



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 24, 2014

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

The County had local tax revenue of \$18,518,720 for the year ended June 30, 2013, which included \$741,583 in tax credits from the state. The County forwarded \$12,269,934 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$6,248,786 of the local tax revenue to finance County operations, a less than 1% increase over the prior year. Other revenues included charges for service of \$4,621,050, operating grants, contributions and restricted interest of \$2,977,334, capital grants, contributions and restricted interest of \$5,960,217, local option sales tax of \$361,974, tax increment financing of \$300,004, gaming tax of \$160,829, unrestricted investment earnings of \$25,247 and other general revenues of \$149,735.

Expenses for County operations for the year ended June 30, 2013 totaled \$17,354,102, a 9.4% increase over the prior year. Expenses included \$5,910,481 for non-program, \$5,458,463 for roads and transportation and \$1,661,859 for public safety and legal services.

The significant increase in expenses is primarily due to an increase in roadway construction projects and County drainage district projects.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1310-0074-B00F.pdf>.

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PALO ALTO COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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Palo Alto County

Officials

(Before January 2013)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Leo Goeders	Board of Supervisors	Jan 2013
Ronald Graettinger	Board of Supervisors	Jan 2013
Jerry Hofstad	Board of Supervisors	Jan 2015
Edward Noonan	Board of Supervisors	Jan 2015
Keith Wirtz	Board of Supervisors	Jan 2015
Gary Leonard	County Auditor	(Resigned)
Carmen Moser (Appointed)	County Auditor	Nov 2012
Mary Hilfiker	County Treasurer	Jan 2015
Bonnie Whitney	County Recorder	Jan 2015
Dennis Goeders	County Sheriff	Jan 2013
Lyssa Henderson	County Attorney	Jan 2015
Lois Naig	County Assessor	Jan 2016

(After January 2013)

Jerry Hofstad	Board of Supervisors	(Deceased Sep 2013)
Edward Noonan	Board of Supervisors	Jan 2015
Keith Wirtz	Board of Supervisors	Jan 2015
Ronald Graettinger	Board of Supervisors	Jan 2017
Linus Solberg	Board of Supervisors	Jan 2017
Carmen Moser	County Auditor	Jan 2017
Mary Hilfiker	County Treasurer	Jan 2015
Bonnie Whitney	County Recorder	Jan 2015
Lynn Schultes	County Sheriff	Jan 2017
Lyssa Henderson	County Attorney	Jan 2015
Lois Naig	County Assessor	Jan 2016

Palo Alto County



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Independent Auditor's Report

To the Officials of Palo Alto County:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 17 and 52 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palo Alto County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2014 on our consideration of Palo Alto County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Palo Alto County's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 18, 2014

Palo Alto County

MANAGEMENT'S DISCUSSION AND ANALYSIS

Palo Alto County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues increased approximately \$6,637,000 from fiscal year 2012, primarily due to an increase in contributions from the Iowa Department of Transportation for farm-to-market projects. Capital grants, contributions and restricted interest increased approximately \$5,054,000 from fiscal year 2012. In addition, charges for service increased approximately \$2,359,000 from fiscal year 2012, primarily due to an increase in drainage assessments.
- Palo Alto County's governmental activities expenses increased approximately \$1,495,000 over fiscal year 2012, primarily due to an increase in County drainage district projects.
- The County's net position increased 15.1%, or approximately \$3,451,000, from June 30, 2012 to June 30, 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Palo Alto County as a whole and present an overall view of the County's finances.

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

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

The County's governmental activities are presented in the Statement of Net Position and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

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

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

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

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for city special assessments, emergency management services and the County Assessor, to name a few.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Palo Alto County's combined net position increased from approximately \$22,891,000 to approximately \$26,342,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities.

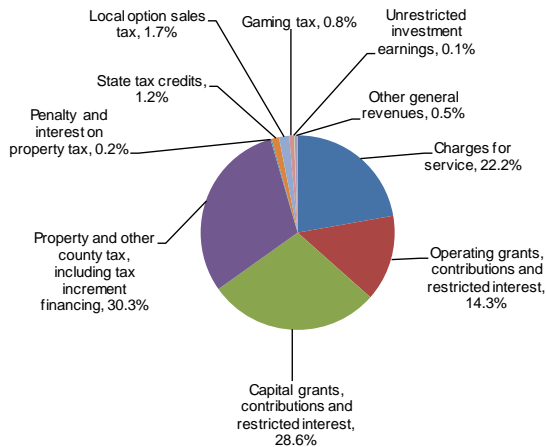
Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2013	2012
Current and other assets	\$ 33,214	19,551
Capital assets	25,544	21,292
Total assets	<u>58,758</u>	<u>40,843</u>
Long-term liabilities	24,935	10,803
Other liabilities	7,481	7,149
Total liabilities	<u>32,416</u>	<u>17,952</u>
Net position:		
Net investment in capital assets	17,277	14,581
Restricted	8,071	7,670
Unrestricted	994	640
Total net position	<u>\$ 26,342</u>	<u>22,891</u>

Net position of Palo Alto County's governmental activities increased approximately \$3,451,000. The largest portion of the County's net position is net investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased from approximately \$640,000 at June 30, 2012 to approximately \$994,000 at June 30, 2013, an increase of 55%.

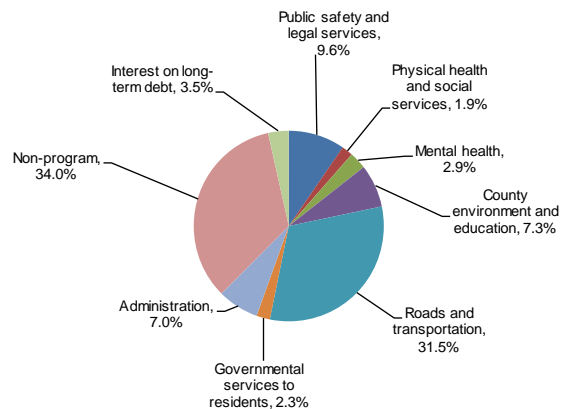
Changes in Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2013	2012
Revenues:		
Program revenues:		
Charges for service	\$ 4,621	2,262
Operating grants, contributions and restricted interest	2,977	3,755
Capital grants, contributions and restricted interest	5,960	906
General revenues:		
Property and other county tax, including tax increment financing	6,307	6,324
Penalty and interest on property tax	37	34
State tax credits	242	220
Local option sales tax	362	363
Gaming tax	161	158
Unrestricted investment earnings	25	34
Other general revenues	113	112
Total revenues	20,805	14,168
Program expenses:		
Public safety and legal services	1,662	1,647
Physical health and social services	324	338
Mental health	498	1,287
County environment and education	1,274	1,308
Roads and transportation	5,458	7,979
Governmental services to residents	399	401
Administration	1,215	1,194
Non-program	5,911	1,290
Interest on long-term debt	613	415
Total expenses	17,354	15,859
Change in net position	3,451	(1,691)
Net position beginning of year	22,891	24,582
Net position end of year	\$ 26,342	22,891

Revenues by Source



Expenses by Program



Palo Alto County's net position of governmental activities increased approximately \$3,451,000 during the year. Revenues for governmental activities increased approximately \$6,637,000 to approximately \$20,805,000, with capital grants, contributions and restricted interest up approximately \$5,054,000, or 558%, from the prior year. Additionally, operating grants, contributions and restricted interest decreased approximately \$778,000, or 21%, from the prior year, primarily due to the reduction of State funding for mental health services as a result of the statewide mental health redesign.

The County decreased property tax rates for fiscal year 2013 an average of 1%. However, the total taxable value increased approximately \$28 million, or 4.5%. Property tax revenue is budgeted to increase approximately \$32,000 next year.

The cost of all governmental activities this year was approximately \$17.4 million compared to approximately \$15.9 million last year. However, as shown in the Statement of Activities on page 21, the amount taxpayers ultimately financed for these activities was approximately \$3.8 million because some of the cost was paid by those directly benefited from the programs (approximately \$4,621,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$8,937,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased from approximately \$6,923,000 in fiscal year 2012 to approximately \$13,558,000 in fiscal year 2013, principally due to receiving more grant proceeds for construction improvements to county roads than was received in the prior year. The County paid for the remaining "public benefit" portion of governmental activities with taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$20.6 million, an increase of approximately \$10.0 million from last year's total of approximately \$10.6 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance decreased approximately \$15,000 from the prior year to approximately \$1,811,000. General Fund revenues decreased approximately \$18,000 and expenditures decreased approximately \$40,000. The decrease in revenues was primarily due to a decrease of approximately \$37,000 in intergovernmental grants in fiscal year 2013. The decrease in expenditures was primarily due to a decrease in the county environment and education function.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$498,000, a decrease of 61.3% from the prior year, and revenues decreased approximately \$449,000. The Special Revenue, Mental Health Fund balance increased approximately \$273,000 to approximately \$758,000 at year end. Expenditures and revenues decreased primarily due to the statewide mental health redesign, which shifts Medicaid revenues and expenditures to the regional level and away from the county level.
- Special Revenue, Rural Services Fund expenditures increased approximately \$112,000 over the prior year. Revenues increased approximately \$106,000, primarily due to an increase in property and other county tax. The Rural Services Fund balance decreased approximately \$72,000 to approximately \$463,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$23,000.

- Special Revenue, Secondary Roads Fund expenditures increased approximately \$231,000 over the prior year. Revenues decreased approximately \$25,000. Transfers from the Special Revenue, Rural Services Fund increased approximately \$23,000. The Secondary Roads Fund ending fund balance increased approximately \$321,000, or 6%.
- Special Revenue, Drainage Districts Fund revenues increased approximately \$1,449,000 due to an increase in drainage assessments over the prior year. Expenditures increased approximately \$4,140,000, due primarily to flood repair and increased costs for drainage projects in the current year. Drainage warrants issued increased approximately \$2,803,000. The Drainage Districts Fund end of year fund balance increased approximately \$160,000 from the prior year.
- The Special Revenue, Tax Increment Financing Fund expended \$342,622 for the payment of revenue bond principal and interest, including an additional \$150,000 paid toward the principal balance on the revenue bonds. The balance in the fund at June 30, 2013 was approximately \$17,000, which will be used to pay the principal and interest on the bonds through September 2013.
- Debt Service Fund revenues decreased approximately \$46,000 from the prior year. The balance in the fund at June 30, 2013 was approximately \$6,824,000, or approximately \$6,648,000 over the prior year ending fund balance. The increase in fund balance is due to approximately \$6.8 million being held in escrow for the purpose of paying future principal and interest costs due on the refunded portion of the general obligation bonds issued in 2008. The funds will be in escrow until June 1, 2015. This fund also reported expenditures of \$905,244, which represents the current year debt service payment for the 2008 and 2013 general obligation bonds as well as issuance costs of \$46,012 for the refunding bonds.
- Capital Projects Fund revenues decreased approximately \$37,000 due to a decrease in interest earned on the investment of prior year general obligation bond proceeds. Expenditures decreased approximately \$1,170,000 due to a decrease in construction activity as there were more road projects active in the prior fiscal year. All expenditures for the projects are charged to this fund, except for the principal and interest payments which are paid from the Debt Service Fund. The end of the year fund balance increased approximately \$2,799,000 as a result of the receipt of \$5,000,000 of bond proceeds to be used for highway improvements.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget twice. The amendments were made on January 22, 2013 and May 13, 2013 and resulted in an increase in budgeted disbursements of \$1,795,143. The majority of this increase was the result of unbudgeted pass through grant money and related disbursements and the partial disbursement of the 2013 bond proceeds.

The County's receipts were \$692,434 less than budgeted, a variance of 5.7%. This was primarily the result of the County receiving less intergovernmental receipts than anticipated.

Total disbursements were \$4,813,901 less than the amended budget. Actual disbursements for the capital projects, mental health and roads and transportation functions were \$2,523,498, \$863,479 and \$516,878, respectively, less than budgeted. The variance affecting the capital projects function was due to only spending \$2,580,201 of the \$5,103,699 budgeted for road projects from the Capital Projects Fund. This was the result of budgeting project costs in total. The remaining variances are a result of disbursements budgeted and not expended by June 30, 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, Palo Alto County had approximately \$25.5 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges and intangible assets. This is a net increase (including additions and deletions) of approximately \$4,251,000, or 20.0%, over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2013	2012
Land	\$ 934	934
Buildings and improvements	788	784
Equipment and vehicles	2,889	2,803
Intangibles	400	427
Infrastructure	20,533	16,344
Total	<u>\$ 25,544</u>	<u>21,292</u>
This year's major additions included (in thousands):		
Infrastructure, road network	\$	5,055
Cat loader		218
John Deere loader		58
Vehicles		152
Recreational trails		135
Total	<u>\$</u>	<u>5,618</u>

The County had depreciation/amortization expense of approximately \$1,406,000 in fiscal year 2013 and total accumulated depreciation/amortization of approximately \$8.8 million at June 30, 2013. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2013, Palo Alto County had approximately \$24.2 million of outstanding long-term debt, which included \$289,000 of urban renewal tax increment (TIF) revenue bonds, \$19,390,000 of general obligation bonds and \$4,507,849 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2013	2012
Urban renewal TIF bonds	\$ 289	612
General obligation bonds	19,390	8,235
Drainage warrants	4,508	1,248
Total	<u>\$ 24,187</u>	<u>10,095</u>

Debt increased as a result of the issuance of \$5,000,000 of general obligation urban renewal bonds for highway improvements and \$6,650,000 of general obligation bonds for the refunding of bonds issued in fiscal year 2008. In addition, drainage warrants increased significantly as a result of an increase in County drainage district projects.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Palo Alto County's outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of approximately \$50 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Palo Alto County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees for various County activities. One of those factors is the economy. Palo Alto County's employment (number of persons working) during December 2013 was 5,120, which is up from 4,880 during December 2012. Unemployment in the County during December 2013 was 3.4% compared to 4.0% during December 2012. This compares with the State's unemployment rate of 4.2% and the national rate of 6.7% during December 2013.

The national Consumer Price Index (CPI) rose 1.5% in 2013 after a 1.7% increase in 2012. This is lower than the 2.4% average annual increase over the last ten years. This is the first time the CPI has gone up less than 2.0% for consecutive years since 1997-98.

The above factors were all part of the considerations for the fiscal year 2014 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2014 Dollars Certified	2013 Dollars Certified	Percentage Change
General Fund	\$ 3,096,299	2,948,810	5.00%
Mental Health Fund	445,330	688,176	-35.29%
Rural Services Fund	1,761,610	1,680,034	4.86%
Debt Service Fund	965,544	920,095	4.94%
Total	<u>\$ 6,268,783</u>	<u>6,237,115</u>	<u>0.51%</u>

Continued state revenue cutbacks the past few years are driving the increases in property tax. No new services were added in the fiscal year 2014 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2014 are as follows:

	2014	2013	Percentage Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.52000	1.50000	1.33%
Mental health levy	0.72201	1.16687	-38.12%
Rural services basic levy	3.95000	3.95000	0.00%
Debt service levy	1.51000	1.50377	0.41%
Total	<u>\$ 11.20201</u>	<u>11.62064</u>	<u>-3.60%</u>

These factors were taken into account when adopting the budget for fiscal year 2014. Amounts appropriated in the operating budget are \$13,720,763, a decrease of \$4,802,333, or 26%, from the final fiscal year 2013 budget. The majority of the disbursements budgeted are for roads and transportation disbursements as road improvements continue during fiscal year 2014. The Code of Iowa limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy for fiscal year 2014 increased from \$1.50 per \$1,000 of taxable valuation in fiscal year 2013 to \$1.52 per \$1,000 of taxable valuation in fiscal year 2014. Palo Alto County decreased the mental health levy for fiscal year 2014 from \$1.16687 per \$1,000 of taxable valuation to \$0.72201 per \$1,000 of taxable valuation. Additionally, the County increased the debt service levy for fiscal year 2014 from \$1.50377 per \$1,000 of taxable valuation to \$1.51 per \$1,000 of taxable valuation. The rural basic levy rate remained at the limit of \$3.95 per \$1,000 of taxable valuation.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Palo Alto County

Basic Financial Statements

Exhibit A

Palo Alto County
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash, cash equivalents and pooled investments	\$ 12,863,082
U.S. Treasury securities on deposit with escrow agent	6,795,516
Receivables:	
Property tax:	
Delinquent	7,058
Succeeding year	6,287,000
Interest and penalty on property tax	24,753
Accounts	112,315
Accrued interest	8,371
Drainage assessments	4,487,366
Due from other governments	1,245,167
Inventories	1,257,668
Prepaid insurance	126,217
Capital assets, net of accumulated depreciation	25,543,528
Total assets	<u>58,758,041</u>
Liabilities	
Accounts payable	1,007,500
Accrued interest payable	154,573
Salaries and benefits payable	6,515
Due to other governments	25,512
Deferred revenue:	
Succeeding year property tax	6,287,000
Long-term liabilities:	
Portion due or payable within one year:	
Urban renewal tax increment revenue bonds	173,000
General obligation bonds	515,000
Drainage warrants	794,905
Compensated absences	164,088
Portion due or payable after one year:	
Urban renewal tax increment revenue bonds	116,000
General obligation bonds	18,875,000
Drainage warrants	3,712,944
Compensated absences	60,111
Net OPEB liability	524,099
Total liabilities	<u>32,416,247</u>
Net Position	
Net investment in capital assets	17,276,871
Restricted for:	
Supplemental levy purposes	280,809
Mental health purposes	758,618
Rural services purposes	456,823
Secondary roads purposes	5,501,300
Drainage district purposes	331,616
Debt service	29,446
Capital projects	497,265
Other purposes	215,110
Unrestricted	993,936
Total net position	<u>\$ 26,341,794</u>

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,661,859	232,956	12,253	40,000	(1,376,650)
Physical health and social services	324,099	94,780	30,415	-	(198,904)
Mental health	498,060	-	81,557	-	(416,503)
County environment and education	1,273,975	363,462	36,526	109,936	(764,051)
Roads and transportation	5,458,463	139,673	2,795,856	3,253,790	730,856
Governmental services to residents	399,395	206,179	-	-	(193,216)
Administration	1,214,513	11,723	13,432	-	(1,189,358)
Non-program	5,910,481	3,572,277	7,295	2,556,491	225,582
Interest on long-term debt	613,257	-	-	-	(613,257)
Total	\$ 17,354,102	4,621,050	2,977,334	5,960,217	(3,795,501)
General Revenues:					
Property and other county tax levied for:					
General purposes					5,121,392
Debt service					885,844
Tax increment financing					300,004
Penalty and interest on property tax					36,520
State tax credits					241,550
Local option sales tax					361,974
Gaming tax					160,829
Unrestricted investment earnings					25,247
Gain on disposition of capital assets					5,298
Miscellaneous					107,917
Total general revenues					7,246,575
Change in net position					3,451,074
Net position beginning of year					22,890,720
Net position end of year					\$ 26,341,794

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2013

	General	Mental Health	Rural Services	Special Secondary Roads
Assets				
Cash, pooled investments and cash equivalents	\$ 1,812,798	787,142	395,764	4,195,175
U.S. Treasury securities on deposit with escrow agent	-	-	-	-
Receivables:				
Property tax:				
Delinquent	4,174	600	1,022	-
Succeeding year	2,951,000	424,000	1,680,000	-
Interest and penalty on property tax	24,753	-	-	-
Accounts	22,746	-	24,030	65,278
Accrued interest	1,721	-	-	1,467
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	16,773
Due from other governments	38,612	9,788	78,951	217,236
Inventories	-	-	-	1,257,668
Prepaid insurance	23,824	-	637	17,848
Total assets	\$ 4,879,628	1,221,530	2,180,404	5,771,445
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 77,287	36,949	6,801	123,897
Salaries and benefits payable	-	-	-	6,515
Due to other funds	3,684	-	13,089	-
Due to other governments	6,617	1,963	16,796	136
Deferred revenue:				
Succeeding year property tax	2,951,000	424,000	1,680,000	-
Other	29,703	589	1,022	56,615
Total liabilities	3,068,291	463,501	1,717,708	187,163
Fund balances:				
Nonspendable:				
Inventories	-	-	-	1,257,668
Prepaid insurance	23,824	-	637	17,848
Restricted for:				
Supplemental levy purposes	289,880	-	-	-
Mental health purposes	-	758,029	-	-
Rural services purposes	-	-	462,059	-
Secondary roads purposes	-	-	-	4,308,766
Drainage purposes	-	-	-	-
Conservation land acquisition/capital improvements	143,341	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Assigned:				
Record/book preservation and restoration	12,000	-	-	-
Courthouse repair	100,000	-	-	-
Unassigned	1,242,292	-	-	-
Total fund balances	1,811,337	758,029	462,696	5,584,282
Total liabilities and fund balances	\$ 4,879,628	1,221,530	2,180,404	5,771,445

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
232,900	16,947	28,185	4,859,478	70,865	12,399,254
-	-	6,795,516	-	-	6,795,516
-	-	1,262	-	-	7,058
-	310,000	922,000	-	-	6,287,000
-	-	-	-	-	24,753
-	-	-	-	261	112,315
-	-	-	5,183	-	8,371
4,487,366	-	-	-	-	4,487,366
-	-	-	-	-	16,773
899,814	-	-	-	766	1,245,167
-	-	-	-	-	1,257,668
-	-	-	-	-	42,309
5,620,080	326,947	7,746,963	4,864,661	71,892	32,683,550
664,880	-	-	1,563	123	911,500
-	-	-	-	-	6,515
-	-	-	-	-	16,773
-	-	-	-	-	25,512
-	310,000	922,000	-	-	6,287,000
4,736,172	-	1,239	-	-	4,825,340
5,401,052	310,000	923,239	1,563	123	12,072,640
-	-	-	-	-	1,257,668
-	-	-	-	-	42,309
-	-	-	-	-	289,880
-	-	-	-	-	758,029
-	-	-	-	-	462,059
-	-	-	-	-	4,308,766
219,028	-	-	-	-	219,028
-	-	-	-	-	143,341
-	-	6,823,724	-	-	6,823,724
-	-	-	4,863,098	-	4,863,098
-	16,947	-	-	71,769	88,716
-	-	-	-	-	12,000
-	-	-	-	-	100,000
-	-	-	-	-	1,242,292
219,028	16,947	6,823,724	4,863,098	71,769	20,610,910
5,620,080	326,947	7,746,963	4,864,661	71,892	32,683,550

Palo Alto County

Palo Alto County

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

June 30, 2013

Total governmental fund balances (page 23) \$ 20,610,910

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$34,330,792 and the accumulated depreciation/amortization is \$8,787,264. 25,543,528

Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds. 4,825,340

The Internal Service Fund is used by management to charge the costs of the partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Position. 451,736

Long-term liabilities, including urban renewal tax increment revenue bonds payable, general obligation bonds payable, drainage warrants payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (25,089,720)

Net position of governmental activities (page 20) \$ 26,341,794

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2013

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,996,795	661,832	1,623,197	-
Local option sales tax	-	-	361,974	-
Interest and penalty on property tax	23,143	-	-	-
Intergovernmental	332,302	109,266	122,681	2,824,556
Licenses and permits	7,088	-	-	7,490
Charges for service	372,441	-	280,736	91,848
Use of money and property	37,104	-	37	17,243
Miscellaneous	192,455	-	42,443	63,489
Total revenues	<u>3,961,328</u>	<u>771,098</u>	<u>2,431,068</u>	<u>3,004,626</u>
Expenditures:				
Operating:				
Public safety and legal services	1,469,589	-	202,489	-
Physical health and social services	325,218	-	-	-
Mental health	-	498,060	-	-
County environment and education	636,297	-	729,598	-
Roads and transportation	-	-	214,338	3,708,765
Governmental services to residents	400,232	-	-	-
Administration	1,081,134	-	75,409	-
Non-program	-	-	-	-
Debt service	-	-	-	-
Capital projects	64,173	-	9,683	245,840
Total expenditures	<u>3,976,643</u>	<u>498,060</u>	<u>1,231,517</u>	<u>3,954,605</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,315)</u>	<u>273,038</u>	<u>1,199,551</u>	<u>(949,979)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	1,271,409
Operating transfers out	-	-	(1,271,409)	-
General obligation bonds issued	-	-	-	-
Discount on general obligation bonds issued	-	-	-	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,271,409)</u>	<u>1,271,409</u>
Change in fund balances	(15,315)	273,038	(71,858)	321,430
Fund balances beginning of year	1,826,652	484,991	534,554	5,262,852
Fund balances end of year	<u>\$ 1,811,337</u>	<u>758,029</u>	<u>462,696</u>	<u>5,584,282</u>

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	300,004	885,682	-	-	6,467,510
-	-	-	-	-	361,974
-	-	-	-	-	23,143
2,307,685	-	36,046	-	20,557	5,753,093
-	-	-	-	-	14,578
-	-	-	-	2,804	747,829
-	-	15,660	6,273	15	76,332
378,803	-	-	-	68,999	746,189
2,686,488	300,004	937,388	6,273	92,375	14,190,648
-	-	-	-	5,502	1,677,580
-	-	-	-	-	325,218
-	-	-	-	-	498,060
-	-	-	-	1,452	1,367,347
-	-	-	-	-	3,923,103
-	-	-	-	4,515	404,747
-	-	-	-	-	1,156,543
5,730,306	-	-	-	-	5,730,306
576,700	342,622	905,244	-	-	1,824,566
-	-	-	2,196,236	92,260	2,608,192
6,307,006	342,622	905,244	2,196,236	103,729	19,515,662
(3,620,518)	(42,618)	32,144	(2,189,963)	(11,354)	(5,325,014)
-	-	-	-	-	1,271,409
-	-	-	-	-	(1,271,409)
-	-	6,650,000	5,000,000	-	11,650,000
-	-	(34,248)	(11,424)	-	(45,672)
3,780,181	-	-	-	-	3,780,181
3,780,181	-	6,615,752	4,988,576	-	15,384,509
159,663	(42,618)	6,647,896	2,798,613	(11,354)	10,059,495
59,365	59,565	175,828	2,064,485	83,123	10,551,415
219,028	16,947	6,823,724	4,863,098	71,769	20,610,910

Palo Alto County

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

Year ended June 30, 2013

Change in fund balances - Total governmental funds (page 27) \$ 10,059,495

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation/amortization expense in the current year, as follows:

Expenditures for capital assets	\$ 2,452,253	
Capital assets contributed by the Iowa Department of Transportation	3,199,602	
Depreciation/amortization expense	<u>(1,406,038)</u>	4,245,817

In the Statement of Activities, the gain on the disposition of assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. 5,298

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	5,148	
Other	<u>3,228,011</u>	3,233,159

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

Issued	(15,430,181)	
Repaid	<u>1,338,563</u>	(14,091,618)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	5,083	
Other postemployment benefits	(46,070)	
Interest on long-term debt	<u>(81,582)</u>	(122,569)

The Internal Service Fund is used by management to charge the costs of the partial self-funding of the County's health insurance benefit plan to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities. 121,492

Change in net position of governmental activities (page 21) \$ 3,451,074

See notes to financial statements.

Palo Alto County
Statement of Net Position
Proprietary Fund

June 30, 2013

	<u>Internal Service - Employee Group Health</u>
Current Assets	
Cash and cash equivalents	\$ 463,828
Prepaid insurance	<u>83,908</u>
Total current assets	547,736
Current Liabilities	
Accounts payable	<u>96,000</u>
Net Position	
Unrestricted	<u><u>\$ 451,736</u></u>

See notes to financial statements.

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

Year ended June 30, 2013

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,071,660
Reimbursements from employees		<u>31,176</u>
Total operating revenues		1,102,836
Operating expenses:		
Medical claims	\$ 76,000	
Insurance premiums	888,745	
Administrative fees	<u>16,599</u>	<u>981,344</u>
Operating income		121,492
Net position beginning of year		<u>330,244</u>
Net position end of year		<u>\$ 451,736</u>
See notes to financial statements.		

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2013

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,071,660
Cash received from employees	31,176
Cash paid to suppliers for services	(1,068,940)
Net cash provided by operating activities	33,896
Cash and cash equivalents beginning of year	429,932
Cash and cash equivalents end of year	\$ 463,828
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 121,492
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in prepaid insurance	(2,596)
Decrease in accounts payable	(85,000)
Net cash provided by operating activities	\$ 33,896

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2013

Assets

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 813,564
Other County officials	36,382

Receivables:

Property tax:

Delinquent	20,613
Succeeding year	11,779,000

Accounts	13,851
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Accrued interest	33
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Drainage assessments	71,737
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Special assessments	237,327
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Due from other governments	14,496
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Total assets	<u>12,987,003</u>
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Liabilities

Accounts payable	3,200
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Due to other governments	12,939,776
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Trusts payable	32,323
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Compensated absences	11,704
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Total liabilities	<u>12,987,003</u>
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Net position	<u><u>\$ -</u></u>
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See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

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

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues to be used to fund mental health, intellectual disabilities and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the General Fund and the Special Revenue, Rural Services Fund and other revenues to be used for secondary road construction and maintenance.

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for the Internal Service Fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2012.

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

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

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

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

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Rural Services and Secondary Roads Funds.

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

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

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

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

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

Assigned – Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

Net Position – The net position of the Internal Service, Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

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

(2) Cash, Cash Equivalents and Pooled Investments

The County’s deposits in banks at June 30, 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 County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40. At June 30, 2013, an escrow agent held U.S. Treasury notes for the County with a carrying amount and fair value of \$6,795,516 which mature from December 1, 2013 through June 1, 2015.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Secondary Roads	General	\$ 3,684
	Special Revenue:	
	Rural Services	13,089
Total		<u>\$ 16,773</u>

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

(4) Interfund Transfers

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

Transfer to	Transfer from	Amount
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	<u>\$ 1,271,409</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance			Balance
	Beginning		Decreases	End
	of Year	Increases		of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 933,912	-	-	933,912
Intangibles	210,113	-	-	210,113
Construction in progress	1,043,160	5,054,650	(5,961,887)	135,923
Total capital assets not being depreciated/amortized	<u>2,187,185</u>	<u>5,054,650</u>	<u>(5,961,887)</u>	<u>1,279,948</u>
Capital assets being depreciated/amortized:				
Buildings	1,499,953	34,360	-	1,534,313
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	6,830,934	473,606	(111,976)	7,192,564
Intangibles	261,843	-	-	261,843
Infrastructure, road network	17,461,202	5,961,887	-	23,423,089
Infrastructure, other	410,887	134,749	-	545,636
Total capital assets being depreciated/amortized	<u>26,558,218</u>	<u>6,604,602</u>	<u>(111,976)</u>	<u>33,050,844</u>
Less accumulated depreciation/amortization for:				
Buildings	768,045	27,347	-	795,392
Improvements other than buildings	40,627	3,504	-	44,131
Equipment and vehicles	4,027,916	347,819	(71,764)	4,303,971
Intangibles	45,373	26,184	-	71,557
Infrastructure, road network	2,541,051	976,991	-	3,518,042
Infrastructure, other	29,978	24,193	-	54,171
Total accumulated depreciation/amortization	<u>7,452,990</u>	<u>1,406,038</u>	<u>(71,764)</u>	<u>8,787,264</u>
Total capital assets being depreciated/amortized, net	<u>19,105,228</u>	<u>5,198,564</u>	<u>(40,212)</u>	<u>24,263,580</u>
Governmental activities capital assets, net	<u>\$ 21,292,413</u>	<u>10,253,214</u>	<u>(6,002,099)</u>	<u>25,543,528</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 28,020
County environment and education	49,747
Roads and transportation	1,299,387
Administration	<u>28,884</u>
Total depreciation/amortization expense - governmental activities	<u>\$ 1,406,038</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2013 is as follows:

Fund	Description	Amount
General	Services	\$ 6,617
Special Revenue:		
Mental Health	Services	1,963
Rural Services	Services	16,796
Secondary Roads	Services	136
		<u>18,895</u>
Total for governmental funds		<u>\$ 25,512</u>
Agency:		
County Offices	Collections	\$ 12,282
Agricultural Extension Education		120,386
County Assessor		393,510
Schools		7,073,784
Community Colleges		620,743
Corporations		2,489,211
Townships		155,738
City Special Assessments		238,966
Auto License and Use Tax		187,812
All other		1,647,344
Total for agency funds		<u>\$ 12,939,776</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Urban Renewal Tax Increment Revenue Bonds	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 612,000	8,235,000	1,248,231	229,282	478,029	10,802,542
Increases	-	11,650,000	3,780,181	224,891	53,896	15,708,968
Decreases	(323,000)	(495,000)	(520,563)	(229,974)	(7,826)	(1,576,363)
Balance end of year	<u>\$ 289,000</u>	<u>19,390,000</u>	<u>4,507,849</u>	<u>224,199</u>	<u>524,099</u>	<u>24,935,147</u>
Due within one year	<u>\$ 173,000</u>	<u>515,000</u>	<u>794,905</u>	<u>164,088</u>	<u>-</u>	<u>1,646,993</u>

Urban Renewal Tax Increment Revenue Bonds

On November 23, 2004, the County issued \$2,250,000 of urban renewal tax increment revenue bonds. The bonds were issued to defray a portion of the costs of carrying out an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area. During the year ended June 30, 2013, principal of \$323,000, including \$150,000 of principal in excess of the scheduled redemption, and interest of \$19,622 were paid. Effective June 1, 2009, the interest rates on these bonds decreased from 4.50% to 3.45% per annum.

The bonds are not general obligations of the County, but are payable only from the income and proceeds of the Special Revenue, Tax Increment Financing Fund established in the resolution. Although the bonds are not general obligations of the County, the debt is subject to the constitutional debt limitation of the County.

A summary of the County's June 30, 2013 annual debt service requirements to maturity for urban renewal tax increment revenue bonds is as follows:

Year Ending June 30,	Interest Rates	November 23, 2004 Issue		
		Principal	Interest	Total
2014	3.45%	\$ 173,000	8,478	181,478
2015	3.45	116,000	2,510	118,510
Total		\$ 289,000	10,988	299,988

General Obligation Bonds

A summary of the County's June 30, 2013 general obligation bond indebtedness is as follows:

Year Ending June 30,	Interest Rates	Series 2007B Issued December 31, 2007		
		Principal	Interest	Total
2014	4.25%	\$ -	212,500	212,500
2015	4.25	-	212,500	212,500
2016	4.25	-	212,500	212,500
2017	4.25	-	212,500	212,500
2018	4.25	-	212,500	212,500
2019-2023	4.25	2,095,000	959,438	3,054,438
2024-2027	4.25	2,905,000	314,713	3,219,713
Total		\$ 5,000,000	2,336,651	7,336,651

Year Ending June 30,	Interest Rates	Series 2008 Issued May 1, 2008		
		Principal	Interest	Total
2014	3.30%	\$ 515,000	98,035	613,035
2015	3.45	530,000	81,040	611,040
2016	3.60	545,000	62,755	607,755
2017	3.70	565,000	43,135	608,135
2018	3.80	585,000	22,230	607,230
2019-2023		-	-	-
2024-2027		-	-	-
Total		\$ 2,740,000	307,195	3,047,195

General Obligation Refunding Bonds Series 2012				
Issued December 20, 2012				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	1.05%	\$ -	69,838	69,838
2015	1.05	-	69,838	69,838
2016	1.05	800,000	69,838	869,838
2017	.55	800,000	65,438	865,438
2018	.65	825,000	60,238	885,238
2019-2023	0.80-1.60	4,225,000	165,272	4,390,272
2024-2027		-	-	-
Total		\$ 6,650,000	500,462	7,150,462

General Obligation Urban Renewal Bonds Series 2013							
Issued April 23, 2013							
Year Ending June 30,	Interest Rates	Principal	Interest	Total	Total		
					Principal	Interest	Total
2014	1.25%	\$ -	69,097	69,097	515,000	449,470	964,470
2015	1.25	-	62,500	62,500	530,000	425,878	955,878
2016	1.25	-	62,500	62,500	1,345,000	407,593	1,752,593
2017	1.25	625,000	62,500	687,500	1,990,000	383,573	2,373,573
2018	0.60	625,000	58,750	683,750	2,035,000	353,718	2,388,718
2019-2023	0.75-1.75	3,125,000	199,063	3,324,063	9,445,000	1,323,773	10,768,773
2024-2027	2.00	625,000	12,500	637,500	3,530,000	327,213	3,857,213
Total		\$ 5,000,000	526,910	5,526,910	19,390,000	3,671,218	23,061,218

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

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

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

The refunding was undertaken to reduce total debt service payments over the next sixteen years by \$1,731,817 and resulted in an economic gain of \$1,143,218.

During the year ended June 30, 2013, the County retired \$495,000 of general obligation bonds.

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

Drainage Warrants

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

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

(8) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the County is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$312,460, \$289,857 and \$257,091, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 72 active and 6 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 74,478
Interest on net OPEB obligation	11,951
Adjustment to annual required contribution	<u>(32,533)</u>
Annual OPEB cost	53,896
Contributions made	<u>(7,826)</u>
Increase in net OPEB obligation	46,070
Net OPEB obligation beginning of year	<u>478,029</u>
Net OPEB obligation end of year	<u><u>\$ 524,099</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the County contributed \$7,826 to the plan.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 164,275	5.9%	\$ 301,197
2012	181,869	2.8	478,029
2013	53,896	14.5	524,099

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$495,290 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$495,290. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,719,314 and the ratio of the UAAL to covered payroll was 18.2%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term

volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the County's funding policy. The projected annual and ultimate medical trend rate is 6%.

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

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

(10) Risk Management

The County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 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 provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2013 were \$126,925.

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 that 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 exhausts 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. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2013, no liability has been recorded in the County's financial statements. 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 claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their 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 County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$10,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employee Health Insurance Plan

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

Payments to the Employee Group Health Fund are recorded as expenditures by the operating funds. Payments to Wellmark, Blue Cross and Blue Shield are for insurance premiums and payments to Group Services, Inc. are for service fees and medical claims. The County's contribution for the year ended June 30, 2013 was \$1,071,660.

Amounts payable from the Employee Group Health Fund at June 30, 2013 total \$96,000, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims and to establish a reserve for catastrophic losses. That reserve was \$451,736 at June 30, 2013 and is reported as a designation of the Internal Service, Employee Group Health Fund net position. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 181,000
Incurred claims (including claims incurred but not reported at June 30, 2013)	76,000
Payment on claims during the fiscal year	<u>(161,000)</u>
Unpaid claims end of year	<u>\$ 96,000</u>

(12) Transfer Station Closure Care

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

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

The total closure care costs for the County as of June 30, 2013 have been estimated at \$6,516. A balance of \$7,000 has been deposited in the Special Revenue, Closure/Postclosure Fund. The balance is restricted and the estimated closure care costs are fully funded at June 30, 2013.

Palo Alto County

Required Supplementary Information

Palo Alto County

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

Required Supplementary Information

Year ended June 30, 2013

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 6,814,125	-	6,814,125
Interest and penalty on property tax	24,325	-	24,325
Intergovernmental	5,017,273	1,610,346	3,406,927
Licenses and permits	14,835	-	14,835
Charges for service	753,993	-	753,993
Use of money and property	72,796	-	72,796
Miscellaneous	736,579	378,803	357,776
Total receipts	13,433,926	1,989,149	11,444,777
Disbursements:			
Public safety and legal services	1,666,554	-	1,666,554
Physical health and social services	311,893	-	311,893
Mental health	674,356	-	674,356
County environment and education	1,447,907	-	1,447,907
Roads and transportation	4,221,372	-	4,221,372
Governmental services to residents	404,355	-	404,355
Administration	1,154,691	-	1,154,691
Non-program	5,158,523	5,158,523	-
Debt service	1,824,566	576,700	1,247,866
Capital projects	2,580,201	-	2,580,201
Total disbursements	19,444,418	5,735,223	13,709,195
Excess (deficiency) of receipts over (under) disbursements	(6,010,492)	(3,746,074)	(2,264,418)
Other financing sources, net	15,384,509	3,780,181	11,604,328
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	9,374,017	34,107	9,339,910
Balance beginning of year	9,820,753	198,793	9,621,960
Balance end of year	\$ 19,194,770	232,900	18,961,870

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
6,724,450	6,724,450	89,675
10,300	10,300	14,025
4,035,858	4,114,008	(707,081)
11,050	11,050	3,785
572,935	610,032	143,961
58,590	58,590	14,206
315,422	608,781	(251,005)
11,728,605	12,137,211	(692,434)
1,766,402	1,776,402	109,848
375,820	408,517	96,624
1,537,835	1,537,835	863,479
1,574,067	1,754,091	306,184
4,320,660	4,738,250	516,878
422,493	422,493	18,138
1,250,343	1,260,343	105,652
-	-	-
1,184,128	1,521,466	273,600
4,296,205	5,103,699	2,523,498
16,727,953	18,523,096	4,813,901
(4,999,348)	(6,385,885)	4,121,467
-	11,813,438	(209,110)
(4,999,348)	5,427,553	3,912,357
6,499,197	6,499,197	3,122,763
1,499,849	11,926,750	7,035,120

Palo Alto County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2013

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 13,433,926	(756,722)	14,190,648
Expenditures	19,444,418	(71,244)	19,515,662
Net	(6,010,492)	(685,478)	(5,325,014)
Other financing sources, net	15,384,509	-	15,384,509
Beginning fund balances	9,820,753	730,662	10,551,415
Ending fund balances	<u>\$ 19,194,770</u>	<u>1,416,140</u>	<u>20,610,910</u>

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units, the Internal Service Fund and the Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$1,795,143. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2013, disbursements did not exceed the amounts budgeted.

Palo Alto County

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

Required Supplementary Information

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

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

See accompanying independent auditor's report.

Supplementary Information

Palo Alto County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2013

	Resource Enhancement and Protection	County Recorder's Records Management	Special Sheriff Reserve
Assets			
Cash, cash equivalents and pooled investments	\$ 31,488	8,065	1,191
Accounts receivable	-	-	261
Due from other governments	-	-	-
Total assets	\$ 31,488	8,065	1,452
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	-	123
Fund balances:			
Restricted for other purposes	31,488	8,065	1,329
Total liabilities and fund balances	\$ 31,488	8,065	1,452

See accompanying independent auditor's report.

Revenue			
Five Island Trails	Closure/ Postclosure	County Attorney Collections	Total
257	7,000	22,864	70,865
-	-	-	261
-	-	766	766
257	7,000	23,630	71,892
-	-	-	123
257	7,000	23,630	71,769
257	7,000	23,630	71,892

Palo Alto County

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

Year ended June 30, 2013

	Resource Enhancement and Protection	County Recorder's Records Management	Special Sheriff Reserve
Revenues:			
Intergovernmental	\$ 9,298	-	300
Charges for service	-	2,804	-
Use of money and property	14	1	-
Miscellaneous	-	-	4,266
Total revenues	9,312	2,805	4,566
Expenditures:			
Operating:			
Public safety and legal services	-	-	3,954
County environment and education	1,452	-	-
Governmental services to residents	-	4,515	-
Capital projects	-	-	-
Total expenditures	1,452	4,515	3,954
Excess (deficiency) of revenues over (under) expenditures	7,860	(1,710)	612
Fund balances beginning of year	23,628	9,775	717
Fund balances end of year	\$ 31,488	8,065	1,329

See accompanying independent auditor's report.

Revenue				
Five Island Trails	Closure/ Postclosure	County Attorney Collections		Total
-	-	10,959		20,557
-	-	-		2,804
-	-	-		15
64,733	-	-		68,999
64,733	-	10,959		92,375
-	-	1,548		5,502
-	-	-		1,452
-	-	-		4,515
92,260	-	-		92,260
92,260	-	1,548		103,729
(27,527)	-	9,411		(11,354)
27,784	7,000	14,219		83,123
257	7,000	23,630		71,769

Palo Alto County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2013

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	1,217	167,989	78,894
Other County officials	36,382	-	-	-
Receivables:				
Property tax:				
Delinquent	-	169	336	9,890
Succeeding year	-	119,000	238,000	6,985,000
Accounts	1,526	-	-	-
Accrued interest	-	-	-	-
Drainage assessments	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 37,908	120,386	406,325	7,073,784
Liabilities				
Accounts payable	\$ -	-	1,548	-
Due to other governments	12,282	120,386	393,510	7,073,784
Trusts payable	25,626	-	-	-
Compensated absences	-	-	11,267	-
Total liabilities	\$ 37,908	120,386	406,325	7,073,784

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
4,871	26,824	1,626	1,639	187,812	342,692	813,564
-	-	-	-	-	-	36,382
872	7,387	112	-	-	1,847	20,613
615,000	2,455,000	154,000	-	-	1,213,000	11,779,000
-	-	-	-	-	12,325	13,851
-	-	-	-	-	33	33
-	-	-	-	-	71,737	71,737
-	-	-	237,327	-	-	237,327
-	-	-	-	-	14,496	14,496
620,743	2,489,211	155,738	238,966	187,812	1,656,130	12,987,003
-	-	-	-	-	1,652	3,200
620,743	2,489,211	155,738	238,966	187,812	1,647,344	12,939,776
-	-	-	-	-	6,697	32,323
-	-	-	-	-	437	11,704
620,743	2,489,211	155,738	238,966	187,812	1,656,130	12,987,003

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2013

	Agricultural			
	County Offices	Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 26,097	111,019	399,647	7,224,636
Additions:				
Property and other county tax	-	119,076	237,976	6,996,660
E911 surcharge	-	-	-	-
State tax credits	-	4,566	9,922	298,327
Drivers license fees	-	-	-	-
Office fees and collections	345,763	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	91,013	-	-	-
Miscellaneous	-	-	316	-
Total additions	436,776	123,642	248,214	7,294,987
Deductions:				
Agency remittances:				
To other funds	144,745	-	-	-
To other governments	199,583	114,275	241,536	7,445,839
Trusts paid out	80,637	-	-	-
Total deductions	424,965	114,275	241,536	7,445,839
Balances end of year	\$ 37,908	120,386	406,325	7,073,784

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
444,301	2,436,920	149,499	321,375	210,473	1,654,771	12,978,738
615,625	2,440,717	154,292	-	-	1,205,555	11,769,901
-	-	-	-	-	75,499	75,499
18,277	114,380	5,719	-	-	48,842	500,033
-	-	-	-	28,039	-	28,039
-	-	-	-	-	-	345,763
-	-	-	-	3,051,185	-	3,051,185
-	-	-	9,841	-	9,451	19,292
-	-	-	-	-	-	91,013
-	-	-	-	-	230,057	230,373
633,902	2,555,097	160,011	9,841	3,079,224	1,569,404	16,111,098
-	-	-	-	119,895	-	264,640
457,460	2,502,806	153,772	92,250	2,981,990	1,568,045	15,757,556
-	-	-	-	-	-	80,637
457,460	2,502,806	153,772	92,250	3,101,885	1,568,045	16,102,833
620,743	2,489,211	155,738	238,966	187,812	1,656,130	12,987,003

Palo Alto County

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

For the Last Ten Years

	2013	2012	2011
Revenues:			
Property and other county tax	\$ 6,467,510	6,479,439	6,036,591
Local option sales tax	361,974	363,359	328,462
Interest and penalty on property tax	23,143	32,834	30,237
Intergovernmental	5,753,093	4,236,506	4,151,228
Licenses and permits	14,578	11,544	7,411
Charges for service	747,829	649,422	616,306
Use of money and property	76,332	132,469	202,748
Miscellaneous	746,189	1,285,823	761,672
Total	<u>\$ 14,190,648</u>	<u>13,191,396</u>	<u>12,134,655</u>
Expenditures:			
Operating:			
Public safety and legal services	\$ 1,677,580	1,615,221	1,582,458
Physical health and social services	325,218	330,422	298,385
Mental health	498,060	1,287,366	1,187,643
County environment and education	1,367,347	1,441,657	1,531,174
Roads and transportation	3,923,103	3,759,031	3,834,536
Governmental services to residents	404,747	388,793	362,160
Administration	1,156,543	1,139,244	1,102,432
Non-program	5,730,306	1,132,729	1,004,990
Debt service	1,824,566	2,213,254	1,676,728
Capital projects	2,608,192	3,588,863	3,710,629
Total	<u>\$ 19,515,662</u>	<u>16,896,580</u>	<u>16,291,135</u>

See accompanying independent auditor's report.

Modified Accrual Basis						
2010	2009	2008	2007	2006	2005	2004
5,603,209	5,324,307	4,895,452	4,931,144	4,232,250	4,211,427	4,608,299
333,579	333,000	293,697	375,326	268,628	280,977	257,049
23,945	21,939	24,668	25,995	25,929	25,423	27,410
4,254,845	4,114,678	3,801,314	3,804,731	3,885,266	3,781,399	3,483,391
10,067	9,013	23,505	9,782	11,150	6,621	6,756
554,575	545,346	487,402	477,541	450,315	380,075	402,237
294,229	466,243	485,647	391,148	241,490	148,718	104,798
406,075	246,814	472,628	210,377	852,455	154,374	376,283
11,480,524	11,061,340	10,484,313	10,226,044	9,967,483	8,989,014	9,266,223
1,611,100	1,514,188	1,440,928	1,307,407	1,223,356	1,181,247	1,138,496
308,296	303,222	305,488	346,957	377,459	242,172	241,273
1,130,674	1,349,910	1,470,535	1,379,738	1,217,605	1,265,563	1,330,115
1,331,955	1,183,855	1,173,111	956,832	983,662	2,861,490	838,259
4,008,318	3,295,372	3,072,587	3,091,246	2,898,948	3,402,536	1,815,008
363,348	354,520	465,185	329,024	462,226	384,667	306,606
1,171,615	1,059,081	951,245	1,078,010	1,012,503	1,045,164	970,837
740,436	338,381	379,250	73,170	100,355	318,393	477,850
1,543,430	1,171,045	425,316	338,077	832,476	163,711	368,499
1,574,053	447,110	272,549	735,751	221,044	471,050	144,343
13,783,225	11,016,684	9,956,194	9,636,212	9,329,634	11,335,993	7,631,286

Palo Alto County



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

To the Officials of Palo Alto County:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 18, 2014.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings items (A) and (B) to be material weaknesses.

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


Palo Alto County's Responses to the Findings


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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 18, 2014

Palo Alto County
 Schedule of Findings
 Year ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

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

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

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

Palo Alto County
Schedule of Findings
Year ended June 30, 2013

Responses –

County Recorder – Due to our office size, it is difficult to segregate duties dealing with receipts, check writing and reconciliation. (1), (2), (3) and (4) The part-time clerk reconciles the bank statement. She cannot write checks. We do try to have someone in the County Auditor’s Office review the bank reconciliation, but that doesn’t happen every month due to staffing shortages. (6) We have started having someone from the County Auditor’s office randomly review a day or two of the past month from our cash mailing listing and match with our deposit listings for that day.

With the Department of Natural Resources (DNR)’s new recreational vehicle and vessel registration system (RVVRS) in place, one of us takes the report they provide at the end of each day, along with the reports from our software program, and prepares a spreadsheet. The Clerk takes the copies of the daily transactions from the Solutions Fee Report and our actual receipts from the DNR transactions and also does a spreadsheet. We then take the cash register’s daily receipts and compare with both spreadsheets in order to make sure the transactions match the money collected, broken down by cash and checks. The deposit listing is then compared (cash and checks) to the report and the cash register daily receipts.

At the end of each day, we balance the cash register to the computer and DNR website activity. At the end of the month, everything is balanced out and verified with checks written to the appropriate entities.

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

County Sheriff – As much as possible, all books/receipts/deposits and any other item of monetary value is reviewed by the Sheriff to ensure accuracy.

Conclusions – Responses accepted.

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

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

Response – We will implement these procedures in the future.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2013

- (C) Capital Assets – The County does not perform an independent review of the capital asset listing to determine whether assets on the listing exist or whether all existing assets are accounted for.

Recommendation – An independent review of the capital asset listing should be performed periodically to ensure the completeness of the listing and ensure the assets listed exist.

Response – We will check assets in the future and make sure the list is accurate. The Board of Supervisors recently reviewed the Sheriff's deputies vehicles.

Conclusion – Response accepted.

- (D) County Sheriff – The June 30, 2013 book balance did not reconcile to the June 30, 2013 bank balance by \$914.27. In addition, bank reconciliations are not always prepared on a timely basis. Also, fee receipts are not always deposited timely.

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

Response – Accounts will be balanced and reconciled at the end of the month. Deposits will be made as frequently as possible.

Conclusion – Response accepted.

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

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

Response – We will maintain a balance of \$200 and will keep records and receipts in the petty cash box. We will submit claims monthly and reconcile amounts to this balance.

Conclusion – Response accepted.

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

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

Palo Alto County

Schedule of Findings

Year ended June 30, 2013

Response – Department Heads will make sure all vacation balances are not exceeded.

Conclusion – Response accepted.

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

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

Response – Written job evaluations will be done by Department Heads in the future.

Conclusion – Response accepted.

- (H) Board of Health – The County Board of Health entered into a contract with the Iowa Department of Public Health. The receipts and disbursements related to the contract were not recorded in the County Auditor’s Office and the County Treasurer’s Office records.

Recommendation – All funds received and disbursed for contracts entered into on behalf of the County should be recorded by the appropriate County offices.

Response – Starting July 1, 2013, all program receipts and disbursements have gone through the County.

Conclusion – Response accepted.

- (I) County Extension Office Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County’s financial statements. Bank reconciliations are not prepared by an independent person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the control activities should be reviewed to obtain the maximum internal control possible under the circumstances. The Office should utilize current personnel, including Council members and personnel from other County Offices, to provide additional control through review of financial transactions, reconciliations and reports. Bank reconciliations should be performed by independent persons to the extent possible and should be evidenced by the signature or initials of the reviewer and the date of review.

Palo Alto County

Schedule of Findings

Year ended June 30, 2013

Response – As indicated in the response provided during the previous year’s audit, we have incorporated an independent review of the bank reconciliation documents by the Council secretary. During this review, the secretary reviews, initials and dates the reconciliation form to indicate the review has occurred.

Conclusion – Response accepted.

- (J) County Recorder – Voided receipts are not retained and reviewed by an independent person.

Recommendation – Voided receipts should be retained and an independent review should be performed.

Response – Voided receipts, if any, will now be initialed by the person making the void and reviewed by another person in the office.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
 Schedule of Findings
 Year ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – Certain expenditures 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. These expenditures are detailed as follows:

Paid to	Purpose	Amount
Spencer Trophy and Awards	Retirement plaques for County Sheriff's employees	\$104
Food Pride	Food for local training for County Attorney's Office employees	13
Alco Stores, Inc.	Frames for awards for County Attorney's Office employees	36
Wallace's Water Conditioning	Bottled water (including late fee) for County Sheriff's employees	552
Wallace's Water Conditioning	Bottled water for County Attorney's Office	36

Recommendation - According to the opinion, it is possible for certain expenditures 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.

The Board of Supervisors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures, including the requirement for proper documentation.

Response – We will not approve these expenditures in the future.

Conclusion – Response accepted.

- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2013

- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Terry Neary, spouse of Zoning and Sanitation employee, self-employed	Bookkeeping	\$ 2,220
Hardware Hank, owners are parents of Deputy County Auditor	Supplies	9,631
Hersom Designs, owner is daughter of Veterans Affairs Director	Website design	90
Justin Schultes, son of Sheriff	Transportation and patrol services	578

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

The transactions with Hardware Hank and Terry Neary may represent conflicts of interest as defined in Chapter 331.342 of the Code of Iowa.

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

Response – We will consult the County Attorney regarding this matter. Invoices are reviewed by the County Auditor and by someone with no interest in Hardware Hank payments.

Conclusion – Response accepted.

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

Palo Alto County

Schedule of Findings

Year ended June 30, 2013

- (9) Electronic Check Retention – County Recorder – Chapter 554D.114 of the Code of Iowa allows County officials to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The County Recorder retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The County Recorder should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The endorsement (back side) of the check is now included with our bank statement.

Conclusion – Response accepted.

- (10) County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2013 for the County Extension Office did not exceed the amount budgeted.

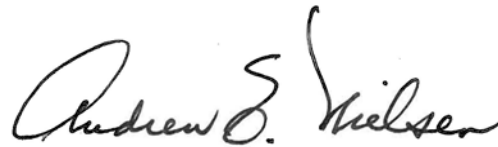
- (11) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

Palo Alto County

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Darryl J. Brumm, CPA, Senior Auditor II
Andi J. Kaufman, CPA, Staff Auditor
Tyler J. Guffy, Assistant Auditor
Miranda A. Shipman, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State