental activities with taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

#### **INDIVIDUAL MAJOR FUND ANALYSIS**

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$19.5 million, a decrease of approximately \$1.1 million from last year's total of approximately \$20.6 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance decreased approximately \$31,000 from the prior year to approximately \$1,781,000. General Fund revenues increased approximately \$157,000 and expenditures increased approximately \$173,000. The increase in revenues was primarily due to an increase of approximately \$114,000 in property and other county tax in fiscal year 2014. The increase in expenditures was primarily due to increases in public safety and legal services and county environment and education function expenditures.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$442,000, a decrease of 11.3% from the prior year, and revenues decreased approximately \$252,000. The Special Revenue, Mental Health Fund balance increased approximately \$77,000 to approximately \$835,000 at year end. Expenditures and revenues decreased primarily in response to the statewide mental health redesign, which shifts Medicaid revenues and expenditures to the regional level and away from the county level.
- Special Revenue, Rural Services Fund expenditures decreased approximately \$130,000 from the prior year. Revenues increased approximately \$61,000, primarily due to an increase in property and other county tax. The Rural Services Fund balance increased approximately \$55,000 to approximately \$518,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$64,000.

- Special Revenue, Secondary Roads Fund expenditures increased approximately \$284,000 over the prior year. Revenues increased approximately \$104,000. Transfers from the Special Revenue, Rural Services Fund increased approximately \$64,000. The Secondary Roads Fund ending fund balance increased approximately \$206,000, or 3.7%.
- Special Revenue, Drainage Districts Fund revenues decreased approximately \$1,558,000 due to a decrease in drainage assessments from the prior year. Expenditures decreased approximately \$3,875,000, due primarily to flood repair and costs for drainage projects in the prior year. Drainage warrants issued decreased approximately \$2,558,000. The Drainage Districts Fund end of year fund balance decreased approximately \$82,000 from the prior year.
- The Special Revenue, Tax Increment Financing Fund expended approximately \$297,000 for revenue bond principal and interest, including an additional \$116,000 to pay the revenue bond principal balance in full. The balance in the fund at June 30, 2014 was approximately \$30,000, which will be used to pay the principal and interest on general obligation urban renewal bonds issued in April 2013.
- Debt Service Fund revenues increased approximately \$49,000 over the prior year. The balance in the fund at June 30, 2014 was \$6,845,813, or approximately \$22,000 over the prior year ending fund balance. The significant ending fund balance is due to approximately \$6.745 million being held in escrow for the purpose of paying future principal and interest costs due on the refunded portion of the general obligation bonds issued in 2008. The funds will be in escrow until June 1, 2015. The current year debt service payment for various general obligation bonds was approximately \$964,000.
- Capital Projects Fund revenues increased approximately \$20,000 due to an increase in interest earned on the investment of prior year general obligation bond proceeds. Expenditures decreased approximately \$761,000 due to a decrease in road construction activity from the prior fiscal year. All expenditures for the projects are charged to this fund, except for the principal and interest payments which are paid from the Debt Service Fund. The end of the year fund balance decreased approximately \$1,359,000 as a result of spending bond proceeds received in the prior year for highway improvements.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Palo Alto County amended its budget three times. The amendments were made on July 16, 2013, January 21, 2014 and May 20, 2014 and resulted in an increase in budgeted disbursements of \$4,749,103. The majority of this increase was due to the anticipation of receiving and spending additional general obligation urban renewal bond proceeds. A good faith deposit of \$50,000 was received in June 2014 and the remaining proceeds were received in July 2014.

The County's receipts were \$86,919 less than budgeted, a variance of less than 1%.

Total disbursements were \$5,939,626 less than the amended budget. Actual disbursements for the capital projects, roads and transportation and county environment and education functions were \$4,113,278, \$726,627 and \$357,241, respectively, less than budgeted. The variance affecting the capital projects function was due to only spending \$1,531,749 of the \$5,645,027 amended budgeted for road projects from the Capital Projects Fund. This was the result of budgeting project costs which did not occur until fiscal year 2015. The remaining variances are a result of budgeted disbursements not being expended by June 30, 2014.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, Palo Alto County had approximately \$26.6 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges and intangible assets. This is a net increase (including additions and deletions) of approximately \$1 million, or 4%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2014	2013
Land	\$ 1,007	934
Buildings and improvements	784	788
Equipment and vehicles	3,072	2,889
Intangibles	374	400
Infrastructure	21,332	20,533
Total	\$ 26,569	25,544
This year's major additions included (in thousands):		
Infrastructure, including road network	\$	1,785
Trucks		223
Land		73
Vehicles and other equipment		207
Recreational trails		78
Total	\$	2,366

The County had depreciation/amortization expense of approximately \$1,491,000 in fiscal year 2014 and total accumulated depreciation/amortization of approximately \$10.3 million at June 30, 2014. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

### Long-Term Debt

At June 30, 2014, Palo Alto County had approximately \$23.2 million of outstanding long-term debt, which included \$18,925,000 of general obligation bonds and approximately \$4,292,000 of drainage warrants. The general obligation bonds include \$6,650,000 which will be retired on June 1, 2015 from refunding proceeds received in fiscal year 2013.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2014	2013
Urban renewal TIF bonds	\$ -	289
General obligation bonds	18,925	19,390
Drainage warrants	4,292	4,508
Total	\$ 23,217	24,187

Debt decreased as a result of repaying \$515,000 of general obligation bonds and paying \$289,000 to retire the urban renewal TIF bonds. The decrease in debt was offset by the receipt of a good faith deposit of \$50,000 in anticipation of closing on the entire \$5,000,000 general obligation urban renewal bond issuance in July 2014. In addition, drainage warrants decreased slightly from the prior year.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Palo Alto County's outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of approximately \$50.8 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

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

Palo Alto County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees for various County activities. One of those factors is the economy. Palo Alto County's employment (number of persons working) during June 2014 was 5,030, which is down slightly from 5,050 last June. Unemployment in the County during June 2014 was 3.5% compared to 3.6% during June 2013. This compares with the State's unemployment rate of 4.4% and the national rate of 6.1% during June 2014.

The national Consumer Price Index (CPI) rose 2.1% from June 2013 to June 2014, primarily driven by the energy index which rose 3.2%. This is higher than the 1.5% average during calendar year 2013 reported last year.

The above factors were all part of the considerations for the fiscal year 2015 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2015 Dollars Certified	2014 Dollars Certified	Percentage Change
General Fund	\$ 3,316,673	3,096,299	7.12%
Mental Health Fund	94,210	445,330	-78.84%
Rural Services Fund	1,831,909	1,761,610	3.99%
Debt Service Fund	1,026,430	965,544	6.31%
Total	\$ 6,269,222	6,268,783	0.01%

Continued state revenue cutbacks the past few years are driving the increases in property tax. No new services were added to the fiscal year 2015 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2015 are as follows:

	2015	2014	Percentage Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.54344	1.52000	1.54%
Mental health levy	0.14326	0.72201	-80.16%
Rural services basic levy	3.95000	3.95000	0.00%
Debt service levy	1.51000	1.51000	0.00%
Total	\$ 10.64670	11.20201	-4.96%

These factors were taken into account when adopting the budget for fiscal year 2015. Amounts appropriated in the operating budget are \$14,056,223, a decrease of \$4,428,643, or 24%, from the final fiscal year 2014 budget. The majority of the disbursements budgeted are for roads and transportation as road improvements continue during fiscal year 2015. The Code of Iowa limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy increased from \$1.52000 per \$1,000 of taxable valuation in fiscal year 2014 to \$1.54344 per \$1,000 of taxable valuation in fiscal year 2015. Palo Alto County decreased the mental health levy from \$.72201 per \$1,000 of taxable valuation to \$.14326 per \$1,000 of taxable valuation. Additionally, the debt service levy rate and the rural services basic levy rate for fiscal year 2015 remained the same at \$1.51 per \$1,000 of taxable valuation and \$3.95 per \$1,000 of taxable valuation, respectively.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

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

**Palo Alto County**

## **Basic Financial Statements**

Palo Alto County  
Statement of Net Position  
June 30, 2014

	Governmental Activities
<b>Assets</b>	
Cash, cash equivalents and pooled investments	\$ 12,198,100
U.S. Treasury securities on deposit with escrow agent	6,745,318
Receivables:	
Property tax:	
Delinquent	7,842
Succeeding year	6,243,000
Interest and penalty on property tax	29,302
Accounts	121,943
Accrued interest	3,045
Drainage assessments	4,372,709
Due from other governments	346,984
Inventories	1,265,762
Prepaid insurance	141,049
Capital assets, net of accumulated depreciation/amortization	26,568,864
<b>Total assets</b>	<b>58,043,918</b>
<b>Liabilities</b>	
Accounts payable	743,309
Accrued interest payable	296,122
Salaries and benefits payable	88,130
Due to other governments	21,498
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	7,225,000
Drainage warrants	3,768,683
Compensated absences	175,038
Portion due or payable after one year:	
General obligation bonds	11,700,000
Drainage warrants	523,001
Compensated absences	67,927
Net OPEB liability	568,807
<b>Total liabilities</b>	<b>25,177,515</b>
<b>Deferred Inflows of Resources</b>	
Unavailable property tax revenue	6,243,000
<b>Net Position</b>	
Net investment in capital assets	17,236,801
Restricted for:	
Supplemental levy purposes	335,948
Mental health purposes	831,963
Rural services purposes	511,734
Secondary roads purposes	5,704,068
Debt service	197,277
Capital projects	519,097
Other purposes	259,923
Unrestricted	1,026,592
<b>Total net position</b>	<b>\$ 26,623,403</b>

See notes to financial statements.

Palo Alto County  
Statement of Activities  
Year ended June 30, 2014

	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	
<b>Functions/Programs:</b>					
Governmental activities:					
Public safety and legal services	\$ 1,713,151	227,645	17,070	40,000	(1,428,436)
Physical health and social services	334,379	148,992	27,151	-	(158,236)
Mental health	452,662	3,995	69,353	-	(379,314)
County environment and education	1,332,174	305,811	69,760	142,752	(813,851)
Roads and transportation	5,440,341	150,597	2,933,067	319,354	(2,037,323)
Governmental services to residents	421,564	207,380	-	-	(214,184)
Administration	1,149,119	10,878	-	-	(1,138,241)
Non-program	1,123,983	896,522	11,455	28,963	(187,043)
Interest on long-term debt	668,486	-	-	-	(668,486)
<b>Total</b>	<b>\$ 12,635,859</b>	<b>1,951,820</b>	<b>3,127,856</b>	<b>531,069</b>	<b>(7,025,114)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					5,078,422
Debt service					924,113
Tax increment financing					310,002
Penalty and interest on property tax					29,920
State tax credits					274,307
Local option sales tax					433,932
Gaming tax					154,545
Unrestricted investment earnings					41,892
Miscellaneous					59,590
<b>Total general revenues</b>					<b>7,306,723</b>
Change in net position					281,609
Net position beginning of year					26,341,794
Net position end of year					<b>\$ 26,623,403</b>

See notes to financial statements.

Palo Alto County  
Balance Sheet  
Governmental Funds

June 30, 2014

	General	Mental Health	Rural Services	Special Secondary Roads
<b>Assets</b>				
Cash, pooled investments and cash equivalents	\$ 1,801,762	835,085	432,662	4,375,713
U.S. Treasury securities on deposit with escrow agent	-	-	-	-
Receivables:				
Property tax:				
Delinquent	5,038	143	1,151	-
Succeeding year	3,126,000	89,000	1,729,000	-
Interest and penalty on property tax	29,302	-	-	-
Accounts	14,454	-	25,470	82,019
Accrued interest	1,567	-	-	1,478
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	12,697
Due from other governments	27,808	-	100,208	218,186
Inventories	-	-	-	1,265,762
Prepaid insurance	26,015	-	721	19,238
<b>Total assets</b>	<b>\$ 5,031,946</b>	<b>924,228</b>	<b>2,289,212</b>	<b>5,975,093</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 59,582	20	24,439	37,528
Salaries and benefits payable	-	-	11,885	76,245
Due to other funds	10,624	-	2,073	-
Due to other governments	18,060	-	2,861	577
<b>Total liabilities</b>	<b>88,266</b>	<b>20</b>	<b>41,258</b>	<b>114,350</b>
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,126,000	89,000	1,729,000	-
Other	37,159	139	1,114	70,621
<b>Total deferred inflows of resources</b>	<b>3,163,159</b>	<b>89,139</b>	<b>1,730,114</b>	<b>70,621</b>
Fund balances:				
Nonspendable:				
Inventories	-	-	-	1,265,762
Prepaid insurance	26,015	-	721	19,238
Restricted for:				
Supplemental levy purposes	345,206	-	-	-
Mental health purposes	-	835,069	-	-
Rural services purposes	-	-	517,119	-
Secondary roads purposes	-	-	-	4,505,122
Drainage purposes	-	-	-	-
Conservation land acquisition/capital improvements	149,210	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	7,129	-	-	-
Assigned:				
Record/book preservation and restoration	10,000	-	-	-
Courthouse repair	100,000	-	-	-
County owned building repair	25,000	-	-	-
Unassigned	1,117,961	-	-	-
<b>Total fund balances</b>	<b>1,780,521</b>	<b>835,069</b>	<b>517,840</b>	<b>5,790,122</b>
<b>Total liabilities, deferred inflows of resources     and fund balances</b>	<b>\$ 5,031,946</b>	<b>924,228</b>	<b>2,289,212</b>	<b>5,975,093</b>

See notes to financial statements.



Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
386,574	30,441	100,448	3,767,430	72,441	11,802,556
-	-	6,745,318	-	-	6,745,318
-	-	1,510	-	-	7,842
-	329,000	970,000	-	-	6,243,000
-	-	-	-	-	29,302
-	-	-	-	-	121,943
-	-	-	-	-	3,045
4,372,709	-	-	-	-	4,372,709
-	-	-	-	-	12,697
-	-	-	-	782	346,984
-	-	-	-	-	1,265,762
-	-	-	-	-	45,974
4,759,283	359,441	7,817,276	3,767,430	73,223	30,997,132
249,644	-	-	263,016	80	634,309
-	-	-	-	-	88,130
-	-	-	-	-	12,697
-	-	-	-	-	21,498
249,644	-	-	263,016	80	756,634
-	329,000	970,000	-	-	6,243,000
4,372,709	-	1,463	-	-	4,483,205
4,372,709	329,000	971,463	-	-	10,726,205
-	-	-	-	-	1,265,762
-	-	-	-	-	45,974
-	-	-	-	-	345,206
-	-	-	-	-	835,069
-	-	-	-	-	517,119
-	-	-	-	-	4,505,122
136,930	-	-	-	-	136,930
-	-	-	-	-	149,210
-	-	6,845,813	-	-	6,845,813
-	-	-	3,504,414	-	3,504,414
-	30,441	-	-	73,143	110,713
-	-	-	-	-	10,000
-	-	-	-	-	100,000
-	-	-	-	-	25,000
-	-	-	-	-	1,117,961
136,930	30,441	6,845,813	3,504,414	73,143	19,514,293
4,759,283	359,441	7,817,276	3,767,430	73,223	30,997,132

**Palo Alto County**

Palo Alto County

Reconciliation of the Balance Sheet –  
Governmental Funds to the Statement of Net Position

June 30, 2014

<b>Total governmental fund balances (page 23)</b>	\$ 19,514,293
<b><i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i></b>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$36,847,194 and the accumulated depreciation/amortization is \$10,278,330.	26,568,864
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.	4,483,205
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.	381,619
Long-term liabilities, including general obligation bonds payable, drainage warrants payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(24,324,578)</u>
<b>Net position of governmental activities (page 20)</b>	<u><u>\$ 26,623,403</u></u>

See notes to financial statements.

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

Year ended June 30, 2014

	Special			
	General	Mental Health	Rural Services	Secondary Roads
<b>Revenues:</b>				
Property and other county tax	\$ 3,105,090	425,121	1,691,593	-
Local option sales tax	-	-	433,932	-
Interest and penalty on property tax	25,497	-	-	-
Intergovernmental	391,029	89,744	120,356	2,966,659
Licenses and permits	4,926	-	-	9,775
Charges for service	370,584	-	240,215	62,146
Use of money and property	36,282	-	-	23,772
Miscellaneous	184,941	3,995	6,142	46,731
Total revenues	4,118,349	518,860	2,492,238	3,109,083
<b>Expenditures:</b>				
Operating:				
Public safety and legal services	1,553,328	-	137,342	-
Physical health and social services	345,250	-	-	-
Mental health	-	441,820	-	-
County environment and education	669,671	-	664,755	-
Roads and transportation	-	-	237,792	4,113,436
Governmental services to residents	422,021	-	-	-
Administration	1,071,621	-	55,875	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	87,274	-	5,597	125,540
Total expenditures	4,149,165	441,820	1,101,361	4,238,976
Excess (deficiency) of revenues over (under) expenditures	(30,816)	77,040	1,390,877	(1,129,893)
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	1,335,733
Transfers out	-	-	(1,335,733)	-
Good faith deposit	-	-	-	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	-	-	(1,335,733)	1,335,733
Change in fund balances	(30,816)	77,040	55,144	205,840
Fund balances beginning of year	1,811,337	758,029	462,696	5,584,282
Fund balances end of year	\$ 1,780,521	835,069	517,840	5,790,122

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	310,002	923,886	-	-	6,455,692
-	-	-	-	-	433,932
-	-	-	-	-	25,497
277,769	-	43,035	-	23,723	3,912,315
-	-	-	-	-	14,701
-	-	-	-	2,173	675,118
-	-	19,640	26,206	59	105,959
850,385	-	-	-	106,597	1,198,791
1,128,154	310,002	986,561	26,206	132,552	12,822,005
-	-	-	-	25,026	1,715,696
-	-	-	-	-	345,250
-	-	-	-	-	441,820
-	-	-	-	5,586	1,340,012
-	-	-	-	-	4,351,228
-	-	-	-	2,000	424,021
-	-	-	-	-	1,127,496
924,130	-	-	-	-	924,130
1,507,818	296,508	964,472	-	-	2,768,798
-	-	-	1,434,890	98,566	1,751,867
2,431,948	296,508	964,472	1,434,890	131,178	15,190,318
(1,303,794)	13,494	22,089	(1,408,684)	1,374	(2,368,313)
-	-	-	-	-	1,335,733
-	-	-	-	-	(1,335,733)
-	-	-	50,000	-	50,000
1,221,696	-	-	-	-	1,221,696
1,221,696	-	-	50,000	-	1,271,696
(82,098)	13,494	22,089	(1,358,684)	1,374	(1,096,617)
219,028	16,947	6,823,724	4,863,098	71,769	20,610,910
136,930	30,441	6,845,813	3,504,414	73,143	19,514,293

Palo Alto County

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances –  
Governmental Funds to the Statement  
of Activities

Year ended June 30, 2014

**Change in fund balances - Total governmental funds (page 27)** \$ (1,096,617)

**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	\$ 2,247,972	
Capital assets contributed by the Iowa Department of Transportation	268,430	
Depreciation/amortization expense	<u>(1,491,066)</u>	1,025,336

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	7,322	
Other	<u>(349,457)</u>	(342,135)

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

Issued	(1,271,696)	
Repaid	<u>2,241,861</u>	970,165

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	(18,766)	
Other postemployment benefits	(44,708)	
Interest on long-term debt	<u>(141,549)</u>	(205,023)

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.

(70,117)

**Change in net position of governmental activities (page 21)** \$ 281,609

See notes to financial statements.

Palo Alto County  
Statement of Net Position  
Proprietary Fund

June 30, 2014

	<u>Internal Service - Employee Group Health</u>
<b>Current Assets</b>	
Cash and cash equivalents	\$ 395,544
Prepaid insurance	<u>95,075</u>
<b>Total current assets</b>	490,619
<b>Current Liabilities</b>	
Accounts payable	<u>109,000</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$ 381,619</u></u>

See notes to financial statements.

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

Year ended June 30, 2014

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,043,357
Reimbursements from employees		<u>28,613</u>
Total operating revenues		1,071,970
Operating expenses:		
Medical claims	\$ 112,000	
Insurance premiums	1,011,528	
Administrative fees	<u>18,559</u>	<u>1,142,087</u>
Operating loss		(70,117)
Net position beginning of year		<u>451,736</u>
Net position end of year		<u><u>\$ 381,619</u></u>

See notes to financial statements.



Palo Alto County  
Statement of Cash Flows  
Proprietary Fund  
Year ended June 30, 2014

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,043,357
Cash received from employees	28,613
Cash paid to suppliers for services	(1,140,254)
Net cash used by operating activities	<u>(68,284)</u>
Cash and cash equivalents beginning of year	463,828
Cash and cash equivalents end of year	<u><u>\$ 395,544</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (70,117)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Increase in prepaid insurance	(11,167)
Increase in accounts payable	13,000
Net cash used by operating activities	<u><u>\$ (68,284)</u></u>

See notes to financial statements.

Palo Alto County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2014

**Assets**

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 933,689
Other County officials	25,610

Receivables:

Property tax:

Delinquent	22,747
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Succeeding year	11,619,000
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Accounts	11,485
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Accrued interest	34
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Drainage assessments	62,763
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Special assessments	268,563
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Due from other governments	22,024
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<b>Total assets</b>	<u>12,965,915</u>
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**Liabilities**

Accounts payable	12,216
------------------	--------

Due to other governments	12,903,301
--------------------------	------------

Trusts payable	38,612
----------------	--------

Compensated absences	11,786
----------------------	--------

<b>Total liabilities</b>	<u>12,965,915</u>
--------------------------	-------------------

**Net position**

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

Palo Alto County

Notes to Financial Statements

June 30, 2014

**(1) Summary of Significant Accounting Policies**

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

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

The Statement of Net Position presents the County’s nonfiduciary assets, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following 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.

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

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues 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 General Fund and the Special Revenue, Rural Services Fund and other revenues to be used for secondary road construction and maintenance.

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 is charges to customers for sales and services. Operating expenses for the Internal Service Fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2013.

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

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2014, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

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

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

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



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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Rural Services and Secondary Roads Funds.

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

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

Deferred Inflows of Resources – 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 consist of property tax receivable and other receivables not collected with sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables that will not be recognized until the year for which it is levied.

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.

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.

**(2) Cash, Cash Equivalents and Pooled Investments**

The County's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40. At June 30, 2014, an escrow agent held U.S. Treasury notes for the County with a carrying amount and fair value of \$6,745,318 which mature from December 1, 2014 through June 1, 2016.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue:		
Secondary Roads	General	\$ 10,624
	Special Revenue:	
	Rural Services	2,073
Total		<u>\$ 12,697</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 1,335,733</u>

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

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2014 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated/amortized:				
Land	\$ 933,912	73,487	-	1,007,399
Intangibles	210,113	-	-	210,113
Construction in progress	135,923	1,785,461	-	1,921,384
Total capital assets not being depreciated/amortized	<u>1,279,948</u>	<u>1,858,948</u>	<u>-</u>	<u>3,138,896</u>
Capital assets being depreciated/amortized:				
Buildings	1,534,313	27,433	-	1,561,746
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	7,192,564	552,266	-	7,744,830
Intangibles	261,843	-	-	261,843
Infrastructure, road network	23,423,089	-	-	23,423,089
Infrastructure, other	545,636	77,755	-	623,391
Total capital assets being depreciated/amortized	<u>33,050,844</u>	<u>657,454</u>	<u>-</u>	<u>33,708,298</u>
Less accumulated depreciation/amortization for:				
Buildings	795,392	28,444	-	823,836
Improvements other than buildings	44,131	3,504	-	47,635
Equipment and vehicles	4,303,971	368,629	-	4,672,600
Intangibles	71,557	26,184	-	97,741
Infrastructure, road network	3,518,042	1,037,002	-	4,555,044
Infrastructure, other	54,171	27,303	-	81,474
Total accumulated depreciation/amortization	<u>8,787,264</u>	<u>1,491,066</u>	<u>-</u>	<u>10,278,330</u>
Total capital assets being depreciated/amortized, net	<u>24,263,580</u>	<u>(833,612)</u>	<u>-</u>	<u>23,429,968</u>
Governmental activities capital assets, net	<u>\$ 25,543,528</u>	<u>1,025,336</u>	<u>-</u>	<u>26,568,864</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 27,172
County environment and education	52,742
Roads and transportation	1,382,268
Administration	<u>28,884</u>
Total depreciation/amortization expense - governmental activities	<u>\$ 1,491,066</u>

**(6) Due to Other Governments**

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2014 is as follows:

Fund	Description	Amount
General	Services	\$ 18,060
Special Revenue:		
Rural Services	Services	2,861
Secondary Roads	Services	577
		<u>3,438</u>
Total for governmental funds		<u>\$ 21,498</u>
Agency:		
County Offices	Collections	\$ 3,921
Agricultural Extension Education		128,614
County Assessor		395,841
Schools		6,976,865
Community Colleges		415,926
Corporations		2,561,073
Townships		164,003
City Special Assessments		270,036
Auto License and Use Tax		215,305
All other		1,771,717
Total for agency funds		<u>\$ 12,903,301</u>

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Urban Renewal Tax Increment Revenue Bonds	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 289,000	19,390,000	4,507,849	224,199	524,099	24,935,147
Increases	-	50,000	1,221,696	241,366	54,545	1,567,607
Decreases	(289,000)	(515,000)	(1,437,861)	(222,600)	(9,837)	(2,474,298)
Balance end of year	<u>\$ -</u>	<u>18,925,000</u>	<u>4,291,684</u>	<u>242,965</u>	<u>568,807</u>	<u>24,028,456</u>
Due within one year	<u>\$ -</u>	<u>7,225,000</u>	<u>3,768,683</u>	<u>175,038</u>	<u>-</u>	<u>11,168,721</u>

Urban Renewal Tax Increment Revenue Bonds

On November 23, 2004, the County issued \$2,250,000 of urban renewal tax increment revenue bonds. The bonds were issued to defray a portion of the costs of carrying out an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area. During the year ended June 30, 2014, the County made a final principal payment of \$289,000, including \$116,000 of principal in excess of the scheduled redemption, and \$7,508 of interest.

General Obligation Bonds

A summary of the County's June 30, 2014 general obligation bond indebtedness is as follows:

Series 2007B				
Issued December 31, 2007				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2015	4.25%	\$ 5,000,000	212,500	5,212,500

Series 2008				
Issued May 1, 2008				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2015	3.45%	\$ 2,225,000	81,040	2,306,040

Refunding Series 2012				
Issued December 20, 2012				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2015	1.05%	\$ -	69,838	69,838
2016	0.55	800,000	69,838	869,838
2017	0.65	800,000	65,438	865,438
2018	0.80	825,000	60,238	885,238
2019	0.95	850,000	53,638	903,638
2020-2023	1.15-1.60	3,375,000	111,634	3,486,634
Total		\$ 6,650,000	430,624	7,080,624

Urban Renewal Series 2013							
Issued April 23, 2013							
Year Ending June 30,	Interest Rates	Principal	Interest	Total	Total		
					Principal	Interest	Total
2015	1.25%	\$ -	62,500	62,500	7,225,000	425,878	7,650,878
2016	1.25	-	62,500	62,500	800,000	132,338	932,338
2017	0.60	625,000	62,500	687,500	1,425,000	127,938	1,552,938
2018	0.75	625,000	58,750	683,750	1,450,000	118,988	1,568,988
2019	1.00	625,000	54,063	679,063	1,475,000	107,701	1,582,701
2020-2024	1.10-2.00	3,125,000	157,500	3,282,500	6,500,000	269,134	6,769,134
Total		\$ 5,000,000	457,813	5,457,813	18,875,000	1,181,977	20,056,977

During the year ended June 30, 2008, the County issued \$10,000,000 of general obligation bonds. The proceeds of the bonds were used to construct improvements to County roads in order to assist in economic development, which creates jobs and wealth.

On December 20, 2012, the County issued \$6,650,000 of general obligation refunding bonds for a crossover advance refunding of the County's outstanding general obligation bonds, series 2007B, dated December 31, 2007 and the general obligation bonds, series 2008, dated May 1, 2008. The bonds bear interest at 0.55% to 1.60% per annum and mature June 1, 2023. The crossover refunding date is June 1, 2015.

For the crossover advance refunding, the County entered into an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. government securities. These securities, along with additional cash, were placed with an escrow agent to pay the principal and interest on the refunding general obligation bonds (new debt) until the crossover refunding date. On the crossover refunding date of June 1, 2015, the refunded general obligation bonds (old debt) will be paid using the amounts held by the escrow agent. From that point forward, the debt service levy revenue will be used to pay the refunding general obligation bonds (new debt). The transactions and balances of the escrow account are recorded by the County since the refunded debt is not considered extinguished.

On April 23, 2013, the County issued \$5,000,000 of general obligation urban renewal bonds. The bonds were issued for the purpose of paying the costs, of undertaking an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area, consisting of the construction of highway improvements to assist in economic development. The interest rates on these bonds range from .60% to 2.00% per annum.

Subsequent to June 30, 2014, the County issued \$5,000,000 of general obligation urban renewal bonds. The County received a good faith deposit of \$50,000 for the issuance prior to June 30, 2014.

#### Drainage Warrants

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

Drainage warrants are paid from the Special Revenue, Drainage Districts Fund solely from drainage assessments against benefited properties.

### **(8) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the County is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$324,406, \$312,460 and \$289,857, respectively, equal to the required contributions for each year.

**(9) 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 77 active and 4 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County’s annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the County’s net OPEB obligation:

Annual required contribution	\$ 80,974
Interest on net OPEB obligation	13,102
Adjustment to annual required contribution	(39,531)
Annual OPEB cost	54,545
Contributions made	(9,837)
Increase in net OPEB obligation	44,708
Net OPEB obligation beginning of year	524,099
Net OPEB obligation end of year	\$ 568,807

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, 2014.

For the year ended June 30, 2014, the County contributed \$9,837 to the plan.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$181,869	2.8%	\$478,029
2013	53,896	14.5	524,099
2014	54,545	18.0	568,807

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$452,017 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$452,017. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,048,621 and the ratio of the UAAL to covered payroll was 14.8%. As of June 30, 2014, 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 for the Retiree Health Plan, 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, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the County's funding policy. The projected annual and ultimate medical trend rate is 6%.

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

Projected claim costs of the medical plan are \$4,328 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group over 30 years.

## **(10) Risk Management**

The 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 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.



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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2014 were \$137,922.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured 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 \$150,000 each occurrence, each location. Property risks exceeding \$150,000 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 member's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhaust 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 such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the County's financial statements. As of June 30, 2014, 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 \$1,000,000 and \$10,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Employee Health Insurance Plan**

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

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures by the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark, Blue Cross and Blue Shield from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2014 was \$1,043,357.

Amounts payable from the Employee Group Health Fund at June 30, 2014 total \$109,000, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$381,619 at June 30, 2014 and is reported as a designation of the Internal Service, Employee Group Health Fund net position. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$	96,000
Incurred claims (including claims incurred but not reported at June 30, 2013)		112,000
Payment on claims during the fiscal year		<u>(99,000)</u>
Unpaid claims end of year	\$	<u>109,000</u>

**(12) Transfer Station Closure Care**

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

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

The total closure care costs for the County as of June 30, 2014 have been estimated at \$6,816. A balance of \$7,000 has been deposited in the Special Revenue, Closure/Postclosure Fund. The balance is restricted and the estimated closure care costs are fully funded at June 30, 2014.

**(13) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the County's proportionate share of the employee pension plan.

**Palo Alto County**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2014

	Actual	Less Funds not Required to be Budgeted	Net
<b>Receipts:</b>			
Property and other county tax	\$ 6,868,789	-	6,868,789
Interest and penalty on property tax	25,371	-	25,371
Intergovernmental	4,578,367	928,778	3,649,589
Licenses and permits	13,954	-	13,954
Charges for service	665,872	-	665,872
Use of money and property	114,584	-	114,584
Miscellaneous	1,206,895	850,384	356,511
<b>Total receipts</b>	<b>13,473,832</b>	<b>1,779,162</b>	<b>11,694,670</b>
<b>Disbursements:</b>			
Public safety and legal services	1,726,682	-	1,726,682
Physical health and social services	351,726	-	351,726
Mental health	480,711	-	480,711
County environment and education	1,299,557	-	1,299,557
Roads and transportation	4,338,543	-	4,338,543
Governmental services to residents	422,477	-	422,477
Administration	1,132,815	-	1,132,815
Non-program	1,339,366	1,339,366	-
Debt service	2,768,798	1,507,818	1,260,980
Capital projects	1,531,749	-	1,531,749
<b>Total disbursements</b>	<b>15,392,424</b>	<b>2,847,184</b>	<b>12,545,240</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(1,918,592)</b>	<b>(1,068,022)</b>	<b>(850,570)</b>
<b>Other financing sources, net</b>	<b>1,271,696</b>	<b>1,221,696</b>	<b>50,000</b>
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses</b>	<b>(646,896)</b>	<b>153,674</b>	<b>(800,570)</b>
<b>Balance beginning of year</b>	<b>19,194,770</b>	<b>232,900</b>	<b>18,961,870</b>
<b>Balance end of year</b>	<b>\$ 18,547,874</b>	<b>386,574</b>	<b>18,161,300</b>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
6,743,893	6,743,893	124,896
7,600	7,600	17,771
3,780,811	3,862,367	(212,778)
14,150	14,150	(196)
636,510	643,510	22,362
50,301	51,135	63,449
427,689	458,934	(102,423)
11,660,954	11,781,589	(86,919)
1,817,065	1,865,967	139,285
411,907	421,907	70,181
706,134	706,134	225,423
1,669,897	1,656,798	357,241
4,932,170	5,065,170	726,627
443,710	455,710	33,233
1,186,563	1,223,763	90,948
-	-	-
1,340,374	1,444,390	183,410
1,227,943	5,645,027	4,113,278
13,735,763	18,484,866	5,939,626
(2,074,809)	(6,703,277)	5,852,707
-	-	50,000
(2,074,809)	(6,703,277)	5,902,707
5,465,217	12,145,157	6,816,713
3,390,408	5,441,880	12,719,420

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Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2014

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 13,473,832	651,827	12,822,005
Expenditures	15,392,424	202,106	15,190,318
Net	(1,918,592)	449,721	(2,368,313)
Other financing sources, net	1,271,696	-	1,271,696
Beginning fund balances	19,194,770	1,416,140	20,610,910
Ending fund balances	\$ 18,547,874	966,419	19,514,293

See accompanying independent auditor's report.



Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2014

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$4,749,103. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted. However, one department exceeded the amount appropriated prior to an appropriation amendment.

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	-	\$ 1,340	1,340	0.0%	\$ 3,088	43.4%
2011	Jul 1, 2009	-	1,315	1,315	0.0%	2,988	44.0
2012	Jul 1, 2009	-	1,241	1,241	0.0%	2,936	42.3
2013	Jul 1, 2012	-	495	495	0.0%	2,719	18.2
2014	Jul 1, 2012	-	452	452	0.0%	3,048	14.8

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

## **Supplementary Information**

Palo Alto County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2014

		Sheriff Investigation	Resource Enhancement and Protection	County Recorder's Records Management
<b>Assets</b>				
Cash, cash equivalents and pooled investments	\$	1,149	38,785	8,249
Due from other governments		-	-	-
<b>Total assets</b>	<b>\$</b>	<b>1,149</b>	<b>38,785</b>	<b>8,249</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$	-	-	-
Fund balances:				
Restricted for other purposes		1,149	38,785	8,249
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b>1,149</b>	<b>38,785</b>	<b>8,249</b>

See accompanying independent auditor's report.

Special Revenue				
Sheriff Reserve	Five Island Trails	Closure / Postclosure	County Attorney Collections	Total
2,371	4,993	7,000	9,894	72,441
-	-	-	782	782
2,371	4,993	7,000	10,676	73,223
80	-	-	-	80
2,291	4,993	7,000	10,676	73,143
2,371	4,993	7,000	10,676	73,223

Palo Alto County

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

Year ended June 30, 2014

	Sheriff Investigation	Resource Enhancement and Protection	County Recorder's Records Management
<b>Revenues:</b>			
Intergovernmental	\$ 1,149	12,835	-
Charges for service	-	-	2,173
Use of money and property	-	48	11
Miscellaneous	-	-	-
Total revenues	<u>1,149</u>	<u>12,883</u>	<u>2,184</u>
<b>Expenditures:</b>			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	5,586	-
Governmental services to residents	-	-	2,000
Capital projects	-	-	-
Total expenditures	<u>-</u>	<u>5,586</u>	<u>2,000</u>
Change in fund balances	1,149	7,297	184
Fund balances beginning of year	-	31,488	8,065
Fund balances end of year	<u>\$ 1,149</u>	<u>38,785</u>	<u>8,249</u>

See accompanying independent auditor's report.

Special Revenue				
Sheriff Reserve	Five Island Trails	Closure / Postclosure	County Attorney Collections	Total
550	-	-	9,189	23,723
-	-	-	-	2,173
-	-	-	-	59
3,295	103,302	-	-	106,597
3,845	103,302	-	9,189	132,552
2,883	-	-	22,143	25,026
-	-	-	-	5,586
-	-	-	-	2,000
-	98,566	-	-	98,566
2,883	98,566	-	22,143	131,178
962	4,736	-	(12,954)	1,374
1,329	257	7,000	23,630	71,769
2,291	4,993	7,000	10,676	73,143

Palo Alto County

Combining Schedule of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2014

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets</b>				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	1,409	176,109	82,963
Other County officials	25,610	-	-	-
Receivables:				
Property tax:				
Delinquent	-	205	388	10,902
Succeeding year	-	127,000	241,000	6,883,000
Accounts	1,277	-	-	-
Accrued interest	-	-	-	-
Drainage assessments	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
<b>Total assets</b>	<b>\$ 26,887</b>	<b>128,614</b>	<b>417,497</b>	<b>6,976,865</b>
<b>Liabilities</b>				
Accounts payable	\$ -	-	10,282	-
Due to other governments	3,921	128,614	395,841	6,976,865
Trusts payable	22,966	-	-	-
Compensated absences	-	-	11,374	-
<b>Total liabilities</b>	<b>\$ 26,887</b>	<b>128,614</b>	<b>417,497</b>	<b>6,976,865</b>

See accompanying independent auditor's report.



Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
7,272	32,567	1,889	1,473	215,305	414,702	933,689
-	-	-	-	-	-	25,610
654	8,506	114	-	-	1,978	22,747
408,000	2,520,000	162,000	-	-	1,278,000	11,619,000
-	-	-	-	-	10,208	11,485
-	-	-	-	-	34	34
-	-	-	-	-	62,763	62,763
-	-	-	268,563	-	-	268,563
-	-	-	-	-	22,024	22,024
415,926	2,561,073	164,003	270,036	215,305	1,789,709	12,965,915
-	-	-	-	-	1,934	12,216
415,926	2,561,073	164,003	270,036	215,305	1,771,717	12,903,301
-	-	-	-	-	15,646	38,612
-	-	-	-	-	412	11,786
415,926	2,561,073	164,003	270,036	215,305	1,789,709	12,965,915

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2014

	Agricultural			
	County Offices	Extension Education	County Assessor	Schools
<b>Assets and Liabilities</b>				
Balances beginning of year	\$ 37,908	120,386	406,325	7,073,784
Additions:				
Property and other county tax	-	127,364	240,989	6,895,023
E911 surcharge	-	-	-	-
State tax credits	-	5,723	11,412	337,372
Drivers license fees	-	-	-	-
Office fees and collections	296,893	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	257,963	-	-	-
Miscellaneous	-	-	72	-
Total additions	554,856	133,087	252,473	7,232,395
Deductions:				
Agency remittances:				
To other funds	135,317	-	-	-
To other governments	169,938	124,859	241,301	7,329,314
Trusts paid out	260,622	-	-	-
Total deductions	565,877	124,859	241,301	7,329,314
Balances end of year	\$ 26,887	128,614	417,497	6,976,865

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
620,743	2,489,211	155,738	238,966	187,812	1,656,130	12,987,003
408,796	2,499,417	162,720	-	-	1,252,647	11,586,956
-	-	-	-	-	80,840	80,840
29,518	141,446	6,887	-	-	58,053	590,411
-	-	-	-	45,940	-	45,940
-	-	-	-	-	-	296,893
-	-	-	-	3,028,579	-	3,028,579
-	-	-	66,256	-	85,048	151,304
-	-	-	-	-	-	257,963
-	-	-	-	-	407,968	408,040
438,314	2,640,863	169,607	66,256	3,074,519	1,884,556	16,446,926
-	-	-	-	123,656	-	258,973
643,131	2,569,001	161,342	35,186	2,923,370	1,750,977	15,948,419
-	-	-	-	-	-	260,622
643,131	2,569,001	161,342	35,186	3,047,026	1,750,977	16,468,014
415,926	2,561,073	164,003	270,036	215,305	1,789,709	12,965,915

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Palo Alto County

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

For the Last Ten Years

	2014	2013	2012
Revenues:			
Property and other county tax	\$ 6,455,692	6,467,510	6,479,439
Local option sales tax	433,932	361,974	363,359
Interest and penalty on property tax	25,497	23,143	32,834
Intergovernmental	3,912,315	5,753,093	4,236,506
Licenses and permits	14,701	14,578	11,544
Charges for service	675,118	747,829	649,422
Use of money and property	105,959	76,332	132,469
Miscellaneous	1,198,791	746,189	1,285,823
Total	\$ 12,822,005	14,190,648	13,191,396
Expenditures:			
Operating:			
Public safety and legal services	\$ 1,715,696	1,677,580	1,615,221
Physical health and social services	345,250	325,218	330,422
Mental health	441,820	498,060	1,287,366
County environment and education	1,340,012	1,367,347	1,441,657
Roads and transportation	4,351,228	3,923,103	3,759,031
Governmental services to residents	424,021	404,747	388,793
Administration	1,127,496	1,156,543	1,139,244
Non-program	924,130	5,730,306	1,132,729
Debt service	2,768,798	1,824,566	2,213,254
Capital projects	1,751,867	2,608,192	3,588,863
Total	\$ 15,190,318	19,515,662	16,896,580

See accompanying independent auditor's report.

Modified Accrual Basis						
2011	2010	2009	2008	2007	2006	2005
6,036,591	5,603,209	5,324,307	4,895,452	4,931,144	4,232,250	4,211,427
328,462	333,579	333,000	293,697	375,326	268,628	280,977
30,237	23,945	21,939	24,668	25,995	25,929	25,423
4,151,228	4,254,845	4,114,678	3,801,314	3,804,731	3,885,266	3,781,399
7,411	10,067	9,013	23,505	9,782	11,150	6,621
616,306	554,575	545,346	487,402	477,541	450,315	380,075
202,748	294,229	466,243	485,647	391,148	241,490	148,718
761,672	406,075	246,814	472,628	210,377	852,455	154,374
12,134,655	11,480,524	11,061,340	10,484,313	10,226,044	9,967,483	8,989,014
1,582,458	1,611,100	1,514,188	1,440,928	1,307,407	1,223,356	1,181,247
298,385	308,296	303,222	305,488	346,957	377,459	242,172
1,187,643	1,130,674	1,349,910	1,470,535	1,379,738	1,217,605	1,265,563
1,531,174	1,331,955	1,183,855	1,173,111	956,832	983,662	2,861,490
3,834,536	4,008,318	3,295,372	3,072,587	3,091,246	2,898,948	3,402,536
362,160	363,348	354,520	465,185	329,024	462,226	384,667
1,102,432	1,171,615	1,059,081	951,245	1,078,010	1,012,503	1,045,164
1,004,990	740,436	338,381	379,250	73,170	100,355	318,393
1,676,728	1,543,430	1,171,045	425,316	338,077	832,476	163,711
3,710,629	1,574,053	447,110	272,549	735,751	221,044	471,050
16,291,135	13,783,225	11,016,684	9,956,194	9,636,212	9,329,634	11,335,993

**Palo Alto County**



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

Mary Mosiman, CPA  
Auditor of State

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

To the Officials of Palo Alto County:

We have audited 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 Palo Alto County, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palo Alto 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 Palo Alto County's internal control. Accordingly, we do not express an opinion on the effectiveness of Palo Alto 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 were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control 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 described in the accompanying Schedule of Findings items (A) and (B) to be material weaknesses.

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

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


## Palo Alto County's Responses to the Findings


Palo Alto County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Palo Alto 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.

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

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 8, 2015



Palo Alto County  
 Schedule of Findings  
 Year ended June 30, 2014

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

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

	<u>Applicable Offices</u>
(1) Receipts – collecting, depositing, posting and daily reconciling.	County Sheriff and County Recorder
(2) Bank reconciliations are not prepared by someone who doesn't sign checks, handle or record cash.	County Sheriff and County Recorder
(3) Bank reconciliations are not reviewed periodically by an independent person for propriety.	County Recorder
(4) The person who signs checks is not independent of the individual who records cash receipts and prepares checks.	County Recorder
(5) All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.	County Sheriff
(6) Voided receipts should be reviewed by an independent person.	County Recorder

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. Current personnel, including elected officials and personnel from other County Offices, should be used to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible and should be documented by the signature or initials of the reviewer and the date of the review.

Palo Alto County

Schedule of Findings

Year ended June 30, 2014

Responses –

County Recorder – Due to our office size, it is difficult to segregate duties dealing with receipts, check writing and reconciliation. We take turns reconciling the bank statement so it is usually not the same person two months in a row. The clerk cannot write checks. We will continue to try to have someone in the County Auditor's Office review the bank reconciliation, but that doesn't happen every month due to staffing shortages. We do have someone from the County Auditor's office randomly review the past month's cash mailing listing and compare it to our deposit listings for that day. In the future we will have a person review our voided receipts.

At the end of each day, we balance the cash register to the computer, the DNR website activity and now the new IVES (Vitals) reports issued by the State to ensure everything is accounted for. At the end of the month, everything is balanced out and verified with checks written to the appropriate entities.

Given our small office staff, we feel we have a pretty good check and balance system between the daily balancing, Recreational Vehicle and Vessel Registration System (RVVRS), spreadsheets, cashiering program and cash register comparisons. We will continue to try to find and use better procedures for checks and balances when we can.

County Sheriff – The Office Manager at the Sheriff's Office wears many hats and performs nearly all office functions. These functions are typically divided up between more than one employee, but due to personnel limitations that is not possible here.

I do review financial records and have begun to sign checks issued at the month end. I will begin to indicate the date this is done.

Conclusions – Responses acknowledged. Current personnel, including elected officials and personnel from other offices, should be utilized to provide additional control through review of financial transactions, reconciliations and reports.

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

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

Response – Procedures have been implemented to ensure all receivables, payables and capital asset additions are properly recorded.

Conclusion – Response accepted.

- (C) County Sheriff – The June 30, 2014 book balance did not reconcile to the June 30, 2014 bank balance by \$1,465. In addition, bank reconciliations are not always prepared on a timely basis. Also, fee receipts are not always deposited timely.

Recommendation – The book balance should be reconciled to the bank balance at the end of each month and variances should be investigated and resolved in a timely manner. In addition, bank reconciliations should be performed timely. Also, all collections should be deposited timely.

Palo Alto County  
Schedule of Findings  
Year ended June 30, 2014

Response – Each of the three accounts will be balanced separately. The fees account should balance out each month. The commissary account and garnishment account will also be balanced separately to better see the end result.

Conclusion – Response accepted.

- (D) County Attorney's Petty Cash – A petty cash fund is maintained by the County Attorney for the purchase of postage and other miscellaneous items. However, the petty cash fund is not maintained on an imprest basis and is not reconciled on a regular basis.

Recommendation – The petty cash fund should be maintained on an imprest basis, having a set, established amount to ensure proper accountability, and should be reconciled on a regular basis.

Response – The petty cash fund will be maintained on an imprest basis, having a set, established amount to ensure proper accountability, and will be reconciled on a regular basis.

Conclusion – Response accepted.

- (E) Vacation Accrual Maximum – Accrued vacation balances for certain County employees exceeded the maximum amount established by the County's personnel policies.

Recommendation – Department supervisors should review employee vacation balances to ensure the balances do not exceed the maximum amount established by the County's personnel policies. In addition, the County's payroll system should not allow for the accrual of vacation hours above the maximum amounts.

Response – Department heads will review vacation balances to be sure they are not exceeded.

Conclusion – Response accepted.

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

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

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

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2014

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted. However, disbursements in one department exceeded the amount appropriated prior to the approval of an appropriation amendment by the Board of Supervisors.

Recommendation – Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will comply with making increases or decreases in appropriations before disbursements are allowed.

Conclusion – Response accepted.

- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined by an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Terry Neary, spouse of Zoning and Sanitation employee, self-employed	Bookkeeping	\$ 851
Hardware Hank, owners are parents of Deputy County Auditor	Supplies	9,671
Madsen Trucking, owners are parents of secondary roads employee	Equipment operation	1,200
Justin Schultes, son of Sheriff	Transportation and patrol services	934

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Terry Neary, Madsen Trucking and Justin Schultes do not appear to represent a conflict of interest since the total transactions with each were less than \$1,500 during the fiscal year.

The transactions with Hardware Hank may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa.

Recommendation – The County should consult legal counsel to determine the disposition of this matter.

Palo Alto County

Schedule of Findings

Year ended June 30, 2014

Response – The County will consult with the County Attorney regarding this matter. Invoices are reviewed by the County Auditor and by someone with no interest in these claims.

Conclusion – Response accepted.

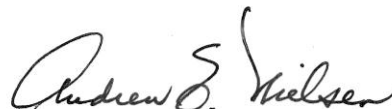
- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) 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, 2014 for the County Extension Office did not exceed the amount budgeted.
- (10) 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.

Palo Alto County

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager  
Lucas D. Bernhard, Staff Auditor  
Ashley J. Moser, Staff Auditor  
Miranda A. Shipman, Staff Auditor  
Zack J. Kosiolek, Auditor Intern

  
Andrew E. Nielsen, CPA  
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