



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

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NEWS RELEASE

FOR RELEASE

March 14, 2016

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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 \$19,834,167 for the year ended June 30, 2015, which included \$1,248,088 in tax credits from the state. The County forwarded \$13,511,465 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$6,322,702 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 \$4,043,149, operating grants, contributions and restricted interest of \$3,748,460, capital grants, contributions and restricted interest of \$288,195, local option sales tax of \$465,145, tax increment financing of \$327,473, gaming tax of \$152,371, unrestricted investment earnings of \$30,188 and other general revenues of \$101,629.

Expenses for County operations for the year ended June 30, 2015 totaled \$13,386,023, a 5.9% increase over the prior year. Expenses included \$5,489,427 for roads and transportation, \$1,917,982 for non-program and \$1,732,767 for public safety and legal services.

The significant increase in expenses is primarily due to an increase in drainage district projects.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1510-0074-B00F.pdf>.

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PALO ALTO COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2015

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Palo Alto County

Officials

(Before January 2015)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Craig Merrill	Board of Supervisors	Jan 2015
Linus Solberg	Board of Supervisors	Jan 2015
Keith Wirtz	Board of Supervisors	Jan 2015
Ronald Graettinger	Board of Supervisors	Jan 2017
Edward Noonan	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

(After January 2015)

Ronald Graettinger	Board of Supervisors	Jan 2017
Edward Noonan	Board of Supervisors	Jan 2017
Craig Merrill	Board of Supervisors	Jan 2019
Linus Solberg	Board of Supervisors	Jan 2019
Keith Wirtz	Board of Supervisors	Jan 2019
Carmen Moser	County Auditor	Jan 2017
Robin Jamison	County Treasurer	Jan 2019
Susan Ruppert	County Recorder	Jan 2019
Lynn Schultes	County Sheriff	Jan 2017
Peter Hart	County Attorney	Jan 2019
Lois Naig	County Assessor	Jan 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, 2015, 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, 2015, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 14, Palo Alto County adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 17 and 58 through 68 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, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2016 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 23, 2016

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, 2015. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- The County implemented Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, during fiscal year 2015. The beginning net position for governmental activities was restated by \$2,408,209 to retroactively report the net pension liability as of July 1, 2014 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Pension expense for fiscal year 2014 and the net pension liability, deferred outflows of resources and deferred inflows of resources at June 30, 2014 were not restated because the information needed to restate those amounts was not available.
- Palo Alto County's total governmental activities revenues increased approximately \$2,562,000 over fiscal year 2014, primarily due to an increase in drainage assessments. Capital grants, contributions and restricted interest decreased approximately \$243,000 from fiscal year 2014. In addition, operating grants, contributions and restricted interest increased approximately \$620,000 over fiscal year 2014, primarily due to an increase in road use tax and RISE funding from the Iowa Department of Transportation.
- Palo Alto County's governmental activities expenses increased approximately \$749,000 over fiscal year 2014, primarily due to an increase in drainage district projects.
- The County's net position at June 30, 2015 increased 8.6%, or approximately \$2,094,000, over the restated June 30, 2014 balance.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

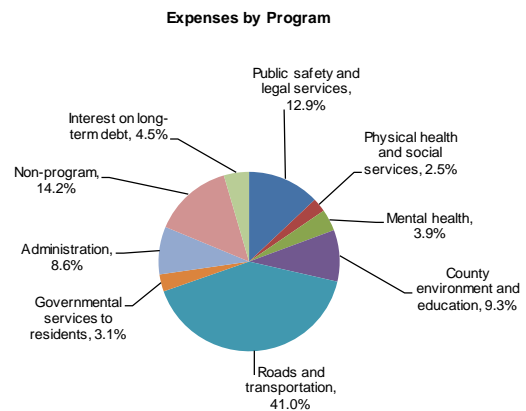
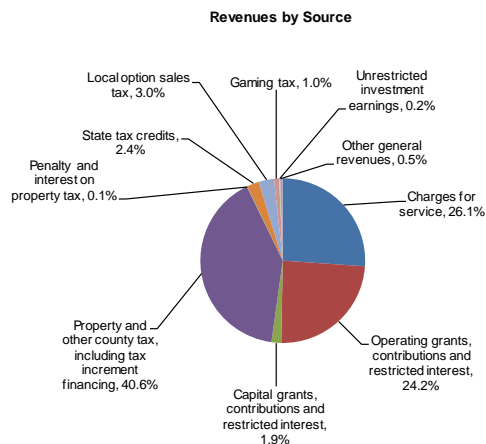
As noted earlier, net position may serve over time as a useful indicator of financial position. Palo Alto County's combined net position decreased from approximately \$26,623,000 to approximately \$26,309,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities.

Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2015	2014 (Not Restated)
Current and other assets	\$ 27,489	31,475
Capital assets	30,411	26,569
Total assets	57,900	58,044
Deferred outflows of resources	426	-
Long-term liabilities	22,930	24,029
Other liabilities	1,114	1,149
Total liabilities	24,044	25,178
Deferred inflows of resources	7,973	6,243
Net position:		
Net investment in capital assets	17,240	17,237
Restricted	10,215	8,360
Unrestricted	(1,146)	1,026
Total net position	\$ 26,309	26,623

Prior to restatement, the net position of Palo Alto County's governmental activities decreased 1.2% (approximately \$26.3 million compared to approximately \$26.6 million). The largest portion of the County's net position is net investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased from approximately \$1,026,000 at June 30, 2014 to a deficit of approximately \$1,146,000 at June 30, 2015, a decrease of 211.7%, primarily due to recording the net pension liability as of July 1, 2014.

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

	Year ended June 30,	
	2014	2015 (Not Restated)
Revenues:		
Program revenues:		
Charges for service	\$ 4,043	1,952
Operating grants, contributions and restricted interest	3,748	3,128
Capital grants, contributions and restricted interest	288	531
General revenues:		
Property and other county tax, including tax increment financing	6,285	6,312
Penalty and interest on property tax	20	30
State tax credits	366	274
Local option sales tax	465	434
Gaming tax	152	154
Unrestricted investment earnings	30	42
Other general revenues	82	60
Total revenues	15,479	12,917
Program expenses:		
Public safety and legal services	1,733	1,713
Physical health and social services	315	334
Mental health	516	453
County environment and education	1,249	1,332
Roads and transportation	5,489	5,440
Governmental services to residents	411	422
Administration	1,157	1,149
Non-program	1,918	1,124
Interest on long-term debt	597	669
Total expenses	13,385	12,636
Change in net position	2,094	281
Net position beginning of year, as restated	24,215	26,342
Net position end of year	\$ 26,309	26,623



The County decreased overall property tax rates for fiscal year 2015 by 4.96%. However, based on increases in total assessed valuation, property tax revenue is budgeted to increase approximately \$384,000 next year.

The cost of all governmental activities this year was approximately \$13.4 million compared to approximately \$12.6 million last year. However, as shown in the Statement of Activities on page 21, the amount taxpayers ultimately financed for these activities was approximately \$5.3 million because some of the cost was paid by those directly benefited from the programs (approximately \$4,043,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$4,036,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased approximately \$2,468,000 in fiscal year 2015 from approximately \$5,611,000 to approximately \$8,079,000, principally due to receiving more drainage assessments during the year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$14.0 million, a decrease of approximately \$5.5 million from last year's total of approximately \$19.5 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 increased approximately \$198,000 over the prior year to approximately \$1,978,000. General Fund revenues increased approximately \$220,000 and expenditures decreased approximately \$9,000. The increase in revenues was primarily due to an increase of approximately \$185,000 in property and other county tax in fiscal year 2015. Expenditures overall remained flat with increases in public safety and legal services and administration offset by decreases in physical health and social services, county environment and education, governmental services to residents and capital projects.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$519,000, an increase of 17.4% over the prior year, and revenues decreased approximately \$357,000. The Special Revenue, Mental Health Fund balance decreased approximately \$357,000 to approximately \$479,000 at year end.
- Special Revenue, Rural Services Fund expenditures decreased approximately \$42,000 from the prior year. Revenues increased approximately \$116,000, primarily due to an increase in property and other county tax. The Rural Services Fund balance increased approximately \$156,000 to approximately \$674,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$57,000.
- Special Revenue, Secondary Roads Fund expenditures increased approximately \$23,000 over the prior year. Revenues increased approximately \$609,000. Transfers from the Special Revenue, Rural Services Fund increased approximately \$57,000. The Secondary Roads Fund ending fund balance increased approximately \$849,000, or 14.7%, during the year.
- Special Revenue, Drainage Districts Fund revenues increased approximately \$1,226,000 over the prior year due to an increase in drainage assessments. Expenditures increased approximately \$1,313,000, due primarily to drainage projects in the current year. Drainage warrants issued increased approximately \$335,000. The Drainage Districts Fund end of year fund balance increased approximately \$166,000 over the prior year.

- The Special Revenue, Tax Increment Financing Fund balance increased approximately \$129,000 to approximately \$159,000 at June 30, 2015. The balance will be used to pay the principal and interest on general obligation urban renewal bonds issued in April 2013 and July 2014.
- Debt Service Fund revenues increased approximately \$71,000 over the prior year. The balance in the fund at June 30, 2015 was approximately \$14,000, or a decrease of approximately \$6,832,000 from the prior year ending fund balance. The significant decrease in ending fund balance is due to escrow funds in the prior year being used to pay the principal and interest costs on the refunded portion of the general obligation Series 2007B and Series 2008 bonds. The current year debt service payment for various general obligation bonds and refunding bonds was approximately \$8.1 million.
- Capital Projects Fund revenues decreased approximately \$17,000 due to a decrease in interest earned on the investment of prior year general obligation bond proceeds. Expenditures increased approximately \$3,324,000 due to an increase in road construction activity over 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 \$209,000 as a result of receiving additional bond proceeds and spending bond proceeds received in the prior year for highway improvements.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget two times. The amendments were made on August 5, 2014 and May 5, 2015 and resulted in an increase in budgeted disbursements of \$12,637,535. The majority of this increase was due to paying the principal and interest costs on the refunded general obligation Series 2007B and Series 2008 bonds and receiving and spending additional general obligation urban renewal bond proceeds.

The County's receipts were \$689,660 more than budgeted, a variance of 6.0%. The most significant variance resulted from the County receiving more intergovernmental receipts than anticipated.

Total disbursements were \$4,126,909 less than the amended budget. Actual disbursements for the capital projects, roads and transportation and non-program functions were \$2,049,627, \$1,119,228 and \$6,695,000, respectively, less than budgeted. The variance affecting the capital projects function was due to only spending \$5,237,672 of the \$7,287,299 budgeted for road projects from the Capital Projects Fund. This was the result of over budgeting project costs which did not occur in fiscal year 2015. The variance in the non-program function was due to budgeting the general obligation Series 2007B and Series 2008 bonds refunding payment as non-program rather than debt service. The remaining variances are a result of budgeted disbursements not being expended by June 30, 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, Palo Alto County had approximately \$30.4 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 \$3.8 million, or 14.5%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2015	2014
Land	\$ 1,007	1,007
Buildings and improvements	752	784
Equipment and vehicles	3,128	3,072
Intangibles	403	374
Infrastructure	25,121	21,332
Total	\$ 30,411	26,569

This year's major additions included (in thousands):

Infrastructure, including road network	\$ 4,835
Trucks	223
Vehicles and other equipment	311
Recreational trails	44
Total	\$ 5,413

The County had depreciation/amortization expense of approximately \$1.6 million in fiscal year 2015 and total accumulated depreciation/amortization of approximately \$11.7 million at June 30, 2015. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2015, Palo Alto County had approximately \$20.4 million of outstanding long-term debt, which included \$16,305,000 of general obligation bonds and approximately \$4,052,000 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2015	2014
General obligation bonds	\$ 16,305	18,925
Drainage warrants	4,052	4,292
Total	\$ 20,357	23,217

Debt decreased as a result of refunding \$7,225,000 of general obligation Series 2007B and Series 2008 bonds. The decrease in debt was offset by the receipt of general obligation urban renewal bonds of \$4,950,000 for road projects. In addition, drainage warrants decreased slightly from the prior year.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Palo Alto County's outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of approximately \$66.5 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 2016 budget, tax rates and fees for various County activities. One of those factors is the economy. Unemployment in the County now stands at 3.1% versus 3.5% a year ago. This compares with the State's unemployment rate of 3.7% and the national rate of 5.1% during June 2015.

The national Consumer Price Index (CPI) rose less than 1% from June 2014 to June 2015. This is considerably lower than the 2.1% increase during fiscal year 2014 reported last year.

The above factors were all part of the considerations for the fiscal year 2016 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2016	2015	
	Dollars	Dollars	Percentage
	Certified	Certified	Change
General Fund	\$ 3,290,207	3,316,673	-0.80%
Mental Health Fund	400,180	94,210	324.77
Rural Services Fund	1,887,282	1,831,909	3.02
Debt Service Fund	1,076,037	1,026,430	4.83
Total	<u>\$ 6,653,706</u>	<u>6,269,222</u>	<u>6.13%</u>

Continued state revenue cutbacks the past few years are driving the increases in property tax. No new services were added to the fiscal year 2016 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2016 are as follows:

	2016	2015	Percentage
			Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.38118	1.54344	-10.51
Mental health levy	0.59369	0.14326	314.41
Rural services basic levy	3.95000	3.95000	0.00
Debt service levy	1.51000	1.51000	0.00
Total	<u>\$ 10.93487</u>	<u>10.64670</u>	<u>2.71%</u>

These factors were taken into account when adopting the budget for fiscal year 2016. Amounts appropriated in the operating budget are \$17,572,207, a decrease of \$9,121,551, or 34%, from the final fiscal year 2015 budget. The majority of the disbursements budgeted are for capital projects and roads and transportation as road improvements continue during fiscal year 2016. The Code of Iowa limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy decreased from \$1.54344 per \$1,000 of taxable valuation in fiscal year 2015 to \$1.38118 per \$1,000 of taxable valuation in fiscal year 2016. Palo Alto County increased the mental health levy from \$.14326 per \$1,000 of taxable valuation to \$.59369 per \$1,000 of taxable valuation. Additionally, the debt service levy rate and the rural services basic levy rate for fiscal year 2016 remained the same at \$1.51 per \$1,000 of taxable valuation and \$3.95 per \$1,000 of taxable valuation, respectively.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Palo Alto County

Basic Financial Statements

Palo Alto County
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash, cash equivalents and pooled investments	\$ 13,635,088
Receivables:	
Property tax:	
Delinquent	5,289
Succeeding year	7,041,000
Interest and penalty on property tax	22,766
Accounts	93,380
Accrued interest	2,162
Drainage assessments	5,083,261
Due from other governments	456,850
Inventories	1,005,351
Prepaid insurance	143,645
Capital assets, net of accumulated depreciation/amortization	30,410,781
Total assets	57,899,573
Deferred Outflows of Resources	
Pension related deferred outflows	426,117
Liabilities	
Accounts payable	745,135
Accrued interest payable	219,420
Salaries and benefits payable	83,658
Due to other governments	66,632
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	1,530,000
Drainage warrants	1,347,847
Compensated absences	164,064
Portion due or payable after one year:	
General obligation bonds	14,775,000
Drainage warrants	2,704,260
Compensated absences	89,672
Net pension liability	1,700,137
Net OPEB liability	618,478
Total liabilities	24,044,303
Deferred Inflows of Resources	
Unavailable property tax revenue	7,041,000
Pension related deferred inflows	931,724
Total deferred inflows of resources	7,972,724
Net Position	
Net investment in capital assets	17,239,702
Restricted for:	
Supplemental levy purposes	437,636
Mental health purposes	476,218
Rural services purposes	660,710
Secondary roads purposes	6,538,800
Drainage district purposes	1,134,199
Debt service	14,947
Capital projects	560,633
Other purposes	391,390
Unrestricted	(1,145,572)
Total net position	\$ 26,308,663

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2015

	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	\$ 1,732,767	201,115	48,451	40,000	(1,443,201)
Physical health and social services	315,028	129,767	26,431	19,520	(139,310)
Mental health	516,695	-	67,099	-	(449,596)
County environment and education	1,248,879	278,763	96,361	108,347	(765,408)
Roads and transportation	5,489,427	116,074	3,505,229	17,288	(1,850,836)
Governmental services to residents	410,772	180,786	-	-	(229,986)
Administration	1,157,204	19,731	-	-	(1,137,473)
Non-program	1,917,982	3,116,913	4,889	103,040	1,306,860
Interest on long-term debt	597,269	-	-	-	(597,269)
Total	\$ 13,386,023	4,043,149	3,748,460	288,195	(5,306,219)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,983,182
Debt service					973,915
Tax increment financing					327,473
Penalty and interest on property tax					19,768
State tax credits					365,605
Local option sales tax					465,145
Gaming tax					152,371
Unrestricted investment earnings					30,188
Miscellaneous					81,861
Total general revenues					7,399,508
Change in net position					2,093,289
Net position beginning of year, as restated					24,215,374
Net position end of year					\$ 26,308,663

See notes to financial statements.

Palo Alto County

Balance Sheet
Governmental Funds

June 30, 2015

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash, pooled investments and cash equivalents	\$ 1,988,621	478,564	584,795	5,442,174
Receivables:				
Property tax:				
Delinquent	3,125	380	816	-
Succeeding year	3,097,000	377,000	1,780,000	-
Interest and penalty on property tax	22,766	-	-	-
Accounts	4,804	-	22,608	65,968
Accrued interest	2,162	-	-	-
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	2,424
Due from other governments	22,525	15,998	108,331	309,148
Inventories	-	-	-	1,005,351
Prepaid insurance	24,913	-	590	19,064
Total assets	\$ 5,165,916	871,942	2,497,140	6,844,129
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	\$ 40,202	-	6,193	75,851
Salaries and benefits payable	-	-	11,281	72,377
Due to other funds	1,151	-	1,273	-
Due to other governments	20,679	15,998	24,074	5,881
Total liabilities	62,032	15,998	42,821	154,109
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,097,000	377,000	1,780,000	-
Other	28,662	380	816	50,969
Total deferred inflows of resources	3,125,662	377,380	1,780,816	50,969
Fund balances:				
Nonspendable:				
Inventories	-	-	-	1,005,351
Prepaid insurance	24,913	-	590	19,064
Restricted for:				
Supplemental levy purposes	448,879	-	-	-
Mental health purposes	-	478,564	-	-
Rural services purposes	-	-	672,913	-
Secondary roads purposes	-	-	-	5,614,636
Drainage purposes	-	-	-	-
Conservation land acquisition/capital improvements	135,516	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	15,309	-	-	-
Assigned:				
Courthouse repair	125,000	-	-	-
County owned building repair	25,000	-	-	-
Unassigned	1,203,605	-	-	-
Total fund balances	1,978,222	478,564	673,503	6,639,051
Total liabilities, deferred inflows of resources and fund balances	\$ 5,165,916	871,942	2,497,140	6,844,129

See notes to financial statements.

Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
623,685	159,208	13,979	3,998,223	80,509	13,369,758
-	-	968	-	-	5,289
-	774,000	1,013,000	-	-	7,041,000
-	-	-	-	-	22,766
-	-	-	-	-	93,380
-	-	-	-	-	2,162
5,083,261	-	-	-	-	5,083,261
-	-	-	-	-	2,424
-	-	-	-	848	456,850
-	-	-	-	-	1,005,351
-	-	-	-	-	44,567
5,706,946	933,208	1,027,947	3,998,223	81,357	27,126,808
320,551	-	-	284,338	-	727,135
-	-	-	-	-	83,658
-	-	-	-	-	2,424
-	-	-	-	-	66,632
320,551	-	-	284,338	-	879,849
-	774,000	1,013,000	-	-	7,041,000
5,083,261	-	968	-	-	5,165,056
5,083,261	774,000	1,013,968	-	-	12,206,056
-	-	-	-	-	1,005,351
-	-	-	-	-	44,567
-	-	-	-	-	448,879
-	-	-	-	-	478,564
-	-	-	-	-	672,913
-	-	-	-	-	5,614,636
303,134	-	-	-	-	303,134
-	-	-	-	-	135,516
-	-	13,979	-	-	13,979
-	-	-	3,713,885	-	3,713,885
-	159,208	-	-	81,357	255,874
-	-	-	-	-	125,000
-	-	-	-	-	25,000
-	-	-	-	-	1,203,605
303,134	159,208	13,979	3,713,885	81,357	14,040,903
5,706,946	933,208	1,027,947	3,998,223	81,357	27,126,808

Palo Alto County

Palo Alto County

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

June 30, 2015

Total governmental fund balances (page 23)		\$ 14,040,903
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 \$42,121,991 and the accumulated depreciation/amortization is \$11,711,210.		30,410,781
Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.		5,165,056
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.		346,408
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 426,117	
Deferred inflows of resources	<u>(931,724)</u>	(505,607)
Long-term liabilities, including general obligation bonds payable, drainage warrants payable, compensated absences payable, other postemployment benefits payable, net pension liability and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.		<u>(23,148,878)</u>
Net position of governmental activities (page 20)		<u><u>\$ 26,308,663</u></u>

See notes to financial statements.

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

Year ended June 30, 2015

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 3,289,961	89,124	1,754,119	-
Local option sales tax	-	-	465,145	-
Interest and penalty on property tax	26,172	-	-	-
Intergovernmental	506,397	73,112	144,460	3,556,627
Licenses and permits	5,253	-	-	10,195
Charges for service	306,434	-	244,724	59,681
Use of money and property	42,237	-	-	38,774
Miscellaneous	161,406	-	37	52,327
Total revenues	4,337,860	162,236	2,608,485	3,717,604
Expenditures:				
Operating:				
Public safety and legal services	1,615,418	-	137,089	-
Physical health and social services	315,938	-	-	-
Mental health	-	518,741	-	-
County environment and education	592,682	-	678,928	-
Roads and transportation	-	-	236,262	3,840,011
Governmental services to residents	402,485	-	-	-
Administration	1,179,145	-	-	-
Non-program	-	-	2,707	-
Debt service	-	-	-	-
Capital projects	34,491	-	4,773	421,727
Total expenditures	4,140,159	518,741	1,059,759	4,261,738
Excess (deficiency) of revenues over (under) expenditures	197,701	(356,505)	1,548,726	(544,134)
Other financing sources (uses):				
Transfers in	-	-	-	1,393,063
Transfers out	-	-	(1,393,063)	-
General obligation bonds issued	-	-	-	-
Premium on bonds issued	-	-	-	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	-	-	(1,393,063)	1,393,063
Change in fund balances	197,701	(356,505)	155,663	848,929
Fund balances beginning of year	1,780,521	835,069	517,840	5,790,122
Fund balances end of year	\$ 1,978,222	478,564	673,503	6,639,051

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	327,473	973,915	-	-	6,434,592
-	-	-	-	-	465,145
-	-	-	-	-	26,172
99,299	1,294	64,354	-	21,238	4,466,781
-	-	-	-	-	15,448
-	-	-	-	2,178	613,017
-	-	19,520	8,987	80	109,598
2,255,052	-	-	-	39,344	2,508,166
2,354,351	328,767	1,057,789	8,987	62,840	14,638,919
-	-	-	-	5,595	1,758,102
-	-	-	-	-	315,938
-	-	-	-	-	518,741
-	-	-	-	8,606	1,280,216
-	-	-	-	-	4,076,273
-	-	-	-	206	402,691
-	-	-	-	-	1,179,145
1,794,222	-	-	-	-	1,796,929
1,950,501	-	8,089,623	-	-	10,040,124
-	-	-	4,759,016	40,219	5,260,226
3,744,723	-	8,089,623	4,759,016	54,626	26,628,385
(1,390,372)	328,767	(7,031,834)	(4,750,029)	8,214	(11,989,466)
-	-	200,000	-	-	1,593,063
-	(200,000)	-	-	-	(1,593,063)
-	-	-	4,950,000	-	4,950,000
-	-	-	9,500	-	9,500
1,556,576	-	-	-	-	1,556,576
1,556,576	(200,000)	200,000	4,959,500	-	6,516,076
166,204	128,767	(6,831,834)	209,471	8,214	(5,473,390)
136,930	30,441	6,845,813	3,504,414	73,143	19,514,293
303,134	159,208	13,979	3,713,885	81,357	14,040,903

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, 2015

Change in fund balances - Total governmental funds (page 27)		\$ (5,473,390)
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	\$ 5,411,377	
Capital assets contributed by the Iowa Department of Transportation	12,042	
Depreciation/amortization expense	<u>(1,567,193)</u>	3,856,226
In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources.		(14,309)
Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds, as follows:		
Property tax	2,349	
Other	<u>679,502</u>	681,851
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year repayments exceeded issuances, as follows:		
Issued	(6,506,576)	
Repaid	<u>9,366,153</u>	2,859,577
The current year County share of IPERS contributions is reported as expenditures in the governmental funds, but is reported as deferred outflows of resources in the Statement of Net Position.		328,814
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	(10,771)	
Other postemployment benefits	(49,671)	
Pension expense	(126,529)	
Interest on long-term debt	<u>76,702</u>	(110,269)
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.		<u>(35,211)</u>
Change in net position of governmental activities (page 21)		<u>\$ 2,093,289</u>

See notes to financial statements.

Palo Alto County
 Statement of Net Position
 Proprietary Fund

June 30, 2015

	Internal Service - Employee Group Health
Current Assets	
Cash and cash equivalents	\$ 265,330
Prepaid insurance	99,078
Total current assets	<u>364,408</u>
Current Liabilities	
Accounts payable	<u>18,000</u>
Net Position	
Unrestricted	<u><u>\$ 346,408</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, 2015

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,075,958
Reimbursements from employees		13,850
Total operating revenues		<u>1,089,808</u>
Operating expenses:		
Medical claims	\$ 99,000	
Insurance premiums	1,007,962	
Administrative fees	<u>18,057</u>	<u>1,125,019</u>
Operating loss		(35,211)
Net position beginning of year		<u>381,619</u>
Net position end of year		<u><u>\$ 346,408</u></u>

See notes to financial statements.

Palo Alto County
 Statement of Cash Flows
 Proprietary Fund
 Year ended June 30, 2015

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,075,958
Cash received from employees	13,850
Cash paid to suppliers for services	(1,220,022)
Net cash used by operating activities	(130,214)
Cash and cash equivalents beginning of year	395,544
Cash and cash equivalents end of year	\$ 265,330
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (35,211)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Increase in prepaid insurance	(4,003)
Decrease in accounts payable	(91,000)
Net cash used by operating activities	\$ (130,214)

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2015

Assets

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 940,816
Other County officials	21,474
Receivables:	
Property tax:	
Delinquent	15,526
Succeeding year	12,680,000
Accounts	10,975
Accrued interest	31
Drainage assessments	772
Special assessments	222,570
Due from other governments	29,506

Total assets 13,921,670

Liabilities

Accounts payable	12,785
Due to other governments	13,868,841
Trusts payable	23,998
Compensated absences	16,046

Total liabilities 13,921,670

Net position \$ -

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Palo Alto County Assessor’s Conference Board, Palo Alto County Emergency Management Commission and Palo Alto County Joint 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 and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

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

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

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash, Cash Equivalents and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at 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, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2014.

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, 2015, 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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2015. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the

assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected with sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables that will not be recognized until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

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

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

Assigned – Amounts the Board of Supervisors 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. During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Secondary Roads	General	\$ 1,151
	Special Revenue:	
	Rural Services	1,273
Total		\$ 2,424

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, 2015 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 200,000
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	1,393,063
Total		\$ 1,593,063

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, 2015 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 1,007,399	-	-	1,007,399
Intangibles	210,113	-	-	210,113
Construction in progress	1,921,384	4,835,313	(1,221,466)	5,535,231
Total capital assets not being depreciated/amortized	3,138,896	4,835,313	(1,221,466)	6,752,743
Capital assets being depreciated/amortized:				
Buildings	1,561,746	-	-	1,561,746
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	7,744,830	479,990	(153,878)	8,070,942
Intangibles	261,843	69,412	-	331,255
Infrastructure, road network	23,423,089	1,221,466	-	24,644,555
Infrastructure, other	623,391	43,960	-	667,351
Total capital assets being depreciated/amortized	33,708,298	1,814,828	(153,878)	35,369,248
Less accumulated depreciation/amortization for:				
Buildings	823,836	28,444	-	852,280
Improvements other than buildings	47,635	3,504	-	51,139
Equipment and vehicles	4,672,600	405,040	(134,313)	4,943,327
Intangibles	97,741	40,067	-	137,808
Infrastructure, road network	4,555,044	1,062,834	-	5,617,878
Infrastructure, other	81,474	27,304	-	108,778
Total accumulated depreciation/amortization	10,278,330	1,567,193	(134,313)	11,711,210
Total capital assets being depreciated/amortized, net	23,429,968	247,635	(19,565)	23,658,038
Governmental activities capital assets, net	\$ 26,568,864	5,082,948	(1,241,031)	30,410,781

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 30,468
County environment and education	60,675
Roads and transportation	1,429,658
Administration	46,392
Total depreciation/amortization expense - governmental activities	<u>\$ 1,567,193</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, 2015 is as follows:

Fund	Description	Amount
General	Services	\$ 20,679
Special Revenue:		
Mental Health	Services	15,998
Rural Services	Services	24,074
Secondary Roads	Services	5,881
		<u>45,953</u>
Total for governmental funds		<u>\$ 66,632</u>
Agency:		
County Offices	Collections	\$ 9,683
Agricultural Extension Education		141,615
County Assessor		415,725
Schools		7,764,964
Community Colleges		631,353
Corporations		2,556,260
Townships		165,200
City Special Assessments		225,827
Auto License and Use Tax		241,264
All other		1,716,950
Total for agency funds		<u>\$ 13,868,841</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net Pension Liability	Net OPEB Liability	Total
Balance beginning of year, as restated	\$ 18,925,000	4,291,684	242,965	2,732,433	568,807	26,760,889
Increases	4,950,000	1,556,576	265,511	-	56,027	6,828,114
Decreases	7,570,000	1,796,153	254,740	1,032,296	6,356	10,659,545
Balance end of year	<u>\$ 16,305,000</u>	<u>4,052,107</u>	<u>253,736</u>	<u>1,700,137</u>	<u>618,478</u>	<u>22,929,458</u>
Due within one year	<u>\$ 1,530,000</u>	<u>1,347,847</u>	<u>164,064</u>	<u>-</u>	<u>-</u>	<u>3,041,911</u>

General Obligation Bonds

A summary of the County's June 30, 2015 general obligation bond indebtedness is as follows:

Refunding Series 2012				
Issued December 20, 2012				
Year	Interest			
Ending	Rates	Principal	Interest	Total
June 30,				
2016	0.55%	\$ 800,000	69,838	869,838
2017	0.65	800,000	65,438	865,438
2018	0.80	825,000	60,238	885,238
2019	0.95	850,000	53,638	903,638
2020	1.15	900,000	45,562	945,562
2021-2023	1.30-1.60	2,475,000	66,072	2,541,072
Total		\$ 6,650,000	360,786	7,010,786

Urban Renewal Series 2013				
Issued April 23, 2013				
Year	Interest			
Ending	Rates	Principal	Interest	Total
June 30,				
2016	1.25%	\$ -	62,500	62,500
2017	0.60	625,000	62,500	687,500
2018	0.75	625,000	58,750	683,750
2019	1.00	625,000	54,063	679,063
2020	1.10	625,000	47,812	672,812
2021-2024	1.30-2.00	2,500,000	109,687	2,609,687
Total		\$ 5,000,000	395,312	5,395,312

General Obligation Urban Renewal Bonds Series 2014							
Issued July 9, 2014							
Year	Interest				Total		
Ending	Rates	Principal	Interest	Total	Principal	Interest	Total
June 30,							
2016	1.50%	\$ 730,000	99,632	829,632	1,530,000	231,970	1,761,970
2017	1.50	245,000	88,682	333,682	1,670,000	216,620	1,886,620
2018	2.00	240,000	85,008	325,008	1,690,000	203,996	1,893,996
2019	2.00	230,000	80,208	310,208	1,705,000	187,909	1,892,909
2020	2.00	195,000	75,608	270,608	1,720,000	168,982	1,888,982
2021-2025	1.85-2.60	3,015,000	279,613	3,294,613	7,990,000	455,372	8,445,372
Total		\$ 4,655,000	708,751	5,363,751	16,305,000	1,464,849	17,769,849

During the year ended June 30, 2008, the County issued \$10,000,000 of general obligation bonds. The proceeds of the bonds were used to construct improvements to County roads in order to assist in economic development. On December 20, 2012, the County issued \$6,650,000 of general obligation refunding bonds for a crossover advance refunding of the County's outstanding general obligation bonds, series 2007B, dated December 31, 2007 and the general obligation bonds, series 2008, dated May 1, 2008. The bonds bear interest at 0.55% to 1.60% per annum and mature June 1, 2023. On the crossover refunding date of June 1, 2015, the refunded general obligation bonds (old debt) were paid using the amounts held by the escrow agent.

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

On July 9 2014, the County issued \$5,000,000 of general obligation urban renewal bonds. The County received a good faith deposit of \$50,000 for the issuance prior to June 30, 2014. The bonds were issued for the purpose of paying the costs of undertaking an urban renewal project in the Palo Alto County Industrial Park Urban Renewal Area, consisting of the construction of highway improvements to assist in economic development. The interest rates on these bonds range from 1.50% to 2.60% per annum.

Drainage Warrants

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

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

(8) Pension Plan

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

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

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

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

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

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

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

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

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

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

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1%. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the County contributed 8.93% for a total rate of 14.885%. The Sheriff, deputies and the County each contributed 9.88% of covered payroll for a total rate of 19.76%. Protection occupation members contributed 6.76% of covered payroll and the County contributed 10.14% for a total rate of 16.90%.

The County's contributions to IPERS for the year ended June 30, 2015 were \$328,814.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the County reported a liability of \$1,700,137 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2014, the County's collective proportion was 0.0428688%, which was a decrease of 0.004721% from its collective proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of \$126,529. At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,227	20,777
Changes of assumptions	78,076	19,431
Net difference between projected and actual earnings on pension plan investments	-	868,233
Changes in proportion and differences between County contributions and the County's proportionate share of contributions	-	23,283
County contributions subsequent to the measurement date	328,814	-
Total	<u>\$ 426,117</u>	<u>931,724</u>

\$328,814 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2016	\$ (209,158)
2017	(209,158)
2018	(209,158)
2019	(209,158)
2020	2,211
Total	<u>\$ (834,421)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
County's proportionate share of the net pension liability:	\$ 3,689,004	\$1,700,137	\$ 22,794

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

Payables to IPERS - All legally required County contributions and legally required employee contributions which had been withheld from employee wages were remitted by the County to IPERS by June 30, 2015.

(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 81 active and 3 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, 2015, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 82,660
Interest on net OPEB obligation	14,220
Adjustment to annual required contribution	<u>(40,853)</u>
Annual OPEB cost	56,027
Contributions made	<u>(6,356)</u>
Increase in net OPEB obligation	49,671
Net OPEB obligation beginning of year	568,807
Net OPEB obligation end of year	<u>\$ 618,478</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, 2015.

For the year ended June 30, 2015, the County contributed \$6,356 to the plan. Plan members eligible for benefits did not pay into 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
2013	\$ 53,896	14.5%	\$ 524,099
2014	54,545	18.0	568,807
2015	56,027	11.3	618,478

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was approximately \$390,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$390,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,263,000 and the ratio of the UAAL to covered payroll was 12.0%. As of June 30, 2015, 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 \$1,082 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group over 30 years.

(10) Risk Management

The County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

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

The County's property and casualty contributions to the 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, 2015 were \$133,697.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhaust the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the County's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$10,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employee Health Insurance Plan

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

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures by the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark, Blue Cross and Blue Shield from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2015 was \$1,075,958.

Amounts payable from the Employee Group Health Fund at June 30, 2015 total \$18,000, 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 \$346,408 at June 30, 2015 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	\$ 109,000
Incurred claims (including claims incurred but not reported at June 30, 2015)	14,000
Payment on claims during the fiscal year	105,000
Unpaid claims end of year	<u>\$ 18,000</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, 2015 have been estimated at \$6,816. 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, 2015.

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

Northwest Iowa Care Connections Region, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective April 25, 2014, includes the following member counties: Clay County, Dickinson County, Lyon County, O'Brien County, Osceola County and Palo Alto County. The financial activity of Palo Alto County's Special Revenue, Mental Health Fund is included in the Northwest Iowa Care Connections Region for the year ended June 30, 2015, as follows:

Revenues:		
Property and other county tax		\$ 89,124
Intergovernmental:		
State tax credits	\$ 5,965	
Social services block grant	67,099	
Other	48	73,112
Total revenues		<u>162,236</u>
Expenditures:		
Services to persons with mental illness		1,110
General administration:		
Direct administration	49,014	
Distribution to regional fiscal agent	468,617	517,631
Total expenditures		<u>518,741</u>
Deficiency of revenues under expenditures		(356,505)
Fund balance beginning of year		<u>835,069</u>
Fund balance end of year		<u>\$ 478,564</u>

(14) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Governmental Activities</u>
Net position June 30, 2014, as previously reported	\$ 26,623,403
Net pension liability at June 30, 2014	(2,732,433)
Deferred outflows of resources related to prior year contributions made after the June 30, 2013 measurement date	324,404
Net position July 1, 2014, as restated	<u>\$24,215,374</u>

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, 2015

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 6,896,037	-	6,896,037
Interest and penalty on property tax	26,304	-	26,304
Intergovernmental	4,368,686	99,299	4,269,387
Licenses and permits	14,223	-	14,223
Charges for service	619,092	-	619,092
Use of money and property	112,796	-	112,796
Miscellaneous	2,509,335	2,255,052	254,283
Total receipts	14,546,473	2,354,351	12,192,122
Disbursements:			
Public safety and legal services	1,758,241	-	1,758,241
Physical health and social services	323,350	-	323,350
Mental health	502,763	-	502,763
County environment and education	1,295,243	-	1,295,243
Roads and transportation	3,780,472	-	3,780,472
Governmental services to residents	403,729	-	403,729
Administration	1,175,756	-	1,175,756
Non-program	1,723,315	1,723,315	-
Debt service	10,040,124	1,950,501	8,089,623
Capital projects	5,237,672	-	5,237,672
Total disbursements	26,240,665	3,673,816	22,566,849
Excess (deficiency) of receipts over (under) disbursements	(11,694,192)	(1,319,465)	(10,374,727)
Other financing sources, net	6,516,076	1,556,576	4,959,500
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(5,178,116)	237,111	(5,415,227)
Balance beginning of year	18,547,874	386,574	18,161,300
Balance end of year	\$ 13,369,758	623,685	12,746,073

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
6,742,482	6,742,482	153,555
7,600	7,600	18,704
3,503,085	3,714,577	554,810
15,250	15,250	(1,027)
666,160	696,601	(77,509)
45,293	45,293	67,503
142,300	280,659	(26,376)
11,122,170	11,502,462	689,660
1,861,598	1,926,346	168,105
420,240	420,240	96,890
585,159	585,759	82,996
1,281,386	1,430,174	134,931
4,899,700	4,899,700	1,119,228
427,352	437,352	33,623
1,229,627	1,250,727	74,971
-	6,695,000	6,695,000
1,231,471	1,761,161	(6,328,462)
2,119,690	7,287,299	2,049,627
14,056,223	26,693,758	4,126,909
(2,934,053)	(15,191,296)	4,816,569
-	5,009,500	(50,000)
(2,934,053)	(10,181,796)	4,766,569
13,912,997	13,912,997	4,248,303
10,978,944	3,731,201	9,014,872

Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2015

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 14,546,473	(92,446)	14,638,919
Expenditures	26,240,665	(387,720)	26,628,385
Net	(11,694,192)	295,274	(11,989,466)
Other financing sources, net	6,516,076	-	6,516,076
Beginning fund balances	18,547,874	966,419	19,514,293
Ending fund balances	\$ 13,369,758	671,145	14,040,903

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2015

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$12,637,535. 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, 2015, disbursements exceeded the amount budgeted in the debt service function.

Palo Alto County

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

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Required Supplementary Information

	<u>2015</u>
County's collective proportion of the net pension liability (asset)	0.0428688%
County's collective proportionate share of the net pension liability (asset)	\$ 1,700
County's covered-employee payroll	\$ 3,558
County's collective proportionate share of the net pension liability as a percentage of its covered-employee payroll	47.78%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Palo Alto County

Palo Alto County

Schedule of County Contributions

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

Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 329	324	313	290
Contributions in relation to the statutorily required contribution	<u>(329)</u>	<u>(324)</u>	<u>(313)</u>	<u>(290)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
County's covered-employee payroll	\$ 3,615	3,558	3,506	3,446
Contributions as a percentage of covered-employee payroll	9.10%	9.12%	8.92%	8.40%

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
257	239	309	202	186	150
<u>(257)</u>	<u>(239)</u>	<u>(309)</u>	<u>(202)</u>	<u>(186)</u>	<u>(150)</u>
-	-	-	-	-	-
3,474	3,444	4,156	3,188	3,009	2,316
7.40%	6.95%	7.43%	6.34%	6.19%	6.48%

Palo Alto County

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

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

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

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

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

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

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

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

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

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

Palo Alto County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	-	\$ 1,340	1,340	0.0%	\$ 3,088	43.4%
2011	Jul 1, 2009	-	1,315	1,315	0.0%	2,988	44.0
2012	Jul 1, 2009	-	1,241	1,241	0.0%	2,936	42.3
2013	Jul 1, 2012	-	495	495	0.0%	2,719	18.2
2014	Jul 1, 2012	-	452	452	0.0%	3,048	14.8
2015	Jul 1, 2012	-	390	390	0.0%	3,263	12.0

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, 2015

		Sheriff Investigation	Resource Enhancement and Protection	County Recorder's Records Management
Assets				
Cash, cash equivalents and pooled investments	\$	1,149	42,828	10,235
Due from other governments		-	-	-
Total assets	\$	1,149	42,828	10,235
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$	-	-	-
Fund balances:				
Restricted for other purposes		1,149	42,828	10,235
Total liabilities and fund balances	\$	1,149	42,828	10,235

See accompanying independent auditor's report.

Special Revenue				
Sheriff Reserve	Five Island Trails	Closure / Postclosure	County Attorney Collections	Total
4,695	257	7,000	14,345	80,509
-	-	-	848	848
4,695	257	7,000	15,193	81,357
-	-	-	-	-
4,695	257	7,000	15,193	81,357
4,695	257	7,000	15,193	81,357

Palo Alto County

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

Year ended June 30, 2015

	Sheriff Investigation	Resource Enhancement and Protection	Special County Recorder's Records Management
Revenues:			
Intergovernmental	\$ -	12,583	-
Charges for service	-	-	2,178
Use of money and property	-	66	14
Miscellaneous	-	-	-
Total revenues	-	12,649	2,192
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	8,606	-
Governmental services to residents	-	-	206
Capital projects	-	-	-
Total expenditures	-	8,606	206
Change in fund balances	-	4,043	1,986
Fund balances beginning of year	1,149	38,785	8,249
Fund balances end of year	\$ 1,149	42,828	10,235

See accompanying independent auditor's report.

Revenue					
Sheriff Reserve	Five Island Trails	Closure / Postclosure	County Attorney Collections		Total
821	-	-	7,834		21,238
-	-	-	-		2,178
-	-	-	-		80
3,861	35,483	-	-		39,344
4,682	35,483	-	7,834		62,840
2,278	-	-	3,317		5,595
-	-	-	-		8,606
-	-	-	-		206
-	40,219	-	-		40,219
2,278	40,219	-	3,317		54,626
2,404	(4,736)	-	4,517		8,214
2,291	4,993	7,000	10,676		73,143
4,695	257	7,000	15,193		81,357

Palo Alto County

Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2015

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	1,474	188,289	79,437
Other County officials	21,474	-	-	-
Receivables:				
Property tax:				
Delinquent	-	141	243	7,527
Succeeding year	-	140,000	241,000	7,678,000
Accounts	1,016	-	17	-
Accrued interest	-	-	-	-
Drainage assessments	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	6,398	-
Total assets	\$ 22,490	141,615	435,947	7,764,964
Liabilities				
Liabilities:				
Accounts payable	\$ -	-	8,196	-
Due to other governments	9,683	141,615	415,725	7,764,964
Trusts payable	12,807	-	-	-
Compensated absences	-	-	12,026	-
Total liabilities	\$ 22,490	141,615	435,947	7,764,964

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
4,721	26,707	2,145	3,257	241,264	393,522	940,816
-	-	-	-	-	-	21,474
632	5,553	55	-	-	1,375	15,526
626,000	2,524,000	163,000	-	-	1,308,000	12,680,000
-	-	-	-	-	9,942	10,975
-	-	-	-	-	31	31
-	-	-	-	-	772	772
-	-	-	222,570	-	-	222,570
-	-	-	-	-	23,108	29,506
631,353	2,556,260	165,200	225,827	241,264	1,736,750	13,921,670
-	-	-	-	-	4,589	12,785
631,353	2,556,260	165,200	225,827	241,264	1,716,950	13,868,841
-	-	-	-	-	11,191	23,998
-	-	-	-	-	4,020	16,046
631,353	2,556,260	165,200	225,827	241,264	1,736,750	13,921,670

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2015

Assets and Liabilities	Agricultural			
	County Offices	Extension Education	County Assessor	Schools
Balances beginning of year	\$ 26,887	128,614	417,497	6,976,865
Additions:				
Property and other county tax	-	140,656	248,024	7,700,411
E911 surcharge	-	-	-	-
State tax credits	-	8,616	16,311	467,295
Drivers license fees	-	-	-	-
Office fees and collections	245,697	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	159,978	-	-	-
Miscellaneous	-	-	147	-
Total additions	405,675	149,272	264,482	8,167,706
Deductions:				
Agency remittances:				
To other funds	129,837	-	-	-
To other governments	110,133	136,271	246,032	7,379,607
Trusts paid out	170,102	-	-	-
Total deductions	410,072	136,271	246,032	7,379,607
Balances end of year	\$ 22,490	141,615	435,947	7,764,964

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Other	Total
415,926	2,561,073	164,003	270,036	215,305	1,789,709	12,965,915
627,985	2,468,057	164,261	-	-	1,279,588	12,628,982
-	-	-	-	-	80,498	80,498
27,557	267,904	8,548	-	-	86,252	882,483
-	-	-	-	32,857	-	32,857
-	-	-	-	-	-	245,697
-	-	-	-	3,014,588	-	3,014,588
-	-	-	1,090	-	400	1,490
-	-	-	-	-	-	159,978
-	3,503	-	-	-	423,966	427,616
655,542	2,739,464	172,809	1,090	3,047,445	1,870,704	17,474,189
-	-	-	-	118,539	-	248,376
440,115	2,744,277	171,612	45,299	2,902,947	1,923,663	16,099,956
-	-	-	-	-	-	170,102
440,115	2,744,277	171,612	45,299	3,021,486	1,923,663	16,518,434
631,353	2,556,260	165,200	225,827	241,264	1,736,750	13,921,670

Palo Alto County

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

For the Last Ten Years

	2015	2014	2013	2012
Revenues:				
Property and other county tax	\$ 6,434,592	6,455,692	6,467,510	6,479,439
Local option sales tax	465,145	433,932	361,974	363,359
Interest and penalty on property tax	26,172	25,497	23,143	32,834
Intergovernmental	4,466,781	3,912,315	5,753,093	4,236,506
Licenses and permits	15,448	14,701	14,578	11,544
Charges for service	613,017	675,118	747,829	649,422
Use of money and property	109,598	105,959	76,332	132,469
Miscellaneous	2,508,166	1,198,791	746,189	1,285,823
Total	\$ 14,638,919	12,822,005	14,190,648	13,191,396
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,758,102	1,715,696	1,677,580	1,615,221
Physical health and social services	315,938	345,250	325,218	330,422
Mental health	518,741	441,820	498,060	1,287,366
County environment and education	1,280,216	1,340,012	1,367,347	1,441,657
Roads and transportation	4,076,273	4,351,228	3,923,103	3,759,031
Governmental services to residents	402,691	424,021	404,747	388,793
Administration	1,179,145	1,127,496	1,156,543	1,139,244
Non-program	1,796,929	924,130	5,730,306	1,132,729
Debt service	10,040,124	2,768,798	1,824,566	2,213,254
Capital projects	5,260,226	1,751,867	2,608,192	3,588,863
Total	\$ 26,628,385	15,190,318	19,515,662	16,896,580

See accompanying independent auditor's report.

Modified Accrual Basis					
2011	2010	2009	2008	2007	2006
6,036,591	5,603,209	5,324,307	4,895,452	4,931,144	4,232,250
328,462	333,579	333,000	293,697	375,326	268,628
30,237	23,945	21,939	24,668	25,995	25,929
4,151,228	4,254,845	4,114,678	3,801,314	3,804,731	3,885,266
7,411	10,067	9,013	23,505	9,782	11,150
616,306	554,575	545,346	487,402	477,541	450,315
202,748	294,229	466,243	485,647	391,148	241,490
761,672	406,075	246,814	472,628	210,377	852,455
12,134,655	11,480,524	11,061,340	10,484,313	10,226,044	9,967,483
1,582,458	1,611,100	1,514,188	1,440,928	1,307,407	1,223,356
298,385	308,296	303,222	305,488	346,957	377,459
1,187,643	1,130,674	1,349,910	1,470,535	1,379,738	1,217,605
1,531,174	1,331,955	1,183,855	1,173,111	956,832	983,662
3,834,536	4,008,318	3,295,372	3,072,587	3,091,246	2,898,948
362,160	363,348	354,520	465,185	329,024	462,226
1,102,432	1,171,615	1,059,081	951,245	1,078,010	1,012,503
1,004,990	740,436	338,381	379,250	73,170	100,355
1,676,728	1,543,430	1,171,045	425,316	338,077	832,476
3,710,629	1,574,053	447,110	272,549	735,751	221,044
16,291,135	13,783,225	11,016,684	9,956,194	9,636,212	9,329,634

Palo Alto County



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

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

To the Officials of Palo Alto County:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 23, 2016.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (E) 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, 2015 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 23, 2016

Palo Alto County
 Schedule of Findings
 Year ended June 30, 2015

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 – opening and listing mail receipts, collecting, depositing, posting and daily reconciling.	County Sheriff and County Recorder
(2) Bank reconciliations are not prepared by someone who doesn't sign checks, handle or record cash.	County Sheriff and County Recorder
(3) Bank reconciliations are not reviewed periodically by an independent person for propriety.	County Treasurer
(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 is not opened by an employee who is not authorized to make entries to the accounting records and the mail opener does not prepare a listing of cash and checks received.	County Sheriff and County Treasurer
(6) Voided receipts are not reviewed by an independent person.	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 documented by the signature or initials of the reviewer and the date of the review.

Palo Alto County

Schedule of Findings

Year ended June 30, 2015

Responses –

County Recorder – We will try and spread the duties around more. It is sometimes difficult to get other offices to help do these things, as they are busy.

County Treasurer - A staff member will go through each bank statement monthly to spot check the reconciliation to the Solutions Banking and Investment program.

An employee or the County Treasurer will open the mail and have a separate employee enter the payments into our Solutions Accounting program.

County Sheriff – The Office Manager at the Sheriff's Office wears many hats and performs nearly all office functions. These functions are typically divided up between more than one employee, but due to personnel limitations that is not possible here.

I do review financial records and have begun to sign checks issued at the month end. I will begin to indicate the date this is done.

Conclusions – Responses acknowledged. Current personnel, including elected officials and personnel from other offices, should be utilized to provide additional control through review of financial transactions, reconciliations and reports.

- (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 – The County will implement procedures to ensure all receivables, payables and capital asset additions and deletions are properly recorded.

Conclusion – Response accepted.

- (C) County Sheriff – Bank to Book Variance – The June 30, 2015 book balance did not reconcile to the June 30, 2015 bank balance by \$3,139. 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. Also, all collections should be deposited timely.

Response – A new reconciliation report has been provided to the Sheriff's Office to show what is needed. Fee receipts are as timely deposited as can be done. A deposit is set to be made every Friday. However, sometimes due to constraints on time available and limited staff, it isn't always completed. Every effort will be made to ensure this weekly deposit will be made.

Conclusion – Response acknowledged. 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.

Palo Alto County

Schedule of Findings

Year ended June 30, 2015

- (D) County Sheriff – Seizures & Abandonment Cash – Cash received per the centralized log is not periodically compared to cash on hand.

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

Response – I will create a policy where all seized and abandoned cash will be reported to the Sheriff. This policy will require the seizing Deputy to provide documentation of the seizure/abandonment and documentation of the disposition of the cash. These documents will be compared to all funds being held on a quarterly basis for auditing purposes.

Conclusion – Response acknowledged. The comparison of cash on hand should be done by an independent person. The review should be documented by the signature or initials of the person doing the review and the date of the review.

- (E) 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.

Response – Department heads will review vacation balances to be sure they are not exceeded.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
 Schedule of Findings
 Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the debt service function.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget was amended in accordance with Chapter 331.435. An amount was inadvertently recorded on the wrong line.

Conclusion – Response accepted.

- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

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

<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	\$ 696
Hardware Hank, owners are parents of the County Treasurer	Supplies	7,496
Nick Jackson, son of Deputy Sheriff	Lawn services	90
Terry Chamberlain, spouse of Sheriff's dispatcher	Cleaning services	934

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

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

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

Response – The County will consult with the County Attorney regarding these matters.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2015

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

Disbursements during the year ended June 30, 2015 for the County Extension Office did not exceed the amount budgeted.

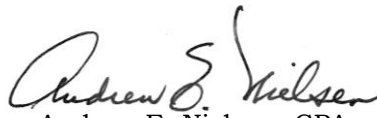
- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

Palo Alto County

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager
Ashley J. Moser, Senior Auditor
Christian E. Cottingham, Staff Auditor
Miranda A. Shipman, Staff Auditor
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