

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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
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**NEWS RELEASE**

FOR RELEASE

March 1, 2013

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 \$7,733,409 for the year ended June 30, 2012, a 30.4% increase from the prior year. The receipts included \$279,496 in property tax, \$201,870 from tax increment financing, \$356,185 from charges for service, \$1,919,065 from operating grants, contributions and restricted interest, \$2,032,444 from capital grants, contributions and restricted interest, \$125,455 from local option sales tax, \$564 from unrestricted interest on investments, \$2,684,000 from bond and note proceeds and \$134,330 from other general receipts. The significant increase in receipts was primarily due to bond and note proceeds as well as an increase in current year community development block grant proceeds.

Disbursements for the year totaled \$7,307,161, a 26.0% increase from the prior year, and included \$2,286,601 for debt service, \$2,150,546 for capital projects and \$1,671,735 for public safety. Also, disbursements for business type activities totaled \$288,365. The significant increase in disbursements was primarily due to current year capital projects and refunding of debt.

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/1221-0549-B00F.pdf>.

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**CITY OF PALO**

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

**JUNE 30, 2012**

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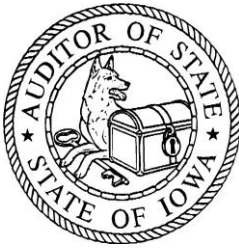
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## City of Palo

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
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	(Resigned)
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
<b>(After January 2012)</b>		
Tom Sanders	Mayor	Jan 2014
Doug Hanover	Council Member	Jan 2014
Trent Miller	Council Member	Jan 2014
Scott Packingham	Council Member	Jan 2014
Brian Beaty	Council Member	Jan 2016
Josh Frank	Council Member	Jan 2016
Trisca Smetzer	City Administrator	(Resigned)
Michelle NejdI	City Clerk	Indefinite
Stacy Chabak	Deputy City Clerk	Indefinite
Scott Peterson	Attorney	(Resigned)
Erek Sittig (Appointed)	Attorney	Indefinite

**City of Palo**



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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, 2012, 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.

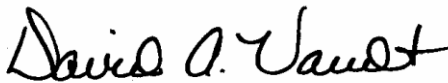
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo as of June 30, 2012, 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 January 25, 2013 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.

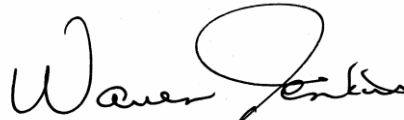
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palo's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2011 (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. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 25, 2013



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

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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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's government activities increased \$420,768, primarily due to bond and note proceeds and Community Development Block Grant proceeds in fiscal year 2012 to reimburse the City for previous flood recovery and water system construction costs.
- The cash basis net assets of the City's business type activities increased \$5,480, primarily due to reduced sewer costs during fiscal year 2012.

### **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.

Other information further explains and supports the financial statements with a comparison of the City's budget for the year.

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 Debt Service Fund and 4) the Capital Projects 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.

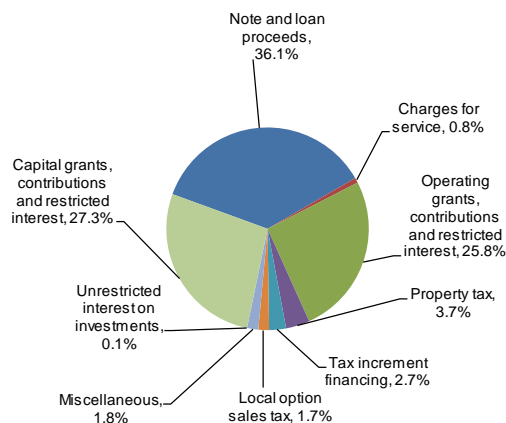
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

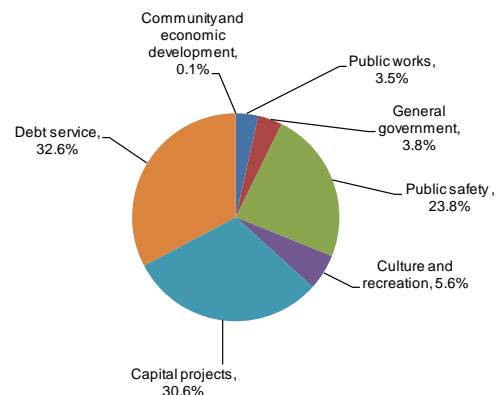
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$745,546 at June 30, 2011 to \$1,166,314 at June 30, 2012, primarily due to bond and note proceeds and Community Development Block Grant proceeds received in 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,	
	2012	2011
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 62,340	53,239
Operating grants, contributions and restricted interest	1,919,065	3,750,034
Capital grants, contributions and restricted interest	2,032,444	-
General receipts:		
Property tax	279,496	292,684
Tax increment financing	201,870	61,279
Local option sales tax	125,455	114,855
Unrestricted interest on investments	564	1,294
Note and loan proceeds	2,684,000	1,300,000
Miscellaneous	134,330	87,581
<b>Total receipts</b>	<b>7,439,564</b>	<b>5,660,966</b>
<b>Disbursements:</b>		
Public safety	1,671,735	4,002,420
Public works	247,642	273,155
Culture and recreation	394,431	374,987
Community and economic development	2,058	1,920
General government	265,783	219,308
Debt service	2,286,601	48,570
Capital projects	2,150,546	499,123
<b>Total disbursements</b>	<b>7,018,796</b>	<b>5,419,483</b>
Change in cash basis net assets before transfers	420,768	241,483
Transfers out	-	(10,000)
Change in cash basis net assets	420,768	231,483
Cash basis net assets beginning of year	745,546	514,063
<b>Cash basis net assets end of year</b>	<b>\$ 1,166,314</b>	<b>745,546</b>

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 31%, or approximately \$1,779,000. The total cost of all programs and services increased approximately \$1,599,000, or 30%. The significant increase in receipts was primarily the result of proceeds received from issuance of \$1,815,000 of general obligation corporate purpose refunding bonds, a \$500,000 project anticipation note and a \$364,000 project anticipation note, as well as an increase in Community Development Block Grant proceeds. The significant increase in the cost of programs and services was primarily the result of refunding of \$1,180,000 general obligation bonds and work on the new water system.

The cost of all governmental activities this year was approximately \$7.019 million compared to approximately \$5.420 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 \$3.0 million because some of the cost was paid by those directly benefited from the programs (approximately \$62,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$3,952,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from approximately \$3,803,000 to approximately \$4,014,000, principally due to receiving Community Development Block Grant proceeds for construction of a new water system.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 291,438	267,392
Water	2,407	-
Total receipts	<u>293,845</u>	<u>267,392</u>
Disbursements:		
Sewer	253,436	370,187
Water	34,929	9,684
Total disbursements	<u>288,365</u>	<u>379,871</u>
Change in cash basis net assets before transfers	5,480	(112,479)
Transfers in	-	10,000
Change in cash basis net assets	5,480	(102,479)
Cash basis net assets beginning of year	143,730	246,209
Cash basis net assets end of year	<u>\$ 149,210</u>	<u>143,730</u>

Total business type activities cash basis net assets increased from \$143,730 at June 30, 2011 to \$149,210 at June 30, 2012.

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

As the City of Palo completed the year, its governmental funds reported a combined fund balance of \$1,166,314, an increase of \$420,768 from last year's total of \$745,546. 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 \$298,907 from the prior year to a year-end balance of \$569,359. This was primarily due to receiving bond and note proceeds during fiscal year 2012.

- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$163,756 to \$375,628. This was primarily due to streets, park and community center projects and a transfer to the Debt Service Fund to eliminate a negative fund balance during fiscal year 2012.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$148,021 to \$87,142. This change was attributable to street and community center projects in the TIF area during fiscal year 2012.
- The Debt Service Fund cash balance increased \$125,889 to \$30,650, primarily due to bond proceeds and transfers from the General Fund and the Special Revenue, Local Option Sales Tax and Tax Increment Financing Funds.
- The Capital Projects Fund cash balance increased \$251,689 to \$1,019, primarily due to bond proceeds and Community Development Block Grant proceeds exceeding disbursements for fiscal year 2012.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Sewer Fund cash balance increased \$38,002 to \$197,282. This was primarily due to a reduction in costs during fiscal year 2012.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 29, 2012 and resulted in an overall decrease in disbursements related to federal disaster funds and work on the new water system.

The City’s receipts were \$2,876,252 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 \$2,993,515 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, 2012, the City had \$5,649,000 in bonds and notes outstanding, compared to \$5,155,000 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2012	2011
General obligation bonds	\$ 1,815,000	1,175,000
General obligation project anticipation notes	864,000	1,000,000
Sewer revenue bonds	2,970,000	2,980,000
Total	\$ 5,649,000	5,155,000

Debt increased as a result of the City approving a general obligation refunding bond for \$1,815,000 to refund the outstanding balance of the \$1,200,000 general obligation sewer improvement bonds and two project anticipation notes for \$500,000 and \$364,000 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 \$2,679,000 is below its constitutional debt limit of \$2,696,700.

### **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 2013 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$7,669,196, a decrease of 37.4% from the final fiscal year 2012 budget. The decrease is primarily due to a reduction of \$2,684,000 in bond and note proceeds as well as fewer federal reimbursements expected during fiscal year 2013.

The pending tasks for the water project include the following:

- Residential and commercial service connection stubs for water main phase 1 are estimated to be complete by September 30, 2012.
- The entirety of the water main and all residential and commercial service connection stubs for water main phase 2 are estimated to be complete by spring of 2013.
- Final erection, painting and electrical work for the water tower are estimated to be complete by February 2013.
- Final electrical and plumbing for the water supply (well #2) are estimated to be complete by November 15, 2012.
- The final improvement phase for water treatment is estimated to have a construction contract awarded by February 2013 and is estimated to be complete by May 2014.

If the estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$32,400 by the close of fiscal year 2013 due to fewer disaster grant and Community Development Block Grant reimbursements than in the prior year.

### **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 Nejdil, 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, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions And Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,671,735	11,837	1,663,515	-
Public works	247,642	49,914	97,317	-
Culture and recreation	394,431	-	71,255	-
Community and economic development	2,058	-	-	-
General government	265,783	589	52,578	-
Debt service	2,286,601	-	-	-
Capital projects	2,150,546	-	34,400	2,032,444
Total governmental activities	7,018,796	62,340	1,919,065	2,032,444
Business type activities:				
Sewer	253,436	291,438	-	-
Water	34,929	2,407	-	-
Total business type activities	288,365	293,845	-	-
Total	\$ 7,307,161	356,185	1,919,065	2,032,444
<b>General Receipts:</b>				
Property and other city tax levied for general purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond and note proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Local option sales tax				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
3,617	-	3,617
(100,411)	-	(100,411)
(323,176)	-	(323,176)
(2,058)	-	(2,058)
(212,616)	-	(212,616)
(2,286,601)	-	(2,286,601)
(83,702)	-	(83,702)
(3,004,947)	-	(3,004,947)
-	38,002	38,002
-	(32,522)	(32,522)
-	-	5,480
(3,004,947)	5,480	(2,999,467)
279,496	-	279,496
201,870	-	201,870
125,455	-	125,455
564	-	564
2,684,000	-	2,684,000
134,330	-	134,330
3,425,715	-	3,425,715
420,768	5,480	426,248
745,546	143,730	889,276
\$ 1,166,314	149,210	1,315,524
\$ 375,628	-	375,628
87,142	-	87,142
30,650	-	30,650
103,535	-	103,535
569,359	149,210	718,569
\$ 1,166,314	149,210	1,315,524

City of Palo

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

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Local Option Sales Tax	Tax Increment Financing
<b>Receipts:</b>			
Property tax	\$ 233,678	-	-
Tax increment financing	-	-	201,870
Other city tax	2,529	125,455	-
Licenses and permits	1,389	-	-
Use of money and property	11,504	-	53
Intergovernmental	1,652,684	-	-
Charges for service	49,914	-	-
Miscellaneous	255,474	-	-
<b>Total receipts</b>	<b>2,207,172</b>	<b>125,455</b>	<b>201,923</b>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public safety	1,657,724	-	-
Public works	50,930	18,123	117,904
Culture and recreation	121,698	155,003	108,168
Community and economic development	1,973	-	-
General government	245,488	-	-
Debt service	-	-	-
Capital projects	-	-	-
<b>Total disbursements</b>	<b>2,077,813</b>	<b>173,126</b>	<b>226,072</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>129,359</b>	<b>(47,671)</b>	<b>(24,149)</b>
<b>Other financing sources (uses):</b>			
Bond proceeds	240,548	-	-
Note proceeds	864,000	-	-
Operating transfers in	65,000	-	-
Operating transfers out	(1,000,000)	(116,085)	(123,872)
<b>Total other financing sources (uses)</b>	<b>169,548</b>	<b>(116,085)</b>	<b>(123,872)</b>
<b>Net change in cash balances</b>	<b>298,907</b>	<b>(163,756)</b>	<b>(148,021)</b>
Cash balances beginning of year	270,452	539,384	235,163
Cash balances end of year	\$ 569,359	375,628	87,142
<b>Cash Basis Fund Balances</b>			
<b>Restricted for:</b>			
Local option sales tax	\$ -	375,628	-
Urban renewal purposes	-	-	87,142
Debt service	-	-	-
Other purposes	-	-	-
Unassigned	569,359	-	-
<b>Total cash basis fund balances</b>	<b>\$ 569,359</b>	<b>375,628</b>	<b>87,142</b>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
-	-	45,818	279,496
-	-	-	201,870
-	-	-	127,984
-	-	-	1,389
-	-	75	11,632
-	2,066,844	97,317	3,816,845
-	-	-	49,914
-	-	10,960	266,434
-	2,066,844	154,170	4,755,564
-	-	14,011	1,671,735
-	-	60,685	247,642
-	-	9,562	394,431
-	-	85	2,058
-	-	20,295	265,783
2,286,601	-	-	2,286,601
-	2,150,546	-	2,150,546
2,286,601	2,150,546	104,638	7,018,796
(2,286,601)	(83,702)	49,532	(2,263,232)
1,237,533	335,391	6,528	1,820,000
-	-	-	864,000
1,174,957	-	-	1,239,957
-	-	-	(1,239,957)
2,412,490	335,391	6,528	2,684,000
125,889	251,689	56,060	420,768
(95,239)	(250,670)	46,456	745,546
30,650	1,019	102,516	1,166,314
-	-	-	375,628
-	-	-	87,142
30,650	-	-	30,650
-	1,019	102,516	103,535
-	-	-	569,359
30,650	1,019	102,516	1,166,314

**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, 2012

	Enterprise		
	Sewer	Nonmajor Water	Total
Operating receipts:			
Charges for service	\$ 291,438	2,407	293,845
Operating disbursements:			
Business type activities	146,586	34,929	181,515
Excess (deficiency) of operating receipts over (under) operating disbursements	144,852	(32,522)	112,330
Non-operating disbursements:			
Debt service	(106,850)	-	(106,850)
Excess (deficiency) of receipts over (under) disbursements	38,002	(32,522)	5,480
Cash balances beginning of year	159,280	(15,550)	143,730
Cash balances end of year	\$ 197,282	(48,072)	149,210
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 197,282	(48,072)	149,210

See notes to financial statements.

City of Palo

Notes to Financial Statements

June 30, 2012

**(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:

Expendable 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 category. 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 from general and emergency levies 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 Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest, service fees and principal on the City's general long-term debt.

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 Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions prior to the budget amendment on May 29, 2012.



**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 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**

Annual debt service requirements to maturity for general obligation bonds and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ -	44,246	10,000	89,100	10,000	133,346	143,346
2014	40,000	41,697	10,000	88,800	50,000	130,497	180,497
2015	120,000	41,378	81,000	88,500	201,000	129,878	330,878
2016	125,000	40,417	83,000	86,070	208,000	126,487	334,487
2017	125,000	39,168	86,000	83,580	211,000	122,748	333,748
2018-2022	660,000	164,865	469,000	377,700	1,129,000	542,565	1,671,565
2023-2027	745,000	75,225	544,000	302,970	1,289,000	378,195	1,667,195
2028-2032	-	-	631,000	216,330	631,000	216,330	847,330
2033-2037	-	-	732,000	115,770	732,000	115,770	847,770
2038-2039	-	-	324,000	14,640	324,000	14,640	338,640
Total	\$ 1,815,000	446,996	2,970,000	1,463,460	4,785,000	1,910,456	6,695,456

General Obligation Bonds

On January 13, 2012, the City received the final \$5,000 of the \$1,200,000 authorized amount of general obligation sewer improvement bonds dated December 13, 2007. The City refunded the outstanding balance of \$1,180,000 on June 1, 2012.

General Obligation Corporate Purpose and Refunding Bonds

On April 23, 2012, the City issued \$1,815,000 of corporate purpose and refunding bonds, of which \$1,180,000 was used for a current refunding. The refunding portion of the bonds was used to retire the outstanding balance of the general obligation sewer improvement bonds dated December 13, 2007. The remainder of the issue was used for the remediation, restoration, repair, cleanup, replacement and improvement of property, buildings, equipment and public facilities damaged by a disaster and the reimbursement to the General Fund for prior disbursements made for such remediation and restoration efforts.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$29,700.

## 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's sewer system.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue 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 \$4,433,460. For the current year, principal and interest paid and total customer net receipts were \$99,400 and \$144,852, respectively.

Annual principal and interest payments on the bonds required approximately 69% of net receipts for the year ended June 30, 2012.

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.

## General Obligation Project Anticipation Notes

On February 21, 2011, the City entered into a \$1,000,000 general obligation project anticipation note. The note was 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 for 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 was calculated on the basis of a 360-day year comprised of twelve 30-day months. The general obligation project anticipation note was redeemed in December 2011.

On August 4, 2011, the City entered into a \$500,000 general obligation project anticipation note. The note was 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 for such remediation and restoration efforts.

The note had a maturity date of June 30, 2012, which was extended to June 30, 2013, and bears interest at 3.50% per annum payable on September 1, 2011, March 1, 2012, June 30, 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.

On February 29, 2012, the City entered into a \$364,000 general obligation project anticipation note. The note was 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 for such remediation and restoration efforts. The note has a maturity date of March 1, 2014 and bears interest at 3.50% per annum payable on September 1, 2012, March 1, 2013, September 1, 2013 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.

#### 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 from FEMA. Accordingly, the loan has not been included 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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$18,199, \$15,065 and \$19,182, 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, retirees and their spouses. There is 1 active and no retired members in the plan. Four employees are not covered under the City's 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 \$447 for single coverage. There are no active members with family coverage. For the year ended June 30, 2012, the City contributed \$11,254 and the plan member eligible for benefits contributed \$524 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, 2012, primarily relating to the General Fund, is \$11,600.

This liability has been computed based on rates of pay in effect at June 30, 2012.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 65,000
Debt Service	General	1,000,000
	Special Revenue:	
	Local Option Sales Tax	51,085
	Tax Increment Financing	123,872
		<u>1,174,957</u>
Total		<u>\$ 1,239,957</u>

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 663 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% 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, 2012 were \$31,290.

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, 2012, 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 Balance**

The Enterprise, Water Fund had a deficit balance of \$48,072 at June 30, 2012. The City believes the deficit will be eliminated as fees are collected for the new water system.

**(10) Construction Progress**

The City has entered into contracts totaling \$8,455,196. As of June 30, 2012, the City had made payments totaling \$5,360,056. The balance remaining on the contracts at June 30, 2012, totaling \$3,095,140, will be paid as work on the projects progress.

**Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 279,496	-	279,496
Tax increment financing	201,870	-	201,870
Other city tax	127,984	-	127,984
Licenses and permits	1,389	-	1,389
Use of money and property	11,632	-	11,632
Intergovernmental	3,816,845	-	3,816,845
Charges for service	49,914	293,845	343,759
Miscellaneous	266,434	-	266,434
Total receipts	<u>4,755,564</u>	<u>293,845</u>	<u>5,049,409</u>
Disbursements:			
Public safety	1,671,735	-	1,671,735
Public works	247,642	-	247,642
Culture and recreation	394,431	-	394,431
Community and economic development	2,058	-	2,058
General government	265,783	-	265,783
Debt service	2,286,601	-	2,286,601
Capital projects	2,150,546	-	2,150,546
Business type activities	-	288,365	288,365
Total disbursements	<u>7,018,796</u>	<u>288,365</u>	<u>7,307,161</u>
Excess (deficiency) of receipts over (under) disbursements	(2,263,232)	5,480	(2,257,752)
Other financing sources	<u>2,684,000</u>	-	<u>2,684,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	420,768	5,480	426,248
Balances beginning of year	<u>745,546</u>	<u>143,730</u>	<u>889,276</u>
Balances end of year	<u>\$ 1,166,314</u>	<u>149,210</u>	<u>1,315,524</u>

See accompanying independent auditor's report.



Budgeted Amounts		Final to
Original	Final	Total Variance
273,386	273,386	6,110
152,972	180,000	21,870
130,525	127,500	484
1,175	1,375	14
22,100	22,100	(10,468)
10,181,343	6,745,700	(2,928,855)
328,050	332,350	11,409
184,200	243,250	23,184
11,273,751	7,925,661	(2,876,252)
3,652,992	2,651,887	980,152
353,160	305,370	57,728
201,646	425,883	31,452
3,738	4,305	2,247
298,286	279,428	13,645
48,350	2,759,758	473,157
5,640,625	3,526,025	1,375,479
421,820	348,020	59,655
10,620,617	10,300,676	2,993,515
653,134	(2,375,015)	117,263
5,000	2,659,935	24,065
658,134	284,920	141,328
442,166	442,166	447,110
1,100,300	727,086	588,438

City of Palo

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented 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 Debt Service Fund, the Capital Projects 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 \$319,941. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions prior to amendment of the budget on May 29, 2012

**City of Palo**

## **Supplementary Information**

## 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, 2012

	Special Revenue				Total
	Employee Benefits	Road Use Tax	Community Disaster Grant	Palo	
Receipts:					
Property tax	\$ 45,818	-	-	-	45,818
Use of money and property	-	-	-	75	75
Intergovernmental	-	97,317	-	-	97,317
Miscellaneous	-	-	-	10,960	10,960
Total receipts	45,818	97,317	-	11,035	154,170
Disbursements:					
Operating:					
Public safety	-	-	-	14,011	14,011
Public works	5,012	55,673	-	-	60,685
Culture and recreation	9,562	-	-	-	9,562
Community and economic development	85	-	-	-	85
General government	20,295	-	-	-	20,295
Total disbursements	34,954	55,673	-	14,011	104,638
Excess (deficiency) of receipts over (under) disbursements	10,864	41,644	-	(2,976)	49,532
Other financing sources:					
Bond proceeds	-	-	6,528	-	6,528
Net change in cash balances	10,864	41,644	6,528	(2,976)	56,060
Cash balances beginning of year	43,450	(3,533)	(6,528)	13,067	46,456
Cash balances end of year	\$ 54,314	38,111	-	10,091	102,516
<b>Cash Basis Fund Balances</b>					
Restricted for other purposes	\$ 54,314	38,111	-	10,091	102,516

See accompanying independent auditor's report.

City of Palo  
 Schedule of Indebtedness  
 Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Dec 13, 2007	3.00%	\$ 1,200,000
Corporate purpose and refunding	Apr 23, 2012	.80-3.50	1,815,000
Total			
General obligation notes:			
Project anticipation note	Feb 21, 2011	3.50%	\$ 1,000,000
Project anticipation note	Aug 4, 2011	3.50	500,000
Project anticipation note	Feb 29, 2012	3.50	364,000
Total			
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
1,175,000	5,000	1,180,000	-	38,258
-	1,815,000	-	1,815,000	-
<u>\$ 1,175,000</u>	<u>1,820,000</u>	<u>1,180,000</u>	<u>1,815,000</u>	<u>38,258</u>
1,000,000	-	1,000,000	-	19,172
-	500,000	-	500,000	15,555
-	364,000	-	364,000	-
<u>\$ 1,000,000</u>	<u>864,000</u>	<u>1,000,000</u>	<u>864,000</u>	<u>34,727</u>
<u>2,980,000</u>	<u>-</u>	<u>10,000</u>	<u>2,970,000</u>	<u>96,850</u>

**Schedule 3**

City of Palo  
 Bond Maturities  
 June 30, 2012

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds	
	Corporate Purpose and Refunding		Sewer Improvements	
	Issued April 23, 2012		Issued Dec 13, 2007	
	Interest Rates	Amount	Interest Rates	Amount
2013		\$ -	3.00%	\$ 10,000
2014	.80%	40,000	3.00	10,000
2015	.80	120,000	3.00	81,000
2016	1.00	125,000	3.00	83,000
2017	1.25	125,000	3.00	86,000
2018	1.50	125,000	3.00	88,000
2019	1.80	125,000	3.00	91,000
2020	2.10	135,000	3.00	94,000
2021	2.40	135,000	3.00	97,000
2022	2.60	140,000	3.00	99,000
2023	2.80	140,000	3.00	102,000
2024	3.00	145,000	3.00	106,000
2025	3.20	150,000	3.00	109,000
2026	3.40	155,000	3.00	112,000
2027	3.50	155,000	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>\$ 1,815,000</u>		<u>\$ 2,970,000</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 Four Years

	2012	2011	2010	2009
<b>Receipts:</b>				
Property tax	\$ 279,496	292,684	300,726	233,045
Tax increment financing	201,870	61,279	4,073	168,307
Other city tax	127,984	117,630	182,737	282,589
Licenses and permits	1,389	1,372	4,703	5,743
Use of money and property	11,632	7,767	7,904	9,696
Intergovernmental	3,816,845	3,733,089	2,025,559	2,852,557
Charges for service	49,914	49,490	59,639	46,041
Miscellaneous	266,434	94,153	131,286	26,448
<b>Total</b>	<b>\$ 4,755,564</b>	<b>4,357,464</b>	<b>2,716,627</b>	<b>\$ 3,624,426</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 1,671,735	4,002,420	3,010,290	2,346,171
Public works	247,642	273,155	291,799	113,498
Culture and recreation	394,431	374,987	279,849	114,554
Community and economic development	2,058	1,920	1,498	142,280
General government	265,783	219,308	219,320	150,540
Debt service	2,286,601	48,570	46,669	-
Capital projects	2,150,546	499,123	298,787	2,902,392
<b>Total</b>	<b>\$ 7,018,796</b>	<b>5,419,483</b>	<b>4,148,212</b>	<b>\$ 5,769,435</b>

See accompanying independent auditor's report.

**Schedule 5**

## City of Palo

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRMH-250	\$ 1,374
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRI-236	1,982,493
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRPG-243	5,224
			1,989,091
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-IA	1,079,758
Hazard Mitigation Grant	97.039	DR-1763-57-01	229,227
Total			\$ 3,298,076

**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**

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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

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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 25, 2013. 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-12 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-12 through II-D-12 to be significant deficiencies.

## Compliance and Other Matters

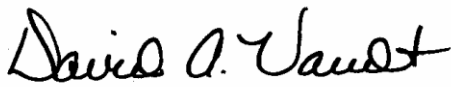
As part of obtaining reasonable assurance about whether the City of Palo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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, 2012 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.

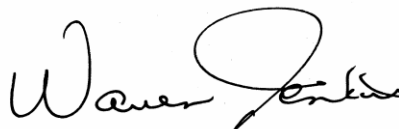
The City of Palo's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Palo's responses and, accordingly, we express no opinion on them.

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

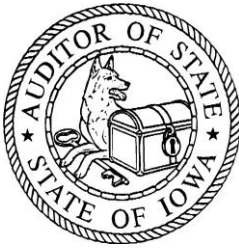


WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 25, 2013

**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**



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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, 2012. 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, 2012.

Internal Control Over Compliance

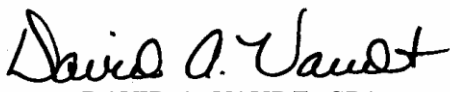
The management of the City of Palo is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Palo's internal 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.

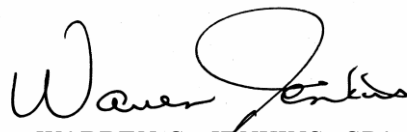
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12, we consider to be a significant deficiency. 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 response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Palo's response and, accordingly, we express no opinion on it.

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

January 25, 2013



City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

**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) A significant deficiency in internal control over the major programs was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which is 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 97.036 – 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, 2012

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-12 Financial Reporting – During the audit, we identified a material donation misclassified as “charges for service” rather than “miscellaneous” receipts.

Adjustments were subsequently made by the City to properly classify this amount 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 will check the chart of accounts more accurately before setting up new accounts. The Boat Ramp Revenue account has been changed from account number 001-430-4501 to account number 001-430-4701.

Conclusion – Response accepted.

II-B-12 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-12 Policies and Procedures – The City does not have a written disaster recovery plan.

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

Response – The City will make the recommended changes to the current Data Back-Up/Disaster Recovery Plan.

Conclusion – Response accepted.

II-D-12 Overtime – City office staff fill out bi-weekly timesheets which are reviewed and approved by the Mayor. Overtime for the office staff totaled \$10,217 for the first six months of fiscal year 2012 and \$5,908 for the last six months of the fiscal year 2012.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendation – Employee timesheets should be evaluated to determine whether reported overtime was necessary. In addition, overtime should be evaluated to determine if any alternatives exist to minimize overtime to the extent possible.

Response – The City administrative personnel continue to close out projects associated with DR 1763.

Conclusion – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**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-A-12 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 showed all requests for reimbursement or advance requests were prepared by one person and there was no evidence of independent review prior to submission.

Recommendation – Requests for reimbursement and advance requests should be reviewed by an independent person.

Response and Corrective Action Planned – Requests for reimbursement and advance requests are now reviewed by the Mayor.

Conclusion – Response accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the culture and recreation and debt service functions prior to amendment of the budget on May 29, 2012. 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 sufficient amounts 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-12 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 Palo Volunteer Fire Department issued a check to "cash" for \$850 for its Christmas dinner and paid \$35 to Lloyd Elmore for funeral flowers.

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 Fire Department, with assistance from the City, should determine and document the public purpose served by paying for a Christmas dinner and funeral flowers. If this practice is continued, written policies and procedures, including the requirement for proper documentation, should be established.

The practice of writing checks to "cash" should be discontinued.

Response - The Fire Department will no longer write checks to cash and will pick up a collection from members for flowers in the future.

Conclusion - Response accepted.

IV-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- IV-D-12 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	\$ 1,314

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Flood Recovery Coordinator do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal.

- IV-E-12 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-12 City Council Minutes - No transactions were found that we believe should have been approved in the City Council minutes but were not.
- IV-G-12 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa

Recommendation – The City should adopt a written investment policy to comply with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City will adopt a written investment policy to comply with the provisions of Chapter 12B.10B of the Code of Iowa.

Conclusion – Response accepted.

- IV-H-12 Tax Increment Financing (TIF) – In November 2011, the City certified tax increment financing (TIF) indebtedness to the County Auditor for an invoice totaling \$15,232 which was paid from the Special Revenue, Tax Increment Financing Fund. While the City intended this payment to represent a loan from the General Fund to the Special Revenue, Tax Increment Financing Fund for the related TIF project, the loan was not formally approved by the City Council, nor was a transfer made and, accordingly, the loan does not represent TIF debt which may be certified to the County Auditor.

Recommendation – The City should establish procedures to ensure TIF debt is approved by the City Council prior to certification.

Response – When creating internal loans for TIF debt, the City creates a resolution to present to Council to approve the internal loan and then will transfer the loan proceeds to create the debt.

Conclusion – Response accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-I-12 Financial Condition – The Enterprise, Water Fund had a deficit balance of \$48,072 at June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate this deficit and return the fund to a sound financial position.

Response – As the water project nears completion, the revenues generated will exceed the expenses and eliminate the deficit.

Conclusion – Response accepted.

IV-J-12 Records of Accounts – The Palo Volunteer Fire Department maintains 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 Fire Department’s 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.

Response – The Palo Volunteer Fire Department is pursuing 501c3 status. The Fire Department reports to the City monthly with bank statements, meeting minutes and financial reports.

Conclusion – Response accepted.

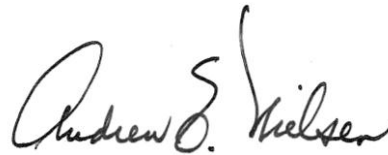
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City of Palo

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager  
Daniel L. Grady, Senior Auditor  
Tyler L. Carter, Staff Auditor  
Kelsey J. Kranz, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State