



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 21, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Palo, Iowa.

The City's receipts totaled \$4,402,313 for the year ended June 30, 2013, a 43% decrease from the prior year. The receipts included \$338,560 in property tax, \$169,402 from tax increment financing, \$505,072 from charges for service, \$382,370 from operating grants, contributions and restricted interest, \$2,528,318 from capital grants, contributions and restricted interest, \$116,260 from local option sales tax, \$417 from unrestricted interest on investments and \$1,914 from other general receipts. The significant decrease in receipts was primarily due to bond and note proceeds in fiscal year 2012, as well as a decrease in current year FEMA disaster assistance as the flood recovery work is nearing completion.

Disbursements for the year ended June 30, 2013 totaled \$4,676,257, a 36% decrease from the prior year, and included \$2,641,990 for capital projects, \$943,983 for debt service and \$226,636 for public safety. Also, disbursements for business type activities totaled \$291,843. The significant decrease in disbursements was primarily due to capital projects and debt refunded in fiscal year 2012.

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/1321-0549-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, 2013

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City of Palo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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 third paragraph of this report, the financial statements for the four years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, 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.

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

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 30, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2014 on our consideration of the City of Palo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Palo's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2014

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's government activities decreased approximately \$762,000, primarily due to the City redeeming two general obligation project anticipation notes early.
- The cash basis net position of the City's business type activities increased approximately \$128,000, primarily due to an increase in water utility receipts due to the utility coming more fully online during fiscal year 2013 as well as an increase in sewer utility receipts due to an increase in customers.

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 Cash Basis Statement of Activities and Net Position. 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 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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.

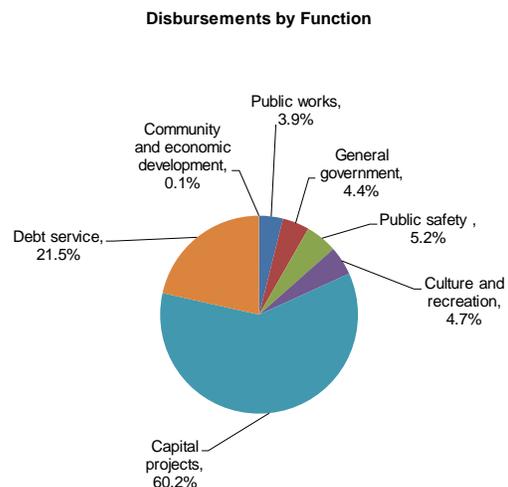
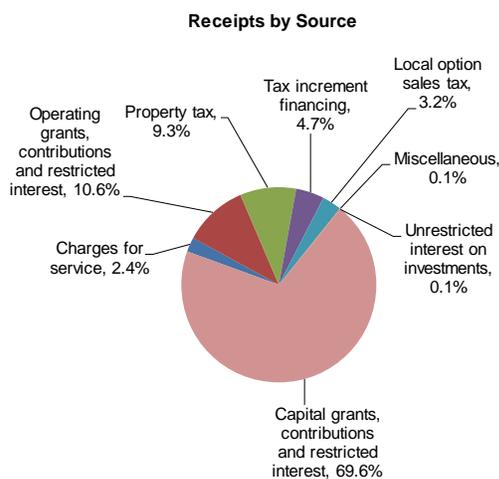
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds. The Sewer Fund is considered to be a major fund of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from approximately \$1.166 million to approximately \$404,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 85,254	62,340
Operating grants, contributions and restricted interest	382,370	1,919,065
Capital grants, contributions and restricted interest	2,528,318	2,032,444
General receipts:		
Property tax	338,560	279,496
Tax increment financing	169,402	201,870
Local option sales tax	116,260	125,455
Unrestricted interest on investments	417	564
Note and loan proceeds	-	2,684,000
Miscellaneous	1,914	134,330
Total receipts	3,622,495	7,439,564
Disbursements:		
Public safety	226,636	1,671,735
Public works	171,160	247,642
Culture and recreation	206,876	394,431
Community and economic development	676	2,058
General government	193,093	265,783
Debt service	943,983	2,286,601
Capital projects	2,641,990	2,150,546
Total disbursements	4,384,414	7,018,796
Change in cash basis net position	(761,919)	420,768
Cash basis net position beginning of year	1,166,314	745,546
Cash basis net position end of year	\$ 404,395	1,166,314



The City's total receipts for governmental activities decreased 51.3%, or approximately \$3.8 million. The total cost of all programs and services decreased approximately \$2.6 million, or 37.5%. The significant decrease 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 in the prior year. The significant decrease in the cost of programs and services was primarily the result of flood recovery projects nearing completion as well as the City refunding \$1,180,000 of general obligation bonds in the prior year.

The cost of all governmental activities this year was approximately \$4.4 million compared to approximately \$7.0 million last year. However, as shown in the Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$1.388 million because some of the cost was paid by those directly benefited from the programs (approximately \$85,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$2,911,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2013 from approximately \$4,014,000 to approximately \$2,996,000, principally due to a reduction in FEMA disaster assistance receipts as the flood recovery projects were nearing completion.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 344,979	291,438
Water	74,839	2,407
Total receipts	419,818	293,845
Disbursements:		
Sewer	231,498	253,436
Water	60,345	34,929
Total disbursements	291,843	288,365
Change in cash basis net position	127,975	5,480
Cash basis net position beginning of year	149,210	143,730
Cash basis net position end of year	\$ 277,185	149,210

Total business type activities cash basis net position increased from \$149,210 at June 30, 2012 to \$277,185 at June 30, 2013. This increase is principally due to an increase in water receipts due to the water utility becoming more fully operational during fiscal year 2013 as well as an increase in sewer receipts caused by an increase in customers.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Palo completed the year, its governmental funds reported a combined fund balance of \$404,395 a decrease of \$761,919 from last year's total of \$1,166,314. 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 decreased \$441,839 from the prior year to a year-end balance of \$127,520. This was primarily due to the City redeeming two general obligation project anticipation notes early.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$229,030 to \$146,598. This was primarily due to transfers made to the General Fund and the Debt Service Fund to help pay general obligation debt related to infrastructure projects.

- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$42,647 to \$44,495. This change was attributable to transfers made to other funds to pay off interfund loans as well as to help make payments on general obligation debt related to urban renewal projects.
- The Special Revenue, Road Use Tax Fund cash balance increased \$50,409 to \$88,520, primarily due to the timing of street maintenance activities.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$13,496 to \$40,818. The decrease was primarily due to the City reducing the tax levy to eliminate an excess which had accumulated in prior years.
- The Debt Service Fund cash balance increased \$23,526 to \$54,176 primarily due to the timing of payments on general obligation debt.
- The Capital Projects Fund cash balance decreased \$109,075 to a deficit balance of \$108,056, primarily due to the completion of flood recovery projects as well as the continuation of water system construction projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased \$113,481 to \$310,763. This was primarily due to an increase in charges for service caused by an increase in customers as well as a small decrease in costs during fiscal year 2013.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 20, 2013 and resulted in an overall decrease in budgeted disbursements and receipts.

The City’s receipts were approximately \$1.8 million less than budgeted. This was primarily due to the City receiving less CDBG funding than anticipated.

With the budget amendment, total disbursements were approximately \$1.057 million less than the amended budget. This was primarily due to the cost of various capital projects being less than anticipated during fiscal year 2013.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$4,775,000 of bonds and notes outstanding, compared to \$5,649,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds	\$ 1,815,000	1,815,000
General obligation project anticipation notes	-	864,000
Sewer revenue bonds	2,960,000	2,970,000
Total	\$ 4,775,000	5,649,000

Debt decreased as a result of the City redeeming two general obligation project anticipation notes during fiscal year 2013.

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 \$1,815,000 is below its constitutional debt limit of \$2,898,780. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

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 2014 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are approximately \$4.7 million, a decrease of 36.9% from the final fiscal year 2013 budget. A decrease in grant funding for the water system project as it nears completion is the primary reason for this decrease. Budgeted disbursements are expected to decrease approximately \$2.1 million. This decrease is also a result of the water system project nearing completion and most of the FEMA related disaster recovery projects having been completed by the end of fiscal year 2013. The City has added no major new programs or initiatives to the fiscal year 2014 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$197,000 by the close of fiscal year 2014.

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 Jenny Jellison, City Clerk, 2800 Hollenbeck Road, Palo, Iowa 52324.

Basic Financial Statements

City of Palo

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 226,636	1,156	256,456	-
Public works	171,160	83,349	98,256	-
Culture and recreation	206,876	35	8,485	-
Community and economic development	676	-	-	-
General government	193,093	714	14,576	-
Debt service	943,983	-	-	-
Capital projects	2,641,990	-	4,597	2,528,318
Total governmental activities	4,384,414	85,254	382,370	2,528,318
Business type activities:				
Sewer	231,498	344,979	-	-
Water	60,345	74,839	-	-
Total business type activities	291,843	419,818	-	-
Total	\$ 4,676,257	505,072	382,370	2,528,318

General Receipts:

Property tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous
 Total general receipts
 Change in cash basis net position
 Cash basis net position beginning of year
 Cash basis net position end of year

Cash Basis Net Position

Restricted:
 Local option sales tax
 Urban renewal pruposes
 Debt service
 Streets
 Employee benefits
 Other purposes
 Unrestricted

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
30,976	-	30,976
10,445	-	10,445
(198,356)	-	(198,356)
(676)	-	(676)
(177,803)	-	(177,803)
(943,983)	-	(943,983)
(109,075)	-	(109,075)
(1,388,472)	-	(1,388,472)
-	113,481	113,481
-	14,494	14,494
-	127,975	127,975
(1,388,472)	127,975	(1,260,497)
278,471	-	278,471
60,089	-	60,089
169,402	-	169,402
116,260	-	116,260
417	-	417
1,914	-	1,914
626,553	-	626,553
(761,919)	127,975	(633,944)
1,166,314	149,210	1,315,524
\$ 404,395	277,185	681,580
\$ 146,598	-	146,598
44,495	-	44,495
54,176	-	54,176
88,520	-	88,520
40,818	-	40,818
10,324	-	10,324
19,464	277,185	296,649
\$ 404,395	277,185	681,580

City of Palo

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

As of and for the year ended June 30, 2013

	Special		
	General	Local Option Sales Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 252,689	-	-
Tax increment financing	-	-	169,402
Other city tax	1,913	116,260	-
Licenses and permits	1,349	-	-
Use of money and property	8,897	28	50
Intergovernmental	275,195	-	-
Charges for service	54,015	-	-
Miscellaneous	17,553	-	-
Total receipts	<u>611,611</u>	<u>116,288</u>	<u>169,452</u>
Disbursements:			
Operating:			
Public safety	218,767	-	-
Public works	52,180	-	65,543
Culture and recreation	193,959	-	-
Community and economic development	632	-	-
General government	172,366	-	-
Debt service	904,793	-	-
Capital projects	-	-	-
Total disbursements	<u>1,542,697</u>	<u>-</u>	<u>65,543</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(931,086)</u>	<u>116,288</u>	<u>103,909</u>
Other financing sources (uses):			
Operating transfers in	554,790	-	65,543
Operating transfers out	(65,543)	(345,318)	(212,099)
Total other financing sources (uses)	<u>489,247</u>	<u>(345,318)</u>	<u>(146,556)</u>
Change in cash balances	(441,839)	(229,030)	(42,647)
Cash balances beginning of year	569,359	375,628	87,142
Cash balances end of year	<u>\$ 127,520</u>	<u>146,598</u>	<u>44,495</u>
Cash Basis Fund Balances			
Restricted for:			
Local option sales tax	\$ -	146,598	-
Urban renewal purposes	-	-	44,495
Debt service	-	-	-
Streets	-	-	-
Employee benefits	-	-	-
Other purposes	-	-	-
Unassigned	127,520	-	-
Total cash basis fund balances	<u>\$ 127,520</u>	<u>146,598</u>	<u>44,495</u>

See notes to financial statements.

Revenue			Nonmajor			Total
Road Use Tax	Employee Benefits	Debt Service	Capital Projects	Palo Volunteer Fire Department		
-	25,782	60,089	-	-	-	338,560
-	-	-	-	-	-	169,402
-	-	-	-	-	-	118,173
-	-	-	-	-	-	1,349
-	-	-	-	16	-	8,991
98,256	-	-	2,532,915	-	-	2,906,366
-	-	-	-	-	-	54,015
-	-	-	-	8,086	-	25,639
98,256	25,782	60,089	2,532,915	8,102	-	3,622,495
-	-	-	-	7,869	-	226,636
47,847	5,590	-	-	-	-	171,160
-	12,917	-	-	-	-	206,876
-	44	-	-	-	-	676
-	20,727	-	-	-	-	193,093
-	-	39,190	-	-	-	943,983
-	-	-	2,641,990	-	-	2,641,990
47,847	39,278	39,190	2,641,990	7,869	-	4,384,414
50,409	(13,496)	20,899	(109,075)	233	-	(761,919)
-	-	21,099	-	-	-	641,432
-	-	(18,472)	-	-	-	(641,432)
-	-	2,627	-	-	-	-
50,409	(13,496)	23,526	(109,075)	233	-	(761,919)
38,111	54,314	30,650	1,019	10,091	-	1,166,314
88,520	40,818	54,176	(108,056)	10,324	-	404,395
-	-	-	-	-	-	146,598
-	-	-	-	-	-	44,495
-	-	54,176	-	-	-	54,176
88,520	-	-	-	-	-	88,520
-	40,818	-	-	-	-	40,818
-	-	-	-	10,324	-	10,324
-	-	-	(108,056)	-	-	19,464
88,520	40,818	54,176	(108,056)	10,324	-	404,395

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, 2013

	Enterprise		Total
	Sewer	Nonmajor Water	
Operating receipts:			
Charges for service	\$ 344,979	74,839	419,818
Operating disbursements:			
Business type activities	124,973	60,345	185,318
Excess of operating receipts over operating disbursements	220,006	14,494	234,500
Non-operating disbursements:			
Debt service	(106,525)	-	(106,525)
Excess of receipts over disbursements	113,481	14,494	127,975
Cash balances beginning of year	197,282	(48,072)	149,210
Cash balances end of year	\$ 310,763	(33,578)	277,185
Cash Basis Fund Balances			
Unrestricted	\$ 310,763	(33,578)	277,185

See notes to financial statements.

City of Palo

Notes to Financial Statements

June 30, 2013

(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 Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the 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 Cash Basis Statement of Activities and Net Position presents the City's net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 and enterprise funds are aggregated and reported as nonmajor governmental and enterprise 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 Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax to be used for the payment of employee benefits.

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 Enterprise, 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 position 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 are 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, 2013, disbursements exceeded the amount budgeted in the debt service function prior to the May 20, 2013 budget amendment.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2013 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		Sewer Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
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	125,000	37,605	88,000	81,000	213,000	118,605	331,605
2019-2023	675,000	151,025	483,000	363,630	1,158,000	514,655	1,672,655
2024-2028	605,000	51,460	561,000	286,650	1,166,000	338,110	1,504,110
2029-2033	-	-	650,000	197,400	650,000	197,400	847,400
2034-2038	-	-	754,000	93,810	754,000	93,810	847,810
2039	-	-	164,000	4,920	164,000	4,920	168,920
Total	\$ 1,815,000	402,750	2,960,000	1,374,360	4,775,000	1,777,110	6,552,110

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.

Sewer 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 \$4,334,360. For the current year, principal and interest paid and total customer net receipts were \$99,100 and \$220,006, respectively.

Annual principal and interest payments on the bonds required approximately 45% of net receipts for the year ended June 30, 2013.

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 receipts 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.

(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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$16,002, \$18,199 and \$15,065, respectively, equal to the required contributions for each year.

(5) 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, 2013, primarily relating to the General Fund, is \$12,700.

This liability has been computed based on rates of pay in effect at June 30, 2013.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Tax Increment Financing	\$ 191,000
	Local Option Sales Tax	345,318
	Debt Service	18,472
		<u>554,790</u>
Special Revenue:	General	
Tax Increment Financing		<u>65,543</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	21,099
Total		<u>\$ 641,432</u>

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

(7) 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 679 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 at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The 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, 2013 were \$24,847.

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 \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington 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, 2013, 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 the amount of capital distributions previously received by the withdrawing member and 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 and employee blanket bond in the amount of \$1,000,000 and \$25,000, respectively. 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.

(8) Deficit Balances

The Capital Projects Fund and the Enterprise, Water Fund had deficit balances of \$108,056 and \$33,578, respectively, at June 30, 2013. The City believes the deficits will be eliminated as grant proceeds are received for the water system project and fees are collected by the water system.

(9) Construction Progress

The City has entered into contracts totaling \$5,475,737. As of June 30, 2013, the City had made payments on the contracts totaling \$3,517,194. The balance remaining on the contracts at June 30, 2013, totaling \$1,958,543, 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, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 338,560	-	338,560
Tax increment financing	169,402	-	169,402
Other city tax	118,173	-	118,173
Licenses and permits	1,349	-	1,349
Use of money and property	8,991	-	8,991
Intergovernmental	2,906,366	-	2,906,366
Charges for service	54,015	419,818	473,833
Miscellaneous	25,639	-	25,639
Total receipts	3,622,495	419,818	4,042,313
Disbursements:			
Public safety	226,636	-	226,636
Public works	171,160	-	171,160
Culture and recreation	206,876	-	206,876
Community and economic development	676	-	676
General government	193,093	-	193,093
Debt service	943,983	-	943,983
Capital projects	2,641,990	-	2,641,990
Business type activities	-	291,843	291,843
Total disbursements	4,384,414	291,843	4,676,257
Excess (deficiency) of receipts over (under) disbursements	(761,919)	127,975	(633,944)
Other financing sources	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(761,919)	127,975	(633,944)
Balances beginning of year	1,166,314	149,210	1,315,524
Balances end of year	\$ 404,395	277,185	681,580

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
334,055	282,612	55,948
171,425	171,425	(2,023)
131,014	128,918	(10,745)
1,775	3,575	(2,226)
21,950	22,050	(13,059)
4,829,489	4,728,413	(1,822,047)
526,670	502,595	(28,762)
64,550	22,050	3,589
<u>6,080,928</u>	<u>5,861,638</u>	<u>(1,819,325)</u>
299,479	239,040	12,404
270,350	215,893	44,733
236,115	229,815	22,939
42,078	1,578	902
247,600	208,100	15,007
60,740	975,472	31,489
4,534,050	3,469,400	827,410
422,875	393,875	102,032
<u>6,113,287</u>	<u>5,733,173</u>	<u>1,056,916</u>
(32,359)	128,465	(762,409)
-	(68,517)	(68,517)
(32,359)	59,948	(693,892)
<u>1,526,843</u>	<u>1,526,843</u>	<u>(211,319)</u>
<u>1,494,484</u>	<u>1,586,791</u>	<u>(905,211)</u>

City of Palo

Notes to Other Information – Budgetary Reporting

June 30, 2013

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 \$380,114. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the debt service function prior to the May 20, 2013 budget amendment.

Supplementary Information

City of Palo
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose and refunding	Apr 23, 2012	.80-3.50%	\$ 1,815,000
General obligation:			
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
1,815,000	-	-	1,815,000	28,690
500,000	-	500,000	-	27,772
364,000	-	364,000	-	13,021
\$ 864,000	-	864,000	-	40,793
2,970,000	-	10,000	2,960,000	96,525

Schedule 2

City of Palo
Bond Maturities
June 30, 2013

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
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>\$ 2,960,000</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 Five Years

	2013	2012	2011	2010	2009
Receipts:					
Property tax	\$ 338,560	279,496	292,684	300,726	233,045
Tax increment financing	169,402	201,870	61,279	4,073	168,307
Other city tax	118,173	127,984	117,630	182,737	282,589
Licenses and permits	1,349	1,389	1,372	4,703	5,743
Use of money and property	8,991	11,632	7,767	7,904	9,696
Intergovernmental	2,906,366	3,816,845	3,733,089	2,025,559	2,852,557
Charges for service	54,015	49,914	49,490	59,639	46,041
Miscellaneous	25,639	266,434	94,153	131,286	26,448
Total	\$ 3,622,495	4,755,564	4,357,464	2,716,627	3,624,426
Disbursements:					
Operating:					
Public safety	\$ 226,636	1,671,735	4,002,420	3,010,290	2,346,171
Public works	171,160	247,642	273,155	291,799	113,498
Culture and recreation	206,876	394,431	374,987	279,849	114,554
Community and economic development	676	2,058	1,920	1,498	142,280
General government	193,093	265,783	219,308	219,320	150,540
Debt service	943,983	2,286,601	48,570	46,669	-
Capital projects	2,641,990	2,150,546	499,123	298,787	2,902,392
Total	\$ 4,384,414	7,018,796	5,419,483	4,148,212	5,769,435

See accompanying independent auditor's report.

Schedule 4

City of Palo

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

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	\$ 1,216
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRI-236	<u>2,682,607</u>
			<u>2,683,823</u>
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	<u>18,951</u>
Hazard Mitigation Grant	97.039	DR-1763-57-01	<u>55,496</u>
Total			<u>\$ 2,758,270</u>

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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 6, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Palo's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Palo's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Palo's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Palo's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 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 deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-13 to be a significant deficiency.

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, 2013 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

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

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2014

**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133**

City of Palo



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

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 the City of Palo's major federal program for the year ended June 30, 2013. The City of Palo's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Palo's major federal program based on our audit of the types of compliance requirements referred to above. 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 noncompliance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Palo's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Palo complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the City of Palo is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Palo's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance exists when the design or operation of a control over compliance 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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2014

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

- (a) Unmodified 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) A significant deficiency 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) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (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, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Financial Reporting – During the audit, we identified a material grant from the Iowa Department of Agriculture misclassified as “miscellaneous” rather than “intergovernmental” 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.

Conclusion – Response accepted.

II-B-13 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 – The Palo Volunteer Fire Department’s monthly bank statements are provided to the Mayor and City Council for review. The documents will be signed and dated when reviewed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

No matters were noted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the debt service function prior to the budget amendment. 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City will amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Conclusion - Response accepted.

IV-B-13 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 debit memo to "cash" for \$750 for its Christmas dinner. No supporting claim was available to document who attended the Christmas dinner, meals purchased or the public purpose of the dinner. In addition, the Palo Volunteer Fire Department paid \$64 to Peck's Flower Shop 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 issuing a debit memo for "cash" should be discontinued. In addition, all disbursements should be supported by a proper claim detailing the purchase with the public purpose being clearly documented.

Response - The City passed Resolution 121712G as approved to form by the State Auditor's office in writing on December 17, 2012 documenting public purpose for the donation to the Volunteer Fire Association. The Fire Department will provide proper claims detailing purchases so the public purpose is documented and they will no longer write checks to cash or issue debit memos for cash and will pick up a collection from members for flowers in the future.

Conclusion - Response accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- IV-C-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-13 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-13 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-13 City Council Minutes - No transactions were found that we believe should have been approved in the City Council minutes but were not.
- IV-G-13 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-13 Revenue Bonds – No instances of non-compliance with the revenue bond resolution were noted.
- IV-I-13 Tax Increment Financing (TIF) – The TIF debt certifications made to the County Auditor were reviewed and the following items were noted:

The City requested an annual appropriation of \$48,025 for 2007 debt which was paid off in 2012 by refunding bonds.

The City made a \$191,000 transfer to repay internal loans and get TIF balance in good standing. Supporting documentation for the transfer did not identify the specific interfund loans paid off.

Recommendation – The City should support requested appropriations and identify the specific interfund loans paid off.

Response – The City will support requested appropriations and transfers.

Conclusion – Response accepted.

- IV-J-13 Urban Renewal Annual Report - The urban renewal annual report was not properly approved and certified to the Iowa Department of Management on or before December 1. In addition, the City overstated TIF debt outstanding by \$760,138.

Recommendation – The City should ensure the urban renewal annual report is approved and certified to the Iowa Department of Management on or before December 1. The City should also ensure the amounts reported on the Levy Authority Summary agree with City's records.

Response – The City will ensure the urban renewal annual report is approved and certified to the Iowa Department of Management on or before December 1. The City will ensure the amounts reported on the Levy Authority Summary agree with the City's records.

Conclusion – Response accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- IV-K-13 Financial Condition – At June 30, 2013, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
Capital Projects	\$ 108,056
Enterprise: Water	33,578

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

Response – As the water project nears completion and the remaining residential and commercial accounts connect to the public water supply, the receipts generated should exceed the expenses and eliminate the deficit in the Enterprise, Water Fund. The City has started the process to establish a SRF loan, if necessary, to eliminate the deficit balance in the Capital Projects Fund at the completion of the water project.

Conclusion – Response accepted.

- IV-L-13 Payment of General Obligation Notes – Chapter 384.4 of the Code of Iowa states, in part, “Money’s pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.” The City paid general obligation debt from the General Fund rather than the Debt Service Fund for two of three general obligation issuances.

Recommendation – The City should transfer funds to the Debt Service Fund to pay general obligation debt in the future.

Response – In the future, the City will pay general obligation debt from the Debt Service Fund.

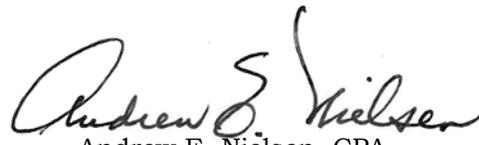
Conclusion – Response accepted.

City of Palo

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Deborah J. Moser, CPA, Manager
Kelsey J. Kranz, Staff Auditor
Jesse Harthan, 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