



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 26, 2012

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$5,928,358 for the year ended June 30, 2011, an 81% increase from the prior year. The receipts included \$286,077 in property tax, \$61,279 from tax increment financing, \$320,631 from charges for service, \$3,750,034 from operating grants, contributions and restricted interest, \$114,855 from local option sales tax, \$1,294 from unrestricted interest on investments, \$1,300,000 from note and loan proceeds and \$94,188 from other general receipts. The significant increase in receipts was primarily due to note and loan proceeds as well as an increase in current year disaster grant proceeds.

Disbursements for the year totaled \$5,799,354, a 31% increase from the prior year, and included \$4,002,420 for public safety, \$499,123 for capital projects and \$374,987 for culture and recreation. Also, disbursements for business type activities totaled \$379,871. The significant increase in disbursements was primarily due to current year capital projects and disaster recovery projects.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0549-B00F.pdf>.

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CITY OF PALO

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

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City of Palo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Harris	Mayor	(Resigned)
Paula Gunter (Appointed)	Mayor	Nov 2011
Brian Beaty (Appointed)	Council Member	Nov 2011
Tom Sanders	Council Member	Jan 2012
Paula Gunter	Council Member	(Resigned)
Jeff Beauregard	Council Member	Jan 2014
Trent Miller	Council Member	Jan 2014
Scott Packingham	Council Member	Jan 2014
Trisca Smetzer	City Administrator	Indefinite
Michelle NejdI	City Clerk	Indefinite
Stacy Dix	Deputy City Clerk	Indefinite
Scott Peterson	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Palo's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2012 on our consideration of the City of Palo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palo's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Palo 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's government activities increased approximately \$231,000, primarily due to note and loan proceeds received in fiscal year 2011.
- The cash basis net assets of the City's business type activities decreased approximately \$102,000, primarily due to the contract with the City of Cedar Rapids for sewer services after the flood.

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 City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City'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 the City's operations in more detail than the government-wide financial statement by providing information about the most significant 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 City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Local Option Sales Tax and Tax Increment Financing, 3) the Capital Projects Fund and 4) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government 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 City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds. The Sewer Fund is considered to be a major fund of the City.

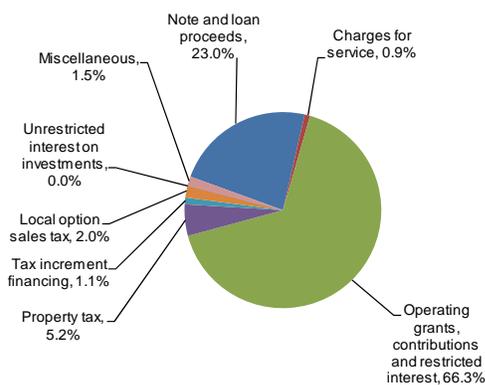
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

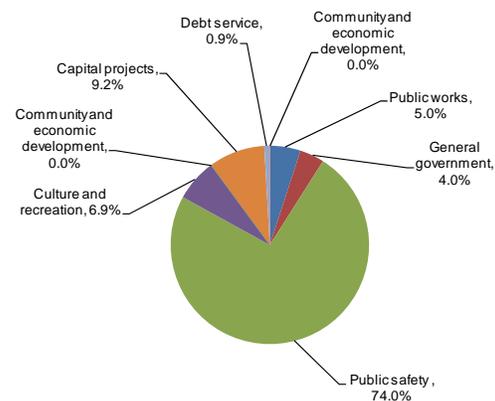
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$514,063 at June 30, 2010 to \$745,546 at June 30, 2011, primarily due to note and loan proceeds received in the current fiscal year. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 53,239	\$ 151,878
Operating grants, contributions and restricted interest	3,750,034	2,077,895
General receipts:		
Property tax	292,684	291,070
Tax increment financing	61,279	4,073
Local option sales tax	114,855	182,737
Unrestricted interest on investments	1,294	2,655
Note and loan proceeds	1,300,000	266,129
Miscellaneous	87,581	20,312
Total receipts	5,660,966	2,996,749
Disbursements:		
Public safety	4,002,420	3,010,290
Public works	273,155	291,799
Culture and recreation	374,987	279,849
Community and economic development	1,920	1,498
General government	219,308	219,320
Debt service	48,570	46,669
Capital projects	499,123	298,787
Total disbursements	5,419,483	4,148,212
Change in cash basis net assets before transfers	241,483	(1,151,463)
Transfers out	(10,000)	-
Change in cash basis net assets	231,483	(1,151,463)
Cash basis net assets beginning of year	514,063	1,665,526
Cash basis net assets end of year	\$ 745,546	\$ 514,063

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 89%, or approximately \$2,664,000. The total cost of all programs and services increased approximately \$1,271,000, or 31%. The significant increase in receipts was primarily the result of proceeds received from issuance of a \$1,000,000 general obligation project note and a \$300,000 Community Disaster Loan from the U.S. Department of Homeland Security, as well as an increase in disaster grants. The significant increase in the cost of programs and services was primarily the result of more work on disaster recovery projects related to the flood of 2008.

The cost of all governmental activities this year was approximately \$5.420 million compared to approximately \$4.148 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$1.616 million because some of the cost was paid by those directly benefited from the programs (approximately \$53,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$3,750,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2011 from approximately \$2,230,000 to approximately \$3,803,000, principally due to receiving grant proceeds for disaster recovery projects related to the flood of 2008.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 267,392	\$ 280,341
Disbursements:		
Water	9,684	4,676
Sewer	370,187	290,293
Total disbursements	379,871	294,969
Change in cash basis net assets before transfers	(112,479)	(14,628)
Transfers in	10,000	-
Change in cash basis net assets	(102,479)	(14,628)
Cash basis net assets beginning of year	246,209	260,837
Cash basis net assets end of year	\$ 143,730	\$ 246,209

Total business type activities cash basis net assets decreased from \$246,209 at June 30, 2010 to \$143,730 at June 30, 2011.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Palo completed the year, its governmental funds reported a combined fund balance of \$745,546, an increase of \$231,483 from last year's total of \$514,063. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$457,778 from the prior year to a year-end balance of \$270,452. This was primarily due to note and loan proceeds during fiscal year 2011.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$149,392 to \$539,384. This was primarily due to street and park projects during fiscal year 2011.

- The Special Revenue, Tax Increment Financing Fund cash balance increased \$46,148 to \$235,163. This change was attributable to fewer disbursements in the TIF area during fiscal year 2011.
- The Capital Projects Fund cash balance decreased \$86,752 to a deficit balance of \$250,670, primarily due to fire, sewer and water project costs exceeding grant proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance decreased \$92,795 to \$159,280. This was primarily due to a contract with the City of Cedar Rapids to provide sewer services after the flood.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on June 13, 2011 and resulted in an overall decrease in disbursements related to federal disaster funds.

The City’s receipts were \$4,059,837 less than budgeted. This was primarily due to the City budgeting FEMA receipts for projects not yet completed.

With the budget amendment, total disbursements were \$2,744,755 less than the amended budget. This was primarily due to budgeting FEMA and water plant disbursements which were not disbursed.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$5,455,000 in bonds, notes and loans outstanding, compared to \$4,175,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation bonds	\$ 1,175,000	\$ 1,185,000
General obligation notes	1,000,000	-
Sewer revenue bonds	2,980,000	2,990,000
Community disaster loan	300,000	-
Total	\$ 5,455,000	\$ 4,175,000

Debt increased as a result of the City approving a project anticipation note for \$1,000,000 and a \$300,000 community disaster loan for disaster repair and cleanup.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$2,475,000, including the \$300,000 forgivable community disaster loan, is below its constitutional debt limit of \$2,545,109.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Palo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are \$10,620,617, an increase of 83% over the actual year 2011 disbursements. The increase is primarily due to the continued cleanup after the flood.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$658,000 by the close of fiscal year 2012 due to disaster grant reimbursements and refinancing of long term debt.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michelle Nejd, City Clerk 2800 Hollenbeck Road, Palo, Iowa 52324.

Basic Financial Statements

City of Palo

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 4,002,420	3,151	3,242,080
Public works	273,155	49,491	89,972
Culture and recreation	374,987	-	1,060
Community and economic development	1,920	-	-
General government	219,308	597	4,551
Debt service	48,570	-	-
Capital projects	499,123	-	412,371
Total governmental activities	5,419,483	53,239	3,750,034
Business type activities:			
Water	9,684	-	-
Sewer	370,187	267,392	-
Total business type activities	379,871	267,392	-
Total	\$ 5,799,354	320,631	3,750,034

General Receipts and Transfers:

Property and other city tax levied for general purposes
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Note and loan proceeds
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Local option sales tax
 Urban renewal purposes
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(757,189)	-	(757,189)
(133,692)	-	(133,692)
(373,927)	-	(373,927)
(1,920)	-	(1,920)
(214,160)	-	(214,160)
(48,570)	-	(48,570)
(86,752)	-	(86,752)
(1,616,210)	-	(1,616,210)
-	(9,684)	(9,684)
-	(102,795)	(102,795)
-	(112,479)	(112,479)
(1,616,210)	(112,479)	(1,728,689)
292,684	-	292,684
61,279	-	61,279
114,855	-	114,855
1,294	-	1,294
1,300,000	-	1,300,000
87,581	-	87,581
(10,000)	10,000	-
1,847,693	10,000	1,857,693
231,483	(102,479)	129,004
514,063	246,209	760,272
\$ 745,546	143,730	889,276
\$ 539,384	-	539,384
235,163	-	235,163
56,517	-	56,517
(85,518)	143,730	58,212
\$ 745,546	143,730	889,276

City of Palo

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	General	Local Option Sales Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 234,611	-	-
Tax increment financing	-	-	61,279
Other city tax	2,775	114,855	-
Licenses and permits	1,372	-	-
Use of money and property	7,577	-	101
Intergovernmental	3,235,524	-	-
Charges for service	49,490	-	-
Miscellaneous	88,681	-	-
Total receipts	3,620,030	114,855	61,380
Disbursements:			
Operating:			
Public safety	3,970,588	-	15,232
Public works	57,359	46,136	-
Culture and recreation	232,281	133,111	-
Community and economic development	1,857	-	-
General government	203,669	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	4,465,754	179,247	15,232
Excess (deficiency) of receipts over (under) disbursements	(845,724)	(64,392)	46,148
Other financing sources (uses):			
Sale of property	3,502	-	-
Loan proceeds	300,000	-	-
Note proceeds	1,000,000	-	-
Operating transfers in	-	-	-
Operating transfers out	-	(85,000)	-
Total other financing sources (uses)	1,303,502	(85,000)	-
Net change in cash balances	457,778	(149,392)	46,148
Cash balances beginning of year	(187,326)	688,776	189,015
Cash balances end of year	\$ 270,452	539,384	235,163
Cash Basis Fund Balances			
Restricted for:			
Local option sales tax	\$ -	539,384	-
Urban renewal purposes	-	-	235,163
Other purposes	-	-	-
Unassigned	270,452	-	-
Total cash basis fund balances	\$ 270,452	539,384	235,163

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	58,073	292,684
-	-	61,279
-	-	117,630
-	-	1,372
-	89	7,767
412,371	85,194	3,733,089
-	-	49,490
-	5,472	94,153
412,371	148,828	4,357,464
-	16,600	4,002,420
-	169,660	273,155
-	9,595	374,987
-	63	1,920
-	15,639	219,308
-	48,570	48,570
499,123	-	499,123
499,123	260,127	5,419,483
(86,752)	(111,299)	(1,062,019)
-	-	3,502
-	-	300,000
-	-	1,000,000
-	75,000	75,000
-	-	(85,000)
-	75,000	1,293,502
(86,752)	(36,299)	231,483
(163,918)	(12,484)	514,063
(250,670)	(48,783)	745,546
-	-	539,384
-	-	235,163
-	56,517	56,517
(250,670)	(105,300)	(85,518)
(250,670)	(48,783)	745,546

City of Palo

City of Palo

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Sewer	Enterprise Nonmajor Water	Total
Operating receipts:			
Charges for service	\$ 267,392	-	267,392
Operating disbursements:			
Business type activities	262,987	9,684	272,671
Excess (deficiency) of operating receipts over (under) operating disbursements	4,405	(9,684)	(5,279)
Non-operating disbursements:			
Debt service	(107,200)	-	(107,200)
Deficiency of receipts under disbursements	(102,795)	(9,684)	(112,479)
Operating transfers in	10,000	-	10,000
Net change in cash balances	(92,795)	(9,684)	(102,479)
Cash balances beginning of year	252,075	(5,866)	246,209
Cash balances end of year	\$ 159,280	(15,550)	143,730
Cash Basis Fund Balances			
Unreserved	\$ 159,280	(15,550)	143,730

See notes to financial statements.

City of Palo

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Palo is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1954 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Palo has included all funds, organizations, agencies, boards, commissions and authorities. The City 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 City are such that exclusion would cause the City'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 City 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 City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission and Linn County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

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

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts 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 on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts 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 disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for road improvements, sanitary sewer improvements, park and recreational expenditures, infrastructure improvements and other community improvement projects.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Capital Projects Fund is used to account for receipts and disbursements related to capital projects in progress in the City.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

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 imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

(3) Bonds and Notes Payable

General Obligation Bonds

As of June 30, 2011, the City had received \$1,195,000 of the \$1,200,000 authorized amount of general obligation bonds dated December 13, 2007. The City has made principal payments totaling \$20,000, leaving an outstanding balance of \$1,175,000 at June 30, 2011. A final repayment schedule will not be adopted until the City has drawn down the authorized amount of the bonds.

Revenue Bonds

On December 13, 2007, the City entered into a state revolving fund loan and disbursement agreement with the Iowa Finance Authority and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$3,000,000 of sewer revenue bonds with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.83 of the Code of Iowa for the purpose of paying the cost of constructing improvements and extensions to the City sewer system.

Annual debt service requirements to maturity for the sewer revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 10,000	89,400	99,400
2013	10,000	89,100	99,100
2014	10,000	88,800	98,800
2015	81,000	88,500	169,500
2016	83,000	86,070	169,070
2017-2021	456,000	391,380	847,380
2022-2026	528,000	318,810	846,810
2027-2031	612,000	234,690	846,690
2032-2036	711,000	137,100	848,100
2037-2039	479,000	29,010	508,010
Total	\$ 2,980,000	1,552,860	4,532,860

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2039. The total principal and interest remaining to be paid on the bonds is \$4,532,860. For the current year, principal and interest paid and total customer net receipts were \$99,700 and \$4,405, respectively.

Annual principal and interest payments on the bonds required 2,263% of net receipts for the year ended June 30, 2011.

The resolution providing for the issuance of the bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- (d) The City shall keep proper books and cause the books to be audited annually by an independent auditor.

The City was not in compliance with the bond requirement to establish user rates at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

General Obligation Project Note

On February 21, 2011, the City entered into a \$1,000,000 general obligation project note. The note is used for the purpose of paying the costs of remediation, restoration, repair, cleanup, replacement and improvement of property, buildings, equipment and public facilities damaged by a disaster and reimbursement to the General Fund for prior disbursements made in such remediation and restoration efforts. The note has a maturity date of March 1, 2013 and bears interest at 3.50% per annum payable on September 1, 2011, March 1, 2012, September 1, 2012 and on the maturity date. Interest on the note will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The general obligation project note was redeemed in December 2011 by paying \$1,000,000 in principal and \$9,466 of interest.

Community Disaster Loan

On January 29, 2009, the City entered into a \$300,000 forgivable loan agreement with the Federal Emergency Management Agency (FEMA). The loan amount was not drawn until fiscal year 2011. The loan was issued pursuant to the provisions of subpart K of 44 Code of Federal Regulations (CFR) for the purpose of assisting the City in recovering from a substantial loss of tax and other revenues as a result of a major disaster. If the requirements of subpart K of 44 CFR, including a determination by FEMA receipts of the City during the three fiscal years following the disaster are insufficient to meet the operating budget of the City because of disaster related losses and additional unreimbursed disaster related operating expenses, are not met and the loan is not forgiven, the City will pay interest at 1.625% per annum. Although the City believes the requirements for forgiveness have been met, a final determination has not been received. Accordingly, the loan has not been displayed in Schedule 2, the Schedule of Indebtedness.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state

statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$15,065, \$19,182 and \$12,976, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There is 1 active and no retired members in the plan. Four employees are not covered under the City health care plan, but are reimbursed for other health insurance premiums paid, up to \$500 per month. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross/Blue Shield. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan member is \$399 for single coverage. There are no active members with family coverage. The same monthly premium would apply to retirees. For the year ended June 30, 2011, the City contributed \$8,231 and the plan member eligible for benefits did not contribute to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011, primarily relating to the General Fund, is \$8,700.

This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:	Special Revenue:	
Road Use Tax	Local Option Sales Tax	\$ 75,000
Enterprise:	Special Revenue:	
Sewer	Local Option Sales Tax	10,000
Total		\$ 85,000

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

(8) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 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 provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$37,237.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhaust total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, 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 claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of a membership may receive a partial refund of

their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

(9) Deficit Balances

The Special Revenue, Road Use Tax and Community Disaster Grant, Debt Service, Capital Projects and Enterprise, Water Funds had deficit balances of \$3,533, \$6,528, \$95,239, \$250,670 and \$15,550, respectively, at June 30, 2011. The City is in the process of working on many projects relating to the flood of 2008, as well as a new water system. The City believes the deficits should be eliminated after the City has closed out these projects.

(10) Construction Progress

The City has entered into contracts totaling \$4,407,241. As of June 30, 2011, the City had made payments totaling \$3,115,258. The balance remaining on the contracts at June 30, 2011, totaling \$1,291,983, will be paid as work on the projects progresses.

(11) Related Party

The City had business transactions between the City and City officials totaling \$21,072 during the year ended June 30, 2011.

(12) Subsequent Events

On July 25, 2011, the City Council authorized the issuance of a \$500,000 general obligation loan agreement anticipation project note.

On December 22, 2011, the City Council awarded various contracts for parts of the water distribution and treatment facility project totaling \$3,853,319.

On April 23, 2012, the City Council authorized the issuance of \$1,815,000 of general obligation corporate purpose and refunding bonds.

City of Palo

Required Supplementary Information

City of Palo

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 292,684	-	292,684
Tax increment financing	61,279	-	61,279
Other city tax	117,630	-	117,630
Licenses and permits	1,372	-	1,372
Use of money and property	7,767	-	7,767
Intergovernmental	3,733,089	-	3,733,089
Charges for service	49,490	267,392	316,882
Miscellaneous	94,153	-	94,153
Total receipts	<u>4,357,464</u>	<u>267,392</u>	<u>4,624,856</u>
Disbursements:			
Public safety	4,002,420	-	4,002,420
Public works	273,155	-	273,155
Culture and recreation	374,987	-	374,987
Community and economic development	1,920	-	1,920
General government	219,308	-	219,308
Debt service	48,570	-	48,570
Capital projects	499,123	-	499,123
Business type activities	-	379,871	379,871
Total disbursements	<u>5,419,483</u>	<u>379,871</u>	<u>5,799,354</u>
Excess (deficiency) of receipts over (under) disbursements	(1,062,019)	(112,479)	(1,174,498)
Other financing sources	1,293,502	10,000	1,303,502
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	231,483	(102,479)	129,004
Balances beginning of year	514,063	246,209	760,272
Balances end of year	<u>\$ 745,546</u>	<u>143,730</u>	<u>889,276</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
288,049	317,964	(25,280)
60,142	60,142	1,137
140,486	140,486	(22,856)
2,650	3,350	(1,978)
11,400	11,760	(3,993)
8,833,510	7,551,471	(3,818,382)
347,820	516,320	(199,438)
51,700	83,200	10,953
<u>9,735,757</u>	<u>8,684,693</u>	<u>(4,059,837)</u>
8,394,892	5,991,388	1,988,968
342,738	296,078	22,923
230,675	405,250	30,263
3,315	2,715	795
247,571	256,628	37,320
48,675	48,700	130
561,000	1,128,000	628,877
476,550	415,350	35,479
<u>10,305,416</u>	<u>8,544,109</u>	<u>2,744,755</u>
(569,659)	140,584	(1,315,082)
<u>1,000</u>	<u>25,000</u>	<u>1,278,502</u>
(568,659)	165,584	(36,580)
<u>1,675,520</u>	<u>1,675,520</u>	<u>(915,248)</u>
<u>1,106,861</u>	<u>1,841,104</u>	<u>(951,828)</u>

City of Palo

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Capital Projects Fund, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$1,761,307. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the culture and recreation function prior to amendment of the budget on June 13, 2011.

Other Supplementary Information

City of Palo

City of Palo

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue					Total
	Employee Benefits	Road Use Tax	Community Disaster Grant	Palo		
				Volunteer Fire Department	Debt Service	
Receipts:						
Property tax	\$ 58,073	-	-	-	-	58,073
Use of money and property	-	-	-	89	-	89
Intergovernmental	-	85,194	-	-	-	85,194
Miscellaneous	-	-	-	5,472	-	5,472
Total receipts	58,073	85,194	-	5,561	-	148,828
Disbursements:						
Operating:						
Public safety	-	-	8,932	7,668	-	16,600
Public works	8,741	160,919	-	-	-	169,660
Culture and recreation	9,595	-	-	-	-	9,595
Community and economic development	63	-	-	-	-	63
General government	15,639	-	-	-	-	15,639
Debt service	-	-	-	-	48,570	48,570
Total disbursements	34,038	160,919	8,932	7,668	48,570	260,127
Excess (deficiency) of receipts over (under) disbursements	24,035	(75,725)	(8,932)	(2,107)	(48,570)	(111,299)
Other financing sources:						
Operating transfers in	-	75,000	-	-	-	75,000
Net change in cash balances	24,035	(725)	(8,932)	(2,107)	(48,570)	(36,299)
Cash balances beginning of year	19,415	(2,808)	2,404	15,174	(46,669)	(12,484)
Cash balances end of year	\$ 43,450	(3,533)	(6,528)	13,067	(95,239)	(48,783)
Cash Basis Fund Balances						
Restricted for other purposes	\$ 43,450	-	-	13,067	-	56,517
Unassigned	-	(3,533)	(6,528)	-	(95,239)	(105,300)
Total cash basis fund balances	\$ 43,450	(3,533)	(6,528)	13,067	(95,239)	(48,783)

See accompanying independent auditor's report.

City of Palo
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds: Sewer improvement	Dec 13, 2007	3.00%	\$ 1,200,000
General obligation notes: Project note	Feb 21, 2011	3.50%	\$ 1,000,000
Sewer revenue bonds: Sewer improvements	Dec 13, 2007 *	3.00%	\$ 3,000,000

* - The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest and Servicing Fee Paid
1,185,000	-	10,000	1,175,000	38,570
-	1,000,000	-	1,000,000	-
2,990,000	-	10,000	2,980,000	97,200

Schedule 3

City of Palo
Bond Maturities
June 30, 2011

Year Ending June 30,	Sewer Revenue Bonds	
	Sewer Improvements	
	Issued Dec 13, 2007	
	Interest Rates	Amount
2012	3.00%	\$ 10,000
2013	3.00	10,000
2014	3.00	10,000
2015	3.00	81,000
2016	3.00	83,000
2017	3.00	86,000
2018	3.00	88,000
2019	3.00	91,000
2020	3.00	94,000
2021	3.00	97,000
2022	3.00	99,000
2023	3.00	102,000
2024	3.00	106,000
2025	3.00	109,000
2026	3.00	112,000
2027	3.00	115,000
2028	3.00	119,000
2029	3.00	122,000
2030	3.00	126,000
2031	3.00	130,000
2032	3.00	134,000
2033	3.00	138,000
2034	3.00	142,000
2035	3.00	146,000
2036	3.00	151,000
2037	3.00	155,000
2038	3.00	160,000
2039	3.00	164,000
Total		<u>\$ 2,980,000</u>

See accompanying independent auditor's report.

City of Palo

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Three Years

	2011	2010	2009
Receipts:			
Property tax	\$ 292,684	300,726	233,045
Tax increment financing	61,279	4,073	168,307
Other city tax	117,630	182,737	282,589
Licenses and permits	1,372	4,703	5,743
Use of money and property	7,767	7,904	9,696
Intergovernmental	3,733,089	2,025,559	2,852,557
Charges for service	49,490	59,639	46,041
Miscellaneous	94,153	131,286	26,448
Total	<u>\$ 4,357,464</u>	<u>2,716,627</u>	<u>\$3,624,426</u>
Disbursements:			
Operating:			
Public safety	\$ 4,002,420	3,010,290	2,346,171
Public works	273,155	291,799	113,498
Culture and recreation	374,987	279,849	114,554
Community and economic development	1,920	1,498	142,280
General government	219,308	219,320	150,540
Debt service	48,570	46,669	-
Capital projects	499,123	298,787	2,902,392
Total	<u>\$ 5,419,483</u>	<u>4,148,212</u>	<u>\$5,769,435</u>

See accompanying independent auditor's report.

Schedule 5

City of Palo

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Homeland Security:			
Community Disaster Loans	97.030		\$ 300,000
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	08-DRMH-050	37,196
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	08-DRI-0236	338,919
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	08-DRPG-243	276
			376,391
U.S. Department of Energy:			
Office of Energy Independence:			
ARRA - Energy Efficiency and Conservation			
Block Grant Program (EECBG)	81.128	EECBG 10/3400	2,231
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)	97.036	FEMA-1763-DR-I	3,389,269
Hazard Mitigation Grant	97.039	DR-1763-57-01	99,526
Total indirect			3,867,417
Total			\$ 4,167,417

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Palo and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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 Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 15, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 City of Palo's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned costs as item II-A-11 to be a material weakness.

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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-11 through II-D-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Palo'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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Palo and other parties to whom the City of Palo may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 15, 2012

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

City of Palo



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Palo, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Palo's major federal programs for the year ended June 30, 2011. The City of Palo's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Palo's management. Our responsibility is to express an opinion on the City of Palo's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Palo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Palo's compliance with those requirements.

In our opinion, the City of Palo complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Palo is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Palo's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Palo's internal control over compliance.

A deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

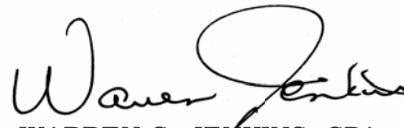
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over compliance we consider to be significant deficiencies which are described in the accompanying Schedule of Findings and Questioned Costs as items III-A-11 and III-B-11. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Palo and other parties to whom the City of Palo may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 15, 2012

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
 - CFDA Number 97.030 – Community Disaster Loans
 - CFDA Number 97.036 – Disaster Grants Public Assistance (Presidentially Declared Disasters).
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Palo did not qualify as a low-risk auditee.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Financial Reporting – During the audit, we identified a material amount of contributions, reimbursements and refund receipts misclassified as “charges for service” rather than “miscellaneous” receipts.

Adjustments were subsequently made by the City to properly report these amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure receipts are properly recorded and classified in the City’s financial statements.

Response – The City adopted the chart of accounts in February of 2003 to ensure receipts are properly recorded and classified in the City’s financial statements. The reclassification from miscellaneous income line item 4510 to miscellaneous income line item 4700 was corrected March 15, 2012. The City also added an additional revenue account. The City believes this was an auditor interpretation, as it had not been a consideration in previous audits.

Conclusion – Response accepted.

II-B-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For the Palo Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Palo Volunteer Fire Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response - We will work to segregate duties to the best of our ability.

Conclusion – Response accepted.

II-C-11 Policies and Procedures – The City does not have a written disaster recovery plan.

Recommendation – The City should develop a written disaster recovery plan.

Response – On March 12, 2012, the City Council adopted the Comprehensive Smart Plan, a strategic growth plan for the City and County. This was a collaborative effort of the City, East Central Iowa Council of Governments and the County and received State approval. The City of Palo adopted the Hazard Mitigation Plan on February 9, 2009. The City is required, as part of the Iowa Department of Natural Resources

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(IDNR) Self-Assessment Manual for Iowa Water Systems, to have an emergency response plan by December 31, 2012. The City has set a meeting for May 29, 2012 for training on this and other requirements. The City has also accessed the IDNR website for a model plan and supporting information. The City will work to incorporate all these factors into a Disaster Recovery Plan. The City has contacted the City of Parkersburg for an example of a Disaster Recovery Plan. The auditor has also provided a questionnaire to help the City prepare a Disaster Recovery Plan.

Conclusion – Response accepted.

II-D-11 Review of Timesheets – City office staff fill out bi-weekly timesheets which are reviewed and approved by the Mayor. During our review, the following issues were noted:

- 1) A timesheet was noted where the individual charged 8 hours to “other” for attending an Iowa League of Cities conference, but documentation from the League of Cities does not verify the individual attended the conference.
- 2) The City employs various administrative personnel. Over the last three years, the amount of overtime pay to individuals in these positions has averaged \$16,226 while overtime for the first six months of fiscal year 2012 totals \$10,217.

Recommendation – Timesheets should be reviewed closely in order to ensure only hours worked are included and overtime should be evaluated to determine what, if any, alternatives exist to minimize overtime to the extent possible.

Response – The City Council has acted and the employee who falsified the timesheet is no longer employed by the City. The other employees have made their conference/class records available to the City Council. The City has hired a temporary, part-time person to help with some of the closeout documentation. The City Council is evaluating contracting with the East Central Iowa Council of Governments to administer the Community Development Block Grant (CDBG) Water Project from May 29, 2012 forward. Administrative personnel are working to close out the Flood Related Federal Emergency Management Agency/Iowa Homeland Security Emergency Management Division/CDBG projects while administering current projects and providing administrative support for necessary City functions.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number: 14.228 – Community Development Block Grants/State’s Program
Grant Number: 08-DRI-0236
U.S. Department of Housing and Urban Development
Passed through the Iowa Economic Development Authority

III-A-11 Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. Per the grant agreement, any federal funds drawn down are to be disbursed within ten working days. During our review, we noted a draw down for \$225,000 which was not fully disbursed until thirty-three working days after the draw down.

Recommendation – The City should implement procedures to ensure funds drawn down are disbursed within ten working days.

Response and Corrective Action Planned – The project manager for the water project is no longer employed by the City of Palo. The City of Palo has contracted with East Central Iowa Council of Governments (ECICOG) to administer this project.

Conclusion – Response accepted.

CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Grant Number: FEMA-1763-DR-IA
U.S. Department of Homeland Security
Passed through the Iowa Department of Public Defense – Iowa Homeland Security and Emergency Management Division

III-B-11 Cash Management – In accordance with the State of Iowa Public Assistance Plan, the City may request an advance of federal funds on large FEMA projects provided the funds are expended within 60 days of receipt. Additionally, the Advance Request form should be reviewed by an independent person.

A review of the City’s ledgers and cash management system identified the following:

- (a) On January 7, 2011 and January 12, 2011, the City requested advances from FEMA of \$1,066,964, and \$457,064, respectively, for project worksheet 950. The City did not fully disburse the funds for 90 and 86 days, respectively.
- (b) Additionally, all requests for reimbursement or advance requests are prepared by one person and there is no evidence of independent review.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – The City should develop and implement procedures to ensure FEMA funds received in advance are disbursed within sixty days. The City should contact the Iowa Homeland Security and Emergency Management Division to determine the disposition of this matter. Additionally, the Advance Requests should be reviewed by an independent person.

Response and Corrective Action Planned – The City will develop and implement procedures to ensure FEMA funds received in advance are disbursed within sixty days. The City has contacted the Iowa Homeland Security and Emergency Management Division and they do not have concerns on this matter. The Advance Requests are reviewed by the Mayor for all projects for which the City was required to have an authorized signatory. The City has complied with all FEMA requirements. The City's state representatives also review the requests before they are forwarded to FEMA as is their procedure. The City has complied and will continue to comply with these procedures.

Conclusion – Response accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the culture and recreation function prior to amendment of the budget on June 13, 2011. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in a sufficient amount as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City will amend the budget in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Conclusion - Response accepted.

IV-B-11 Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. The disbursements are as follows:

City - The City reimbursed the Palo Volunteer Fire Department for its Christmas Dinner at \$50 per fire member, for a total of \$1,000.

Palo Volunteer Fire Department - The Palo Volunteer Fire Department issued a check to "cash" for \$1,000 for its Christmas Dinner.

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

Recommendation - The City should determine and document the public purpose served by reimbursing the Palo Volunteer Fire Department for its Christmas Dinner. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

The Palo Volunteer Fire Department should discontinue the practice of writing checks to "cash".

Responses -

City - The City will provide clear documentation in the City Council minutes as to the public purpose served by allowing a reimbursement to the Palo Volunteer Fire Department for its Christmas Dinner. The City will establish written policies and procedures and require documentation from the Palo Volunteer Fire Department for the City reimbursement for its Christmas Dinner.

Palo Volunteer Fire Department - The Fire Department will discontinue the practice of writing checks to "cash" in the future.

Conclusions - Responses accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tom Watson, Flood Recovery Coordinator, Owner of Watson Services	Construction, flood clean-up	\$ 21,072

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Flood Recovery Coordinator may represent a conflict of interest since the total transactions were greater than \$2,500 during the fiscal year and were not competitively bid. All transactions were approved for payment by the City Council.

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

Response – A written legal opinion was requested from the City Attorney, Scott Peterson, on June 17, 2011. Said opinion was forwarded to the City and made available to the State Auditor on December 21, 2011. The employer-employee relationship with the Flood Recovery Coordinator and owner of Watson Services was terminated October 31, 2011.

Conclusion – Response accepted.

IV-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-11 Council Minutes - Except certain transfers were not approved in the minutes record, no transactions were found which we believe should have been approved in the City Council minutes but were not.

Chapter 21.3 of the Code of Iowa states, “Each governmental body shall keep minutes of all its meetings, showing the date, time and place, the members present, and the action taken at each meeting.” The City Council did not take minutes for two City Council workshops and one town hall meeting.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and ensure all transfers are approved through the certified budget, resolutions or minutes record.

Response – The City will take minutes at Council workshops and the town hall meeting in compliance with Chapter 21 of the Code of Iowa. The City will also approve all fund/account transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.

Conclusion – Response accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-G-11 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 City’s investment policy were noted.

IV-H-11 Tax Increment Financing (TIF) – The City does not currently have policies to provide guidance for low to moderate income projects.

Also, the City’s tax increment financing (TIF) certification includes the sewer revenue bond principal debt of \$3,000,000. However, the sewer bond resolution requires the bonds to be payable solely and only out of the future net revenues of the sewer utility of the City.

In addition, the City adopted resolutions to create an internal loan by having the General Fund loan monies to the Special Revenue, Tax Increment Financing Fund for some local projects. However, the transfers were never made.

Recommendation – The City should establish policies and procedures for low to moderate income projects.

Also, the City should complete Form 3 of the TIF Indebtedness Certification to the County Auditor to reduce the TIF indebtedness outstanding for the \$3,000,000 of sewer revenue bonds.

In addition, when creating internal loans for TIF debt, the City should transfer the loan proceeds.

Response – The low to moderate income agreement has expired and the funds have been expended.

On March 20, 2012, the City completed Form 3 of the TIF Indebtedness Certification to the County Auditor to reduce the TIF indebtedness outstanding for the \$3,000,000 of sewer revenue bonds.

The City will continue to record transfers when creating internal loans for TIF debt.

Conclusion – Response accepted.

IV-I-11 Financial Condition – The Special Revenue, Road Use Tax and Community Disaster Grant, Debt Service, Capital Projects and Enterprise, Water Funds had deficit balances of \$3,533, \$6,528, \$95,239, \$250,670 and \$15,550, respectively, at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

Response – The City is in the process of working on many projects relating to the flood of 2008. After the City has closed out these projects, the deficit should be eliminated. The Road Use Tax Fund deficit balance was eliminated in October of 2011. The Debt Service Fund deficit balance was eliminated in April of 2012. The Capital Projects fund deficit balance included the Fire Station I-Jobs Grant, the 2010 CDBG Water Project and the SRF. The City is exploring alternatives to fund the remaining construction costs associated with the Fire Station Project not funded by the I-Jobs Grant. The CDBG Water Project deficit was eliminated in

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

March of 2012 when funding from CDBG was received. The SRF project will close in June of 2012. The City will work to eliminate the deficit at the completion of closeout.

Conclusion – Response accepted.

- IV-J-11 Revenue Bonds – The sewer revenue bond resolution requires sewer user rates be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year. During the year ended June 30, 2011, the City was not in compliance with the net receipts requirement for the sewer revenue bonds as required by the bond resolution.

Recommendation – The City should ensure sewer user rates are established at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds.

Response – After resolutions for an increase in sewer rates failed to pass the City Council, City staff contacted Iowa Rural Water Association in June of 2011 to initiate a sewer rate study. In March of 2012, the current City Council passed a resolution to raise sewer rates by \$10.00 per customer class. The Church rate was combined with the commercial rate. The City Council felt the rate study results were somewhat skewed by expenses associated with the flood. The current City Council has made an initial adjustment in the rates and is continuing to monitor expenses to maintain compliance with the net receipt requirements for the sewer revenue bonds as required by the bond resolution.

Conclusion – Response accepted.

- IV-K-11 Records of Accounts – The Palo Volunteer Fire Department maintained its financial accounting records separate from the City Clerk's records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk's records. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose."

Recommendation – The Palo Volunteer Fire Department's financial transactions and balances should be included in the City Clerk's monthly financial reports. Internal control could be strengthened and operating efficiency could be increased by integrating the accounting receipts and disbursements with the City's accounting records in the City Clerk's office.

If the Palo Volunteer Fire Department's receipts and disbursements are not integrated with the City's accounting records, the Palo Volunteer Fire Department should segregate accounting duties to the extent possible and cancel all invoices or other appropriate documentation in a manner to help prevent possible duplicate payments. Accounting records should facilitate the classification of receipts and disbursements by source and object, respectively.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response – In May of 2011 the City of Palo began to include the Palo Volunteer Fire Department bank statements with the Council packet information. The Palo Fire Department has spoken with the State Auditor staff and is pursuing 501(c)3 status. The City contacted the State Auditor’s office and received the following reply stating the City is in compliance with Iowa code 372.13(6). “You indicated, by agreement, the Council approves certain fire department bills and the fire department approves some. The City publishes the fire department bills approved by the City Council which are included in the publication with the other bills approved by the City Council. This is correct and compliant with Iowa Code 372.13(6). Therefore, the city “may” but is not required to publish the report submitted by the fire department. The fire department report is public information, if requested, but again, not required to be published.”

Conclusion – Response accepted.

City of Palo

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Daniel L. Grady, Senior Auditor
James H. Pitcher, Assistant Auditor
William B. Corley, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State