



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

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**NEWS RELEASE**

FOR RELEASE

March 30, 2017

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

The County had local tax revenue of \$20,769,606 for the year ended June 30, 2016, which included \$1,708,749 in tax credits from the state. The County forwarded \$13,916,082 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$6,853,524 of the local tax revenue to finance County operations, an 8.4% increase over the prior year. Other revenues included charges for service of \$2,265,550, operating grants, contributions and restricted interest of \$4,024,399, capital grants, contributions and restricted interest of \$643,675, local option sales tax of \$432,521, tax increment financing of \$718,106, gaming tax of \$144,385, unrestricted investment earnings of \$47,460 and other general revenues of \$234,104.

Expenses for County operations for the year ended June 30, 2016 totaled \$11,422,527, a 14.7% decrease from the prior year. Expenses included \$4,579,006 for roads and transportation, \$1,752,824 for public safety and legal services and \$1,559,700 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 <https://auditor.iowa.gov/reports/1610-0074-B00F>.

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**PALO ALTO COUNTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2016**

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**Palo Alto County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Graettinger	Board of Supervisors	Jan 2017
Edward Noonan	Board of Supervisors	Jan 2017
Craig Merrill	Board of Supervisors	Jan 2019
Linus Solberg	Board of Supervisors	Jan 2019
Keith Wirtz	Board of Supervisors	Jan 2019
Carmen Moser	County Auditor	Jan 2017
Robin Jamison	County Treasurer	Jan 2019
Susan Ruppert	County Recorder	Jan 2019
Lynn Schultes	County Sheriff	Jan 2017
Peter Hart	County Attorney	Jan 2019
Lois Naig	County Assessor	Jan 2022

**Palo Alto County**



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Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2016, 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, 2016, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 17 and 56 through 65 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, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2017 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

March 20, 2017

**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, 2016. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

- Palo Alto County's total governmental activities revenues decreased approximately \$115,000 from fiscal year 2015. Capital grants, contributions and restricted interest increased approximately \$356,000 over fiscal year 2015. In addition, operating grants, contributions and restricted interest increased approximately \$276,000 over fiscal year 2015. Charges for service decreased approximately \$1,777,000
- Palo Alto County's governmental activities expenses decreased approximately \$1,961,000 from fiscal year 2015.
- The County's net position at June 30, 2016 increased 15.0%, or approximately \$3,940,000, over the June 30, 2015 balance.

### **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, the County's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental 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, deferred outflows of resources, liabilities and deferred inflows of resources 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 financial information on all of the County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the County's net position 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 \$26,309,000 to approximately \$30,249,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities.

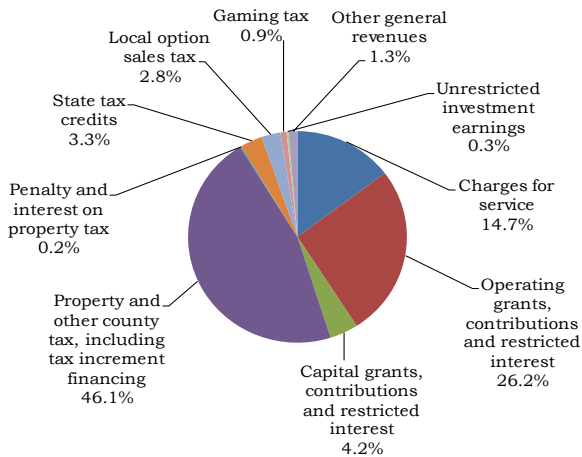
Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2016	2015
Current and other assets	\$ 27,139	27,489
Capital assets	31,727	30,411
Total assets	58,866	57,900
Deferred outflows of resources	434	426
Long-term liabilities	21,264	22,930
Other liabilities	454	1,114
Total liabilities	21,718	24,044
Deferred inflows of resources	7,333	7,973
Net position:		
Net investment in capital assets	19,078	17,240
Restricted	12,572	10,215
Unrestricted	(1,401)	(1,146)
Total net position	\$ 30,249	26,309

The net position of Palo Alto County's governmental activities increased 15.0% (approximately \$30.2 million compared to approximately \$26.3 million). 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 – decreased from a deficit of approximately \$1,146,000 at June 30, 2015 to a deficit of approximately \$1,401,000 at June 30, 2016, a decrease of 22.3%. The unrestricted net position deficit is due to reporting the net pension liability.

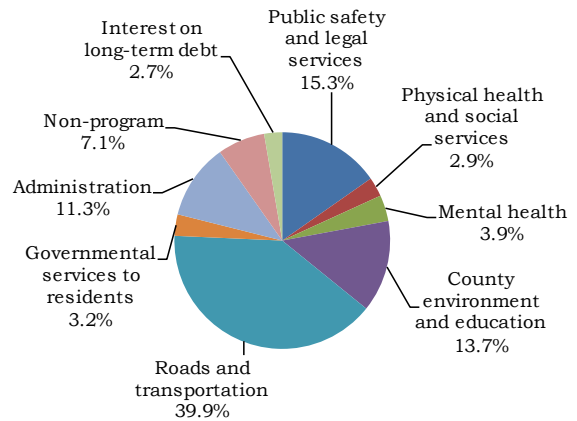
Changes in Net Position of Governmental Activities  
(Expressed in Thousands)

	Year ended June 30,	
	2016	2015
<b>Revenues:</b>		
<b>Program revenues:</b>		
Charges for service	\$ 2,266	4,043
Operating grants, contributions and restricted interest	4,024	3,748
Capital grants, contributions and restricted interest	644	288
<b>General revenues:</b>		
Property and other county tax, including tax increment financing	7,066	6,285
Penalty and interest on property tax	30	20
State tax credits	506	366
Local option sales tax	433	465
Gaming tax	144	152
Unrestricted investment earnings	47	30
Other general revenues	204	82
<b>Total revenues</b>	<b>15,364</b>	<b>15,479</b>
<b>Program expenses:</b>		
Public safety and legal services	1,753	1,733
Physical health and social services	333	315
Mental health	440	516
County environment and education	1,560	1,249
Roads and transportation	4,579	5,489
Governmental services to residents	363	411
Administration	1,287	1,157
Non-program	806	1,918
Interest on long-term debt	303	597
<b>Total expenses</b>	<b>11,424</b>	<b>13,385</b>
<b>Change in net position</b>	<b>3,940</b>	<b>2,094</b>
<b>Net position beginning of year</b>	<b>26,309</b>	<b>24,215</b>
<b>Net position end of year</b>	<b>\$ 30,249</b>	<b>26,309</b>

**Revenues by Source**



**Expenses by Program**



The County increased overall property tax rates for fiscal year 2016 by 2.71%. However, based on increases in total assessed valuation, property tax revenue was budgeted to increase approximately \$381,000 this year. Property and other county tax, excluding tax increment financing increased approximately \$391,000.

The cost of all governmental activities this year was approximately \$11.4 million compared to approximately \$13.4 million last year. However, as shown in the Statement of Activities on page 21, the amount taxpayers ultimately financed for these activities was approximately \$4.5 million because some of the cost was paid by those directly benefited from the programs (approximately \$2,266,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$4,668,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased approximately \$1,145,000 in fiscal year 2016 from approximately \$8,079,000 to approximately \$6,934,000.

### **INDIVIDUAL MAJOR FUND ANALYSIS**

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$14.8 million, an increase of approximately \$0.8 million from last year's total of approximately \$14.0 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 \$324,000 from the prior year to approximately \$1,654,000. General Fund revenues increased approximately \$102,000 and expenditures increased approximately \$623,000. The increase in revenues was primarily due to higher commercial and industrial replacement revenue from the State. The increase in expenditures was primarily due to higher capital projects expenditure for the purchase of land for the Conservation Department.
- 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 14.7% from the prior year, and revenues increased approximately \$248,000. The Special Revenue, Mental Health Fund balance decreased approximately \$32,000 to approximately \$446,000 at year end.
- Special Revenue, Rural Services Fund expenditures decreased approximately \$3,000 from the prior year. Revenues increased approximately \$50,000, primarily due to higher property and other county taxes. The Rural Services Fund balance increased approximately \$167,000 to approximately \$840,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$42,000.
- Special Revenue, Secondary Roads Fund expenditures decreased approximately \$456,000 from the prior year primarily due to lower administration costs and delayed equipment purchases. Revenues increased approximately \$334,000 primarily due to higher road use tax revenues. Transfers from the Special Revenue, Rural Services Fund increased approximately \$42,000. The Secondary Roads Fund ending fund balance increased approximately \$1,681,000, or 25.3%, during the year.
- Special Revenue, Drainage Districts Fund revenues decreased approximately \$880,000 from the prior year due to decreased drainage assessments. Expenditures decreased approximately \$1,610,000, due primarily to less drainage projects in the current year compared to fiscal year 2015. Drainage warrants issued decreased approximately \$787,000. The Drainage Districts Fund end of year fund balance increased approximately \$110,000 over the prior year.

- The Special Revenue, Tax Increment Financing Fund balance decreased approximately \$19,000 to approximately \$140,000 at June 30, 2016. The balance will be used to pay the principal and interest on general obligation urban renewal bonds issued in April 2013 and July 2015.
- Debt Service Fund revenues increased approximately \$43,000 over the prior year. The balance in the fund at June 30, 2016 was approximately \$146,000, or an increase of approximately \$132,000 over the prior year ending fund balance. The current year debt service payment for various general obligation bonds and refunding bonds was approximately \$1.8 million.
- Capital Projects Fund revenues decreased approximately \$1,000. Expenditures decreased approximately \$3,750,000 due to significant road projects in the prior 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 \$1,001,000 as a result of completing road projects during fiscal year 2015.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Palo Alto County amended its budget one time. The amendment was made on April 12, 2016 and resulted in an increase in budgeted receipts of \$460,918 and an increase in budgeted disbursements of \$605,912. The increase in budgeted receipts was to receive additional grant funds. The majority of the increase in disbursements was due to higher anticipated capital projects disbursements.

The County's receipts were \$752,648 more than budgeted, a variance of 5.9%. The most significant variance resulted from the County receiving more intergovernmental receipts than anticipated.

Total disbursements were \$5,103,654 less than the amended budget. Actual disbursements for the capital projects and roads and transportation functions were \$3,278,570 and \$1,377,599, respectively, less than budgeted. The variance affecting the capital projects function was due to over estimating the amount of work that would ultimately be completed on roads. The variance in the roads and transportation function was due to lower overall disbursements than anticipated. The remaining variances are a result of budgeted disbursements not being expended by June 30, 2016.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2016, Palo Alto County had approximately \$31.7 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 \$1.3 million, or 4.3%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2016	2015
Land	\$ 1,352	1,007
Buildings and improvements	720	752
Equipment and vehicles	3,020	3,128
Intangibles	363	403
Infrastructure	26,272	25,121
Total	\$ 31,727	30,411
This year's major additions included (in thousands):		
Infrastructure, including road network	\$	2,294
Land		345
Vehicles and other equipment		293
Recreational trails		90
Total	\$	3,022

The County had depreciation/amortization expense of approximately \$1.7 million in fiscal year 2016 and total accumulated depreciation/amortization of approximately \$13.3 million at June 30, 2016. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

### Long-Term Debt

At June 30, 2016, Palo Alto County had approximately \$18.2 million of outstanding long-term debt, which included \$14,775,000 of general obligation bonds and approximately \$3,413,000 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2016	2015
General obligation bonds	\$ 14,775	16,305
Drainage warrants	3,413	4,052
Total	\$ 18,188	20,357

Debt decreased as a result of making principal payments of \$1,530,000 on general obligation Series 2012 and Series 2014 bonds. 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 \$68.0 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 2017 budget, tax rates and fees for various County activities. One of those factors is the economy. Unemployment in the County now stands at 3.6% versus 3.1% a year ago. This compares with the State's unemployment rate of 4.5% and the national rate of 4.9% during June 2016.

The national Consumer Price Index (CPI) rose 1% from June 2015 to June 2016. This increase matches the 1% increase during fiscal year 2015 reported last year.

The above factors were all part of the considerations for the fiscal year 2017 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2017	2016	
	Dollars	Dollars	Percentage
	Certified	Certified	Change
General Fund	\$ 3,268,754	3,290,207	-.65%
Mental Health Fund	193,263	400,180	-51.71
Rural Services Fund	1,976,538	1,887,282	4.73
Debt Service Fund	1,115,202	1,076,037	3.64
Total	<u>\$ 6,553,757</u>	<u>6,653,706</u>	<u>-1.50</u>

No new services were added to the fiscal year 2017 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2017 are as follows:

	2017	2016	Percentage
			Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.22997	1.38118	-10.95
Mental health levy	0.27966	0.59369	-52.89
Rural services basic levy	3.95000	3.95000	0.00
Debt service levy	1.51000	1.51000	0.00
Total	<u>\$ 10.46963</u>	<u>10.93487</u>	<u>-4.25</u>

These factors were taken into account when adopting the budget for fiscal year 2017. Amounts appropriated in the operating budget are \$15,867,465, a decrease of \$2,310,654, or 12.7%, from the final fiscal year 2016 budget. The majority of the disbursements budgeted are for capital projects and roads and transportation as road improvements continue during fiscal year 2017. 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 decreased from \$1.38118 per \$1,000 of taxable valuation in fiscal year 2016 to \$1.22997 per \$1,000 of taxable valuation in fiscal year 2017. Palo Alto County decreased the mental health levy from \$.59369 per \$1,000 of taxable valuation to \$.27966 per \$1,000 of taxable valuation. Additionally, the debt service levy rate and the rural services basic levy rate for fiscal year 2017 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**

**Exhibit A**

Palo Alto County  
Statement of Net Position  
June 30, 2016

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash, cash equivalents and pooled investments	\$ 13,867,727
Receivables:	
Property tax:	
Delinquent	5,725
Succeeding year	7,052,000
Interest and penalty on property tax	26,122
Accounts	107,834
Accrued interest	16,243
Drainage assessments	4,789,320
Due from other governments	284,522
Inventories	860,705
Prepaid insurance	133,850
Capital assets, net of accumulated depreciation/amortization	<u>31,727,454</u>
<b>Total assets</b>	<b>58,871,502</b>
<b>Deferred Outflows of Resources</b>	
Pension related deferred outflows	<u>434,187</u>
<b>Liabilities</b>	
Accounts payable	173,092
Accrued interest payable	186,814
Salaries and benefits payable	37,875
Due to other governments	61,502
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	1,670,000
Drainage warrants	406,237
Compensated absences	160,628
Portion due or payable after one year:	
General obligation bonds	13,105,000
Drainage warrants	3,006,744
Compensated absences	93,412
Net pension liability	2,216,966
Net OPEB liability	<u>604,544</u>
<b>Total liabilities</b>	<b>21,722,814</b>
<b>Deferred Inflows of Resources</b>	
Unavailable property tax revenue	7,052,000
Pension related deferred inflows	<u>281,015</u>
<b>Total deferred inflows of resources</b>	<b>7,333,015</b>
<b>Net Position</b>	
Net investment in capital assets	19,077,816
Restricted for:	
Supplemental levy purposes	401,713
Mental health purposes	446,788
Rural services purposes	828,799
Secondary roads purposes	8,192,126
Drainage district purposes	1,620,284
Debt service	147,230
Capital projects	569,550
Other purposes	366,232
Unrestricted	<u>(1,400,678)</u>
<b>Total net position</b>	<b>\$ 30,249,860</b>

See notes to financial statements.

Palo Alto County  
Statement of Activities  
Year ended June 30, 2016

	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	\$ 1,752,824	250,580	5,047	-	(1,497,197)
Physical health and social services	332,545	101,904	33,526	-	(197,115)
Mental health	439,536	-	-	-	(439,536)
County environment and education	1,559,700	260,506	-	142,415	(1,156,779)
Roads and transportation	4,579,006	66,811	3,827,781	470,970	(213,444)
Governmental services to residents	363,117	209,924	-	-	(153,193)
Administration	1,287,098	14,552	-	-	(1,272,546)
Non-program	805,857	1,361,273	158,045	30,290	743,751
Interest on long-term debt	302,844	-	-	-	(302,844)
<b>Total</b>	<b>\$ 11,422,527</b>	<b>2,265,550</b>	<b>4,024,399</b>	<b>643,675</b>	<b>(4,488,903)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					5,328,604
Debt service					1,019,167
Tax increment financing					718,106
Penalty and interest on property tax					30,574
State tax credits					505,753
Local option sales tax					432,521
Gaming tax					144,385
Unrestricted investment earnings					47,460
Miscellaneous					203,530
<b>Total general revenues</b>					<b>8,430,100</b>
Change in net position					3,941,197
Net position beginning of year					26,308,663
Net position end of year					<b>\$ 30,249,860</b>

See notes to financial statements.

Palo Alto County  
Balance Sheet  
Governmental Funds

June 30, 2016

	Special			
	General	Mental Health	Rural Services	Secondary Roads
<b>Assets</b>				
Cash, pooled investments and cash equivalents	\$ 1,609,166	456,677	856,906	7,253,118
Receivables:				
Property tax:				
Delinquent	3,375	411	895	-
Succeeding year	3,052,000	180,000	1,849,000	-
Interest and penalty on property tax	26,122	-	-	-
Accounts	63,223	-	18	38,872
Accrued interest	16,243	-	-	-
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	5,755
Due from other governments	26,383	-	15,231	242,063
Inventories	-	-	-	860,705
Prepaid insurance	24,554	-	480	20,002
<b>Total assets</b>	<b>\$ 4,821,066</b>	<b>637,088</b>	<b>2,722,530</b>	<b>8,420,515</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 54,565	-	8,984	31,842
Salaries and benefits payable	-	-	-	37,875
Due to other funds	4,850	-	905	-
Due to other governments	23,101	10,300	22,614	5,487
<b>Total liabilities</b>	<b>82,516</b>	<b>10,300</b>	<b>32,503</b>	<b>75,204</b>
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,052,000	180,000	1,849,000	-
Other	32,267	411	895	24,868
<b>Total deferred inflows of resources</b>	<b>3,084,267</b>	<b>180,411</b>	<b>1,849,895</b>	<b>24,868</b>
Fund balances:				
Nonspendable:				
Inventories	-	-	-	860,705
Prepaid insurance	24,554	-	480	20,002
Restricted for:				
Supplemental levy purposes	413,542	-	-	-
Mental health purposes	-	446,377	-	-
Rural services purposes	-	-	839,652	-
Secondary roads purposes	-	-	-	7,439,736
Drainage purposes	-	-	-	-
Conservation land acquisition/capital improvements	116,792	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	20,223	-	-	-
Assigned:				
Courthouse repair	175,000	-	-	-
Unassigned	904,172	-	-	-
<b>Total fund balances</b>	<b>1,654,283</b>	<b>446,377</b>	<b>840,132</b>	<b>8,320,443</b>
<b>Total liabilities, deferred inflows of resources     and fund balances</b>	<b>\$ 4,821,066</b>	<b>637,088</b>	<b>2,722,530</b>	<b>8,420,515</b>

See notes to financial statements.



Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
470,147	139,760	146,186	2,712,964	88,612	13,733,536
-	-	1,044	-	-	5,725
-	927,000	1,044,000	-	-	7,052,000
-	-	-	-	-	26,122
-	-	-	-	-	102,113
-	-	-	-	-	16,243
4,789,320	-	-	-	-	4,789,320
-	-	-	-	-	5,755
-	-	-	-	845	284,522
-	-	-	-	-	860,705
-	-	-	-	-	45,036
5,259,467	1,066,760	1,191,230	2,712,964	89,457	26,921,077
57,440	-	-	-	-	152,831
-	-	-	-	-	37,875
-	-	-	-	-	5,755
-	-	-	-	-	61,502
57,440	-	-	-	-	257,963
-	927,000	1,044,000	-	-	7,052,000
4,789,320	-	1,044	-	-	4,848,805
4,789,320	927,000	1,045,044	-	-	11,900,805
-	-	-	-	-	860,705
-	-	-	-	-	45,036
-	-	-	-	-	413,542
-	-	-	-	-	446,377
-	-	-	-	-	839,652
-	-	-	-	-	7,439,736
412,707	-	-	-	-	412,707
-	-	-	-	-	116,792
-	-	146,186	-	-	146,186
-	-	-	2,712,964	-	2,712,964
-	139,760	-	-	89,457	249,440
-	-	-	-	-	175,000
-	-	-	-	-	904,172
412,707	139,760	146,186	2,712,964	89,457	14,762,309
5,259,467	1,066,760	1,191,230	2,712,964	89,457	26,921,077

**Palo Alto County**

Palo Alto County

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

June 30, 2016

**Total governmental fund balances (page 23)** \$ 14,762,309

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$45,072,410 and the accumulated depreciation /amortization is \$13,344,956. 31,727,454

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. 4,848,805

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. 208,465

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 434,187	
Deferred inflows of resources	<u>(281,015)</u>	153,172

Long-term liabilities, including general obligation bonds payable, drainage warrants payable, compensated absences payable, other postemployment benefits payable, net pension liability and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (21,450,345)

**Net position of governmental activities (page 20)** \$ 30,249,860

See notes to financial statements.

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

Year ended June 30, 2016

	Special			
	General	Mental Health	Rural Services	Secondary Roads
<b>Revenues:</b>				
Property and other county tax	\$ 3,267,028	379,800	1,825,804	-
Local option sales tax	-	-	432,521	-
Interest and penalty on property tax	27,218	-	-	-
Intergovernmental	581,875	30,356	149,708	3,863,714
Licenses and permits	3,293	-	-	19,086
Charges for service	354,566	-	240,750	57,676
Use of money and property	53,816	-	-	48,493
Miscellaneous	151,587	-	9,752	62,612
<b>Total revenues</b>	<b>4,439,383</b>	<b>410,156</b>	<b>2,658,535</b>	<b>4,051,581</b>
<b>Expenditures:</b>				
<b>Operating:</b>				
Public safety and legal services	1,616,455	-	140,242	-
Physical health and social services	333,962	-	-	-
Mental health	-	442,343	-	-
County environment and education	785,633	-	698,561	-
Roads and transportation	-	-	213,461	3,380,282
Governmental services to residents	431,905	-	-	-
Administration	1,170,815	-	-	-
Non-program	-	-	1,281	-
Debt service	-	-	-	-
Capital projects	424,552	-	3,191	425,077
<b>Total expenditures</b>	<b>4,763,322</b>	<b>442,343</b>	<b>1,056,736</b>	<b>3,805,359</b>
Excess (deficiency) of revenues over (under) expenditures	(323,939)	(32,187)	1,601,799	246,222
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	1,435,170
Transfers out	-	-	(1,435,170)	-
Drainage warrants issued	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(1,435,170)</b>	<b>1,435,170</b>
Change in fund balances	(323,939)	(32,187)	166,629	1,681,392
Fund balances beginning of year	1,978,222	478,564	673,503	6,639,051
Fund balances end of year	<b>\$ 1,654,283</b>	<b>446,377</b>	<b>840,132</b>	<b>8,320,443</b>

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	718,106	1,019,091	-	-	7,209,829
-	-	-	-	-	432,521
-	-	-	-	-	27,218
30,290	56,199	81,330	-	22,820	4,816,292
-	-	-	-	-	22,379
-	-	-	-	2,028	655,020
-	-	-	7,638	90	110,037
1,444,382	-	-	-	1,822	1,670,155
1,474,672	774,305	1,100,421	7,638	26,760	14,943,451
-	-	-	-	9,203	1,765,900
-	-	-	-	-	333,962
-	-	-	-	-	442,343
-	-	-	-	9,457	1,493,651
-	-	-	-	-	3,593,743
-	-	-	-	-	431,905
-	-	-	-	-	1,170,815
622,490	-	-	-	-	623,771
1,512,619	-	1,761,967	-	-	3,274,586
-	-	-	1,008,559	-	1,861,379
2,135,109	-	1,761,967	1,008,559	18,660	14,992,055
(660,437)	774,305	(661,546)	(1,000,921)	8,100	(48,604)
-	-	793,753	-	-	2,228,923
-	(793,753)	-	-	-	(2,228,923)
770,010	-	-	-	-	770,010
770,010	(793,753)	793,753	-	-	770,010
109,573	(19,448)	132,207	(1,000,921)	8,100	721,406
303,134	159,208	13,979	3,713,885	81,357	14,040,903
412,707	139,760	146,186	2,712,964	89,457	14,762,309

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, 2016

**Change in fund balances - Total governmental funds (page 27)** \$ 721,406

**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	\$ 2,469,134	
Capital assets contributed by the Iowa Department of Transportation	463,332	
Contributed infrastructure	90,000	
Depreciation/amortization expense	<u>(1,705,793)</u>	1,316,673

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	433	
Other	<u>(316,684)</u>	(316,251)

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	(770,010)	
Repaid	<u>2,939,136</u>	2,169,126

The current year County share of IPERS contributions is reported as expenditures in the governmental funds, but is reported as deferred outflows of resources in the Statement of Net Position. 327,165

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	(304)	
Other postemployment benefits	13,934	
Pension expense	(185,215)	
Interest on long-term debt	<u>32,606</u>	(138,979)

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. (137,943)

**Change in net position of governmental activities (page 21)** \$ 3,941,197

See notes to financial statements.

Palo Alto County  
 Statement of Net Position  
 Proprietary Fund

June 30, 2016

	Internal Service - Employee Group Health
<b>Current Assets</b>	
Cash and cash equivalents	\$ 134,191
Accounts receivable	5,721
Prepaid insurance	88,814
<b>Total current assets</b>	228,726
<b>Current Liabilities</b>	
Accounts payable	20,261
<b>Net Position</b>	
Unrestricted	\$ 208,465

See notes to financial statements.

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

Year ended June 30, 2016

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,074,186
Reimbursements from employees and others		47,985
Total operating revenues		<u>1,122,171</u>
Operating expenses:		
Medical claims	\$ 92,261	
Insurance premiums	1,150,761	
Administrative fees	17,092	
		<u>1,260,114</u>
Operating loss		(137,943)
Net position beginning of year		<u>346,408</u>
Net position end of year		<u><u>\$ 208,465</u></u>

See notes to financial statements.



Palo Alto County  
Statement of Cash Flows  
Proprietary Fund  
Year ended June 30, 2016

	<u>Internal Service - Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,074,186
Cash received from employees and others	42,264
Cash paid to suppliers for services	<u>(1,247,589)</u>
Net cash used by operating activities	(131,139)
Cash and cash equivalents beginning of year	<u>265,330</u>
Cash and cash equivalents end of year	<u>\$ 134,191</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (137,943)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Increase in accounts receivable	(5,721)
Decrease in prepaid insurance	10,264
Increase in accounts payable	<u>2,261</u>
Net cash used by operating activities	<u>\$ (131,139)</u>

See notes to financial statements.

Palo Alto County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2016

**Assets**

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 919,349
Other County officials	21,663

Receivables:

Property tax:

Delinquent	16,671
Succeeding year	12,724,000

Accounts	15,537
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Accrued interest	26
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Drainage assessments	503
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Special assessments	355,138
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Due from other governments	142,616
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<b>Total assets</b>	<u>14,195,503</u>
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**Liabilities**

Accounts payable	59,365
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Due to other governments	14,116,361
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Trusts payable	8,824
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Compensated absences	10,953
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<b>Total liabilities</b>	<u>14,195,503</u>
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<b>Net position</b>	<u><u>\$ -</u></u>
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See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2016

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

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Palo Alto County Assessor’s Conference Board, Palo Alto County Emergency Management Commission and Palo Alto County Joint E-911 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, deferred outflows of resources, 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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 amortized 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, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2015.

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 more than 15 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, 2016, 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 acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. 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



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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and 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, 2016. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within 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 and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

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

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

Assigned – Amounts the Board of Supervisors intends 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, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

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

The detail of interfund receivables and payables at June 30, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Secondary Roads	General	\$ 4,850
	Special Revenue:	
	Rural Services	905
Total		<u>\$ 5,755</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, 2016 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 793,753
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	1,435,170
Total		<u>\$ 2,228,923</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, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated/amortized:				
Land	\$ 1,007,399	344,860	-	1,352,259
Intangibles	210,113	-	-	210,113
Construction in progress	5,535,231	2,294,153	(6,374,316)	1,455,068
Total capital assets not being depreciated/amortized	6,752,743	2,639,013	(6,374,316)	3,017,440
Capital assets being depreciated/amortized:				
Buildings	1,561,746	-	-	1,561,746
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	8,070,942	293,453	(72,047)	8,292,348
Intangibles	331,255	-	-	331,255
Infrastructure, road network	24,644,555	6,374,316	-	31,018,871
Infrastructure, other	667,351	90,000	-	757,351
Total capital assets being depreciated/amortized	35,369,248	6,757,769	(72,047)	42,054,970
Less accumulated depreciation/amortization for:				
Buildings	852,280	28,444	-	880,724
Improvements other than buildings	51,139	3,504	-	54,643
Equipment and vehicles	4,943,327	401,139	(72,047)	5,272,419
Intangibles	137,808	40,067	-	177,875
Infrastructure, road network	5,617,878	1,205,336	-	6,823,214
Infrastructure, other	108,778	27,303	-	136,081
Total accumulated depreciation/amortization	11,711,210	1,705,793	(72,047)	13,344,956
Total capital assets being depreciated/amortized, net	23,658,038	5,051,976	-	28,710,014
Governmental activities capital assets, net	\$ 30,410,781	7,690,989	(6,374,316)	31,727,454

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 30,159
County environment and education	60,675
Roads and transportation	1,563,927
Governmental services to residents	4,640
Administration	46,392
Total depreciation/amortization expense - governmental activities	<u>\$ 1,705,793</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, 2016 is as follows:

Fund	Description	Amount
General	Services	\$ 23,101
Special Revenue:		
Mental Health	Services	10,300
Rural Services	Services	22,614
Secondary Roads	Services	5,487
		<u>38,401</u>
Total for governmental funds		<u>\$ 61,502</u>
Agency:		
County Offices	Collections	\$ 19,910
Agricultural Extension Education		165,549
County Assessor		436,973
Schools		7,798,010
Community Colleges		637,954
Corporations		2,516,435
Townships		151,778
City Special Assessments		358,451
Auto License and Use Tax		245,842
All other		1,785,459
Total for agency funds		<u>\$ 14,116,361</u>

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net Pension Liability	Net OPEB Liability	Total
Balance beginning of year	\$ 16,305,000	4,052,107	253,736	1,700,137	618,478	22,929,458
Increases	-	770,010	249,762	516,829	-	1,536,601
Decreases	1,530,000	1,409,136	249,458	-	13,934	3,202,528
Balance end of year	<u>\$ 14,775,000</u>	<u>3,412,981</u>	<u>254,040</u>	<u>2,216,966</u>	<u>604,544</u>	<u>21,263,531</u>
Due within one year	<u>\$ 1,670,000</u>	<u>406,237</u>	<u>160,628</u>	<u>-</u>	<u>-</u>	<u>2,236,865</u>

General Obligation Bonds

A summary of the County's June 30, 2016 general obligation bond indebtedness is as follows:

Refunding Series 2012 Issued December 20, 2012				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2017	0.55%	\$ 800,000	65,438	865,438
2018	0.65	825,000	60,238	885,238
2019	0.80	850,000	53,638	903,638
2020	0.95	900,000	45,562	945,562
2021	1.15	950,000	35,212	985,212
2022-2023	1.30-1.60	1,525,000	30,862	1,555,862
Total		<u>\$ 5,850,000</u>	<u>290,950</u>	<u>6,140,950</u>

Urban Renewal Series 2013 Issued April 23, 2013				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2017	1.25%	\$ 625,000	62,500	687,500
2018	0.60	625,000	58,750	683,750
2019	0.75	625,000	54,063	679,063
2020	1.00	625,000	47,812	672,812
2021	1.10	625,000	40,938	665,938
2022-2025	1.30-2.00	1,875,000	68,749	1,943,749
Total		<u>\$ 5,000,000</u>	<u>332,812</u>	<u>5,332,812</u>

General Obligation Urban Renewal Bonds Series 2014 Issued July 9, 2014							
Year Ending June 30,	Interest Rates	Principal	Interest	Total	Total		
					Principal	Interest	Total
2017	1.50%	\$ 245,000	88,683	333,683	1,670,000	216,621	1,886,621
2018	1.50	240,000	85,008	325,008	1,690,000	203,996	1,893,996
2019	2.00	230,000	80,208	310,208	1,705,000	187,909	1,892,909
2020	2.00	195,000	75,608	270,608	1,720,000	168,982	1,888,982
2021	2.00	170,000	71,708	241,708	1,745,000	147,858	1,892,858
2022-2025	1.85-2.60	2,845,000	207,905	3,052,905	6,245,000	307,516	6,552,516
Total		<u>\$ 3,925,000</u>	<u>609,120</u>	<u>4,534,120</u>	<u>14,775,000</u>	<u>1,232,882</u>	<u>16,007,882</u>

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. On the crossover refunding date of June 1, 2015, the refunded general obligation bonds (old debt) were paid using the amounts held by the escrow agent.

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.

On July 9, 2014, 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 1.50% to 2.60% per annum.

#### 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 Plan**

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

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

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

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

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

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

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

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

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

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

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

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the County contributed 8.93% for a total rate of 14.885%. The Sheriff, deputies and the County each contributed 9.88% of covered payroll, for a total rate of 19.76%. Protection occupation members contributed 6.56% of covered payroll and the County contributed 9.84% of covered payroll, for a total rate of 16.40%.

The County's contributions to IPERS for the year ended June 30, 2016 were \$327,165.



Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the County reported a liability of \$2,216,966 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the County's proportion was 0.0448735%, which was a decrease of 0.0020047% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the County recognized pension expense of \$185,215. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,061	16,445
Changes of assumptions	60,247	14,273
Net difference between projected and actual earnings on IPERS' investments	-	226,435
Changes in proportion and differences between County contributions and the County's proportionate share of contributions	13,714	23,862
County contributions subsequent to the measurement date	327,165	-
Total	<u>\$ 434,187</u>	<u>281,015</u>

\$327,165 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2017	\$ (95,630)
2018	(95,630)
2019	(95,630)
2020	111,436
2021	1,461
Total	<u>\$ (173,993)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the County will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
County's proportionate share of the net pension liability:	\$ 4,255,117	2,216,966	498,111

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

Payables to IPERS - All legally required County contributions and legally required employee contributions which had been withheld from employee wages were remitted by the County to IPERS by June 30, 2016.

**(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 73 active and 6 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, 2016, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 102,129
Interest on net OPEB obligation	15,462
Adjustment to annual required contribution	<u>(80,389)</u>
Annual OPEB cost	37,202
Contributions made	<u>51,136</u>
Decrease in net OPEB obligation	(13,934)
Net OPEB obligation beginning of year	<u>618,478</u>
Net OPEB obligation end of year	<u>\$ 604,544</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the County contributed \$51,136 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
2014	\$ 54,545	18.0%	\$ 568,807
2015	56,027	11.3	618,478
2016	37,202	137.5	604,544

Funded Status and Funding Progress – As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was approximately \$527,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$527,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,276,000 and the ratio of the UAAL to covered payroll was 16.1%. As of June 30, 2016, 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, 2015 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 \$1,351 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 727 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 basis rate.

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 Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The County's contributions to the Pool for the year ended June 30, 2016 were \$135,108.

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 \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the 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, 2016, no liability has been recorded in the County's financial statements. As of June 30, 2016, 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, 2016 was \$1,074,186.

Amounts payable from the Employee Group Health Fund at June 30, 2016 total \$20,261, 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 \$208,465 at June 30, 2016 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	\$ 18,000
Incurred claims (including claims incurred but not reported at June 30, 2016)	92,261
Payment on claims during the fiscal year	<u>90,000</u>
Unpaid claims end of year	<u>\$ 20,261</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, 2016 have been estimated at \$7,788. 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 not fully funded at June 30, 2016.

**(13) Palo Alto County Financial Information Included in the Northwest Iowa Care Connections Region**

Northwest Iowa Care Connections Region, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective April 25, 2015, includes the following member counties: Clay County, Dickinson County, Lyon County, O'Brien County, Osceola County and Palo Alto County. The financial activity of Palo Alto County's Special Revenue, Mental Health Fund is included in the Northwest Iowa Care Connections Region for the year ended June 30, 2016, as follows:

Revenues:		
Property and other county tax		\$ 379,800
Intergovernmental:		
State tax credits	\$ 30,249	
Other	107	30,356
Total revenues		<u>410,156</u>
Expenditures:		
General administration:		
Direct administration	25,090	
Distribution to regional fiscal agent	417,253	442,343
Total expenditures		<u>442,343</u>
Deficiency of revenues under expenditures		(32,187)
Fund balance beginning of year		<u>478,564</u>
Fund balance end of year		<u>\$ 446,377</u>

**(14) New Accounting Pronouncement**

The County adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.



**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, 2016

	Actual	Less Funds not Required to be Budgeted	Net
<b>Receipts:</b>			
Property and other county tax	\$ 7,733,700	-	7,733,700
Interest and penalty on property tax	27,218	-	27,218
Intergovernmental	4,896,680	30,290	4,866,390
Licenses and permits	21,344	-	21,344
Charges for service	665,201	-	665,201
Use of money and property	95,738	-	95,738
Miscellaneous	1,626,572	1,444,382	182,190
<b>Total receipts</b>	<b>15,066,453</b>	<b>1,474,672</b>	<b>13,591,781</b>
<b>Disbursements:</b>			
Public safety and legal services	1,765,601	-	1,765,601
Physical health and social services	331,441	-	331,441
Mental health	448,041	-	448,041
County environment and education	1,512,890	-	1,512,890
Roads and transportation	3,537,733	-	3,537,733
Governmental services to residents	408,090	-	408,090
Administration	1,167,636	-	1,167,636
Non-program	885,601	885,601	-
Debt service	3,274,586	1,512,619	1,761,967
Capital projects	2,141,066	-	2,141,066
<b>Total disbursements</b>	<b>15,472,685</b>	<b>2,398,220</b>	<b>13,074,465</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(406,232)</b>	<b>(923,548)</b>	<b>517,316</b>
<b>Other financing sources, net</b>	<b>770,010</b>	<b>770,010</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses</b>	<b>363,778</b>	<b>(153,538)</b>	<b>517,316</b>
<b>Balance beginning of year</b>	<b>13,369,758</b>	<b>623,685</b>	<b>12,746,073</b>
<b>Balance end of year</b>	<b>\$ 13,733,536</b>	<b>470,147</b>	<b>13,263,389</b>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net Variance
7,568,915	7,568,915	164,785
7,600	7,600	19,618
3,872,375	4,319,434	546,956
15,350	15,350	5,994
721,765	721,765	(56,564)
70,010	70,010	25,728
122,200	136,059	46,131
<u>12,378,215</u>	<u>12,839,133</u>	<u>752,648</u>
1,853,462	1,878,126	112,525
433,961	433,961	102,520
448,101	448,101	60
1,525,826	1,629,214	116,324
4,915,332	4,915,332	1,377,599
443,072	443,072	34,982
1,248,706	1,248,706	81,070
-	-	-
1,761,971	1,761,971	4
4,941,776	5,419,636	3,278,570
<u>17,572,207</u>	<u>18,178,119</u>	<u>5,103,654</u>
(5,193,992)	(5,338,986)	5,856,302
-	-	-
(5,193,992)	(5,338,986)	5,856,302
15,996,510	15,996,510	(3,250,437)
<u>10,802,518</u>	<u>10,657,524</u>	<u>2,605,865</u>

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Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2016

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 15,066,453	(123,002)	14,943,451
Expenditures	15,472,685	(480,630)	14,992,055
Net	(406,232)	357,628	(48,604)
Other financing sources, net	770,010	-	770,010
Beginning fund balances	13,369,758	671,145	14,040,903
Ending fund balances	\$ 13,733,536	1,028,773	14,762,309

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2016

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, one budget amendment increased budgeted disbursements by \$605,912. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E-911 System by the Joint E-911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

**Palo Alto County**

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Palo Alto County

Schedule of the County's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Required Supplementary Information

	2016	2015
County's proportion of the net pension liability	0.0448735%	0.0428688%
County's proportionate share of the net pension liability	\$ 2,217	1,700
County's covered-employee payroll	\$ 3,615	3,558
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.30%	47.78%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

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

See accompanying independent auditor's report.

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Palo Alto County

Schedule of County Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years  
(In Thousands)

Required Supplementary Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 327	329	324	313
Contributions in relation to the statutorily required contribution	<u>(327)</u>	<u>(329)</u>	<u>(324)</u>	<u>(313)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
County's covered-employee payroll	\$ 3,598	3,615	3,558	3,506
Contributions as a percentage of covered-employee payroll	9.09%	9.10%	9.12%	8.92%

See accompanying independent auditor's report.



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2012	2011	2010	2009	2008	2007
290	257	239	309	202	186
(290)	(257)	(239)	(309)	(202)	(186)
-	-	-	-	-	-
3,446	3,474	3,444	4,156	3,188	3,009
8.40%	7.40%	6.95%	7.43%	6.34%	6.19%

Palo Alto County

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2016

*Changes of benefit terms:*

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

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

*Changes of assumptions:*

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

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

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

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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
2015	Jul 1, 2012	-	390	390	0.0%	3,263	12.0
2016	Jul 1, 2015	-	527	527	0.0%	3,276	16.1

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.

**Palo Alto County**

**Supplementary Information**

Palo Alto County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2016

		Sheriff Investigation	Resource Enhancement and Protection	County Recorder's Records Management
<b>Assets</b>				
Cash, cash equivalents and pooled investments	\$	1,149	46,035	12,280
Due from other governments		-	-	-
<b>Total assets</b>	<b>\$</b>	<b>1,149</b>	<b>46,035</b>	<b>12,280</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$	-	-	-
Fund balances:				
Restricted for other purposes		1,149	46,035	12,280
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b>1,149</b>	<b>46,035</b>	<b>12,280</b>

See accompanying independent auditor's report.

Special Revenue				
Sheriff Reserve	Five Island Trails	Closure / Postclosure	County Attorney Collections	Total
3,216	257	7,000	18,675	88,612
-	-	-	845	845
3,216	257	7,000	19,520	89,457
-	-	-	-	-
3,216	257	7,000	19,520	89,457
3,216	257	7,000	19,520	89,457

Palo Alto County

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

Year ended June 30, 2016

	Sheriff Investigation	Resource Enhancement and Protection	Special County Recorder's Records Management
<b>Revenues:</b>			
Intergovernmental	\$ -	12,591	-
Charges for service	-	-	2,028
Use of money and property	-	73	17
Miscellaneous	-	-	-
Total revenues	-	12,664	2,045
<b>Expenditures:</b>			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	9,457	-
Total expenditures	-	9,457	-
Change in fund balances	-	3,207	2,045
Fund balances beginning of year	1,149	42,828	10,235
Fund balances end of year	\$ 1,149	46,035	12,280

See accompanying independent auditor's report.



Revenue					
Sheriff Reserve	Five Island Trails	Closure/ Postclosure	County Attorney Collections		Total
3,225	-	-	7,004		22,820
-	-	-	-		2,028
-	-	-	-		90
1,822	-	-	-		1,822
5,047	-	-	7,004		26,760
6,526	-	-	2,677		9,203
-	-	-	-		9,457
6,526	-	-	2,677		18,660
(1,479)	-	-	4,327		8,100
4,695	257	7,000	15,193		81,357
3,216	257	7,000	19,520		89,457

Palo Alto County

Combining Schedule of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2016

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets</b>				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	1,397	206,506	76,893
Other County officials	21,663	-	-	-
Receivables:				
Property tax:				
Delinquent	-	152	262	8,117
Succeeding year	-	164,000	248,000	7,713,000
Accounts	1,412	-	150	-
Accrued interest	-	-	-	-
Drainage assessments	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
<b>Total assets</b>	<b>\$ 23,075</b>	<b>165,549</b>	<b>454,918</b>	<b>7,798,010</b>
<b>Liabilities</b>				
Liabilities:				
Accounts payable	\$ -	-	9,121	-
Due to other governments	19,910	165,549	436,973	7,798,010
Trusts payable	3,165	-	-	-
Compensated absences	-	-	8,824	-
<b>Total liabilities</b>	<b>\$ 23,075</b>	<b>165,549</b>	<b>454,918</b>	<b>7,798,010</b>

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
6,270	27,529	1,719	3,313	245,842	349,880	919,349
-	-	-	-	-	-	21,663
684	5,906	59	-	-	1,491	16,671
631,000	2,483,000	150,000	-	-	1,335,000	12,724,000
-	-	-	-	-	13,975	15,537
-	-	-	-	-	26	26
-	-	-	-	-	503	503
-	-	-	355,138	-	-	355,138
-	-	-	-	-	142,616	142,616
637,954	2,516,435	151,778	358,451	245,842	1,843,491	14,195,503
-	-	-	-	-	50,244	59,365
637,954	2,516,435	151,778	358,451	245,842	1,785,459	14,116,361
-	-	-	-	-	5,659	8,824
-	-	-	-	-	2,129	10,953
637,954	2,516,435	151,778	358,451	245,842	1,843,491	14,195,503

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2016

<b>Assets and Liabilities</b>	Agricultural			
	County Offices	Extension Education	County Assessor	Schools
Balances beginning of year	\$ 22,490	141,615	435,947	7,764,964
Additions:				
Property and other county tax	-	164,758	243,446	7,773,788
E911 surcharge	-	-	-	-
State tax credits	-	11,249	25,808	625,449
Drivers license fees	-	-	-	-
Office fees and collections	312,228	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	107,360	-	-	-
Miscellaneous	-	-	1,760	-
Total additions	419,588	176,007	271,014	8,399,237
Deductions:				
Agency remittances:				
To other funds	132,009	-	-	-
To other governments	170,024	152,073	252,043	8,366,191
Trusts paid out	116,970	-	-	-
Total deductions	419,003	152,073	252,043	8,366,191
Balances end of year	\$ 23,075	165,549	454,918	7,798,010

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
631,353	2,556,260	165,200	225,827	241,264	1,736,750	13,921,670
636,134	2,395,030	153,834	-	-	1,346,096	12,713,086
-	-	-	-	-	146,399	146,399
50,551	376,092	8,944	-	-	104,903	1,202,996
-	-	-	-	25,781	-	25,781
-	-	-	-	-	-	312,228
-	-	-	-	3,322,133	-	3,322,133
-	-	-	172,525	-	-	172,525
-	-	-	-	-	-	107,360
-	2,258	-	-	-	366,320	370,338
686,685	2,773,380	162,778	172,525	3,347,914	1,963,718	18,372,846
-	-	-	-	123,013	-	255,022
680,084	2,813,205	176,200	39,901	3,220,323	1,856,977	17,727,021
-	-	-	-	-	-	116,970
680,084	2,813,205	176,200	39,901	3,343,336	1,856,977	18,099,013
637,954	2,516,435	151,778	358,451	245,842	1,843,491	14,195,503

Palo Alto County

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

For the Last Ten Years

	2016	2015	2014	2013
<b>Revenues:</b>				
Property and other county tax	\$ 7,209,829	6,434,592	6,455,692	6,467,510
Local option sales tax	432,521	465,145	433,932	361,974
Interest and penalty on property tax	27,218	26,172	25,497	23,143
Intergovernmental	4,816,292	4,466,781	3,912,315	5,753,093
Licenses and permits	22,379	15,448	14,701	14,578
Charges for service	655,020	613,017	675,118	747,829
Use of money and property	110,037	109,598	105,959	76,332
Miscellaneous	1,670,155	2,508,166	1,198,791	746,189
<b>Total</b>	<b>\$ 14,943,451</b>	<b>14,638,919</b>	<b>12,822,005</b>	<b>14,190,648</b>
<b>Expenditures:</b>				
<b>Operating:</b>				
Public safety and legal services	\$ 1,765,900	1,758,102	1,715,696	1,677,580
Physical health and social services	333,962	315,938	345,250	325,218
Mental health	442,343	518,741	441,820	498,060
County environment and education	1,493,651	1,280,216	1,340,012	1,367,347
Roads and transportation	3,593,743	4,076,273	4,351,228	3,923,103
Governmental services to residents	431,905	402,691	424,021	404,747
Administration	1,170,815	1,179,145	1,127,496	1,156,543
Non-program	623,771	1,796,929	924,130	5,730,306
Debt service	3,274,586	10,040,124	2,768,798	1,824,566
Capital projects	1,861,379	5,260,226	1,751,867	2,608,192
<b>Total</b>	<b>\$ 14,992,055</b>	<b>26,628,385</b>	<b>15,190,318</b>	<b>19,515,662</b>

See accompanying independent auditor's report.

Modified Accrual Basis					
2012	2011	2010	2009	2008	2007
6,479,439	6,036,591	5,603,209	5,324,307	4,895,452	4,931,144
363,359	328,462	333,579	333,000	293,697	375,326
32,834	30,237	23,945	21,939	24,668	25,995
4,236,506	4,151,228	4,254,845	4,114,678	3,801,314	3,804,731
11,544	7,411	10,067	9,013	23,505	9,782
649,422	616,306	554,575	545,346	487,402	477,541
132,469	202,748	294,229	466,243	485,647	391,148
1,285,823	761,672	406,075	246,814	472,628	210,377
13,191,396	12,134,655	11,480,524	11,061,340	10,484,313	10,226,044
1,615,221	1,582,458	1,611,100	1,514,188	1,440,928	1,307,407
330,422	298,385	308,296	303,222	305,488	346,957
1,287,366	1,187,643	1,130,674	1,349,910	1,470,535	1,379,738
1,441,657	1,531,174	1,331,955	1,183,855	1,173,111	956,832
3,759,031	3,834,536	4,008,318	3,295,372	3,072,587	3,091,246
388,793	362,160	363,348	354,520	465,185	329,024
1,139,244	1,102,432	1,171,615	1,059,081	951,245	1,078,010
1,132,729	1,004,990	740,436	338,381	379,250	73,170
2,213,254	1,676,728	1,543,430	1,171,045	425,316	338,077
3,588,863	3,710,629	1,574,053	447,110	272,549	735,751
16,896,580	16,291,135	13,783,225	11,016,684	9,956,194	9,636,212

**Palo Alto County**





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

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

To the Officials of Palo Alto County:

We have audited 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, 2016, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 20, 2017.

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 as 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) and (D) 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, 2016 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

March 20, 2017

Palo Alto County  
 Schedule of Findings  
 Year ended June 30, 2016

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

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

Condition – 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 – opening and listing mail 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) The person who signs checks is not independent of the individual who records cash receipts and prepares checks.	County Recorder
(4) All incoming mail is not opened by an employee who is not authorized to make entries to the accounting records and the mail opener does not prepare a listing of cash and checks received.	County Sheriff
(5) Voided receipts are not reviewed by an independent person.	County Recorder

Cause – The County offices noted above have a limited number of employees and procedures have not been designed to adequately segregate duties to provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the County’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Palo Alto County

Schedule of Findings

Year ended June 30, 2016

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.

Responses –

County Recorder –

1. Due to the number of staff in the office, it is not possible to segregate duties. We do have the Auditor's Office review our cash mailing list against the daily deposit record. (Monthly)
2. The bank reconciliations are usually prepared by our clerk, who cannot sign checks or someone from another office. I will make sure that we continue to do that.
3. Due to the number of staff, it is not possible to segregate this duty.
4. From now on, our voided receipts (usually have none) will be reviewed by another office.

County Sheriff – The Sheriff's Office has one employee that is responsible for the management of the Office which includes financial responsibilities. I have begun the practice of signing checks issued to the various entities to distribute funds maintained by the Sheriff's Office. I also time stamp and initial bank reconciliations. I will begin the practice of selectively and periodically inspecting the mail and recording random checks sent to this Office. These receipts will then be used to track the funds. This was a recommendation by state audit staff.

Conclusion – Response acknowledged. The Officers should also consider utilizing personnel from other offices or departments to provide additional internal control.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the County's financial statements.

Condition – Material amounts of receivables and infrastructure capital assets 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.

Palo Alto County

Schedule of Findings

Year ended June 30, 2016

Cause – County policies do not require and procedures have not been established to require independent review of year-end cut-off transactions to ensure the County’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in County employees not detecting the errors in the normal course of performing their assigned functions. As a result, materials adjustments to the County’s financial statements were necessary.

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

Response – We will make sure that receivables and capital assets are properly recorded by asking the departments to check the fiscal year before bringing it into us.

Conclusion – Response accepted.

(C) County Sheriff – Bank to Book Variance

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances.

Condition – The June 30, 2016 book balance did not reconcile to the June 30, 2016 bank balance. In addition, bank reconciliations are not always prepared on a timely basis. Also, fee receipts are not always deposited timely.

Cause – Procedures have not been designed and implemented to ensure all accounts are reconciled and the amounts recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds and receipts are deposited timely.

Effect – A lack of bank to book reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – The Sheriff’s Office 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. Also, all collections should be deposited timely.

Response – The office will balance the book to the bank monthly and agree the beginning and ending software balances to those reconciliations. Variances will be investigated.

Deposits of collections are on schedule to be deposited every Friday afternoon. However with the lack of additional personal in the office there are times that the Office Manager has other duties to take care of or is gone on that afternoon and the deposit is not timely made. Every attempt to make the deposit timely is always made.

Conclusion – Response accepted.

Palo Alto County  
Schedule of Findings  
Year ended June 30, 2016

(D) County Sheriff – Seizures and Abandonment Cash

Criteria – An effective internal control system provides for internal controls related to reconciling cash received through seizures or abandonment to cash on hand to ensure the accuracy of the centralized log and the cash on hand.

Condition – Cash received per the centralized log is not periodically compared to cash on hand.

Cause – Policies have not been established and procedures have not been implemented to reconcile the centralized log for cash received through seizures or abandonment to cash on hand.

Effect – This condition could result in misstated or misappropriated cash on hand.

Recommendation – The centralized log for cash received through seizures or abandonment should periodically be compared to cash on hand by an independent person. The independent review should be documented by the signature or initials of the person doing the review and the date of the review.

Response – A policy has been put into place that governs cash received or being held through seizures or abandonment. This policy contains procedures from first receipt of the money through final disposition. Copies of that documentation are required to be given to the Sheriff and are kept in a file and tracked throughout the possession of the monies. Updated documents are required to accompany other documents already on file until final disposition. Quarterly audits will be conducted with the seizing Deputy and the Sheriff. This will be documented and reduced to writing.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Palo Alto County  
Schedule of Findings  
Year ended June 30, 2016

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in 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:

Name, Title and Business Connection	Transaction Description	Amount
Terry Neary, spouse of Zoning and Sanitation employee, self-employed	Bookkeeping	\$2,076
Hardware Hank, owners are parents of the County Treasurer	Supplies	6,417
Nick Jackson, son of Deputy Sheriff	Lawn services	557
Becky Jamison, mother-in-law of County Treasurer	Primary Elections Worker	496
Terry Chamberlain, spouse of Sheriff's dispatcher	Cleaning services	2,005

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Nick Jackson and Becky Jamison do not appear to represent conflicts of interest since the total transactions with each individual were less than \$1,500 during the fiscal year.

The transactions with Hardware Hank, Terry Neary and Terry Chamberlain may represent conflicts of interest as defined in Chapter 331.342 of the Code of Iowa since the total transactions exceeded \$1,500 and were not competitively bid.

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

Response – The County will consult with the County Attorney regarding this matter. The Hardware Hank invoices are reviewed by the County Auditor and by someone with no interest in these claims. As of January, 2017, Hardware Hank has been sold and would no longer represent a conflict of interest.

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.

Palo Alto County

Schedule of Findings

Year ended June 30, 2016

- (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, 2016 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.
- (11) Transfer Station Closure Care – The April 2016 Engineer estimate for closure costs is \$7,788, or \$788 more than the County has set aside for closure.

Recommendation – The County should set aside resources equal to the closure costs estimated by the Engineer.

Response – The County will set aside an additional \$788 for the transfer station closure care fund.

Conclusion – Response accepted.



Palo Alto County

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager  
Ashley J. Moser, Senior Auditor  
Zachery J. Koziolk, Assistant Auditor  
Mitchell W. Shipman, Assistant Auditor  
Alex D. Dau, Assistant Auditor  
Molly T. Petron, Intern Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State