



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

July 29, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on City of Palo, Iowa.

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$2,072,299 for the year ended June 30, 2019. Disbursements for the year ended June 30, 2019 totaled \$1,804,302.

AUDIT FINDINGS:

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds and two findings pertaining to the Palo Iowa Firefighters Association (Firefighters Association), a discretely presented component unit. They are found on pages 44 through 51 of this report. The findings address issues such as a lack of segregation of duties, lack of independent review of bank and utility reconciliations and disbursements exceeding budgeted amounts. Sand provided the City and the Firefighters Association management with recommendations to address each of the findings.

The City Council and management of the Firefighters Association have a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF PALO

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

JUNE 30, 2019

City of Palo



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July 9, 2020

Officials of the City of Palo
Palo, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Palo for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Palo throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Palo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ryan Scheckel	Mayor	(Resigned Mar 2019)
Andrea Rahe (Appointed May 2019)	Mayor	Nov 2019
Angie Brekke	Council Member	Jan 2022
Pete Hagstrom	Council Member	Jan 2022
Doug Hanover	Council Member	Jan 2022
Travis Rieck	Council Member	Nov 2019
Jake Sutherland	Council Member	(Resigned Jan 2019)
Eric Van Kerckhove (Appointed Feb 2019)	Council Member	Nov 2019
Lenna Goodale	City Clerk/Treasurer	Indefinite
Erik Sittig	Attorney	Indefinite

City of Palo



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by fund of the total fund balances at July 1, 2018.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2018, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo as of June 30, 2019, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

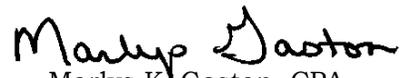
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palo's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Other Information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 28 through 33, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 9, 2020 on our consideration of the City of Palo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Palo's internal control over financial reporting and compliance.


Marlys K. Gaston, CPA
Deputy Auditor of State

July 9, 2020

City of Palo

Basic Financial Statements

City of Palo

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 308,638	35,833	7,241	268,887
Public works	231,476	84,375	132,545	-
Health and social services	4,665	-	-	-
Culture and recreation	215,255	970	2,600	-
Community and economic development	2,024	-	-	1,000
General government	189,328	2,322	14,634	4,500
Debt service	233,975	-	-	-
Capital projects	34,934	-	-	-
Total governmental activities	1,220,295	123,500	157,020	274,387
Business type activities:				
Water	150,175	184,746	-	-
Sewer	433,832	433,557	-	-
Total business type activities	584,007	618,303	-	-
Total Primary Government	\$ 1,804,302	741,803	157,020	274,387
Component Unit:				
Palo Iowa Firefighters Association	\$ 8,883	-	-	12,769
General Receipts				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Employee benefits				
Debt service				
Fire				
Other purposes				
Unrestricted				
Total cash basis net position				
See notes to financial statements.				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Palo Iowa Firefighters Association
3,323	-	3,323	
(14,556)	-	(14,556)	
(4,665)	-	(4,665)	
(211,685)	-	(211,685)	
(1,024)	-	(1,024)	
(167,872)	-	(167,872)	
(233,975)	-	(233,975)	
(34,934)	-	(34,934)	
<u>(665,388)</u>	<u>-</u>	<u>(665,388)</u>	
-	34,571	34,571	
-	(275)	(275)	
-	34,296	34,296	
<u>(665,388)</u>	<u>34,296</u>	<u>(631,092)</u>	
			<u>3,886</u>
442,970	-	442,970	-
81,835	-	81,835	-
213,247	-	213,247	-
128,134	-	128,134	-
7,792	-	7,792	-
1,640	-	1,640	26
23,471	-	23,471	-
<u>899,089</u>	<u>-</u>	<u>899,089</u>	<u>26</u>
233,701	34,296	267,997	3,912
<u>660,715</u>	<u>439,704</u>	<u>1,100,419</u>	<u>30,827</u>
<u>\$ 894,416</u>	<u>474,000</u>	<u>1,368,416</u>	<u>34,739</u>
2,689	-	2,689	-
57,959	-	57,959	-
138,339	138,118	276,457	-
6,504	-	6,504	34,739
225,332	-	225,332	-
<u>463,593</u>	<u>335,882</u>	<u>799,475</u>	<u>-</u>
<u>\$ 894,416</u>	<u>474,000</u>	<u>1,368,416</u>	<u>34,739</u>

City of Palo

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

As of and for the year ended June 30, 2019

	Special Revenue				
	General	Road Use Tax	Urban Renewal Tax Increment	FEMA	Local Option Sales Tax
Receipts:					
Property tax	\$ 391,906	-	-	-	-
Tax increment financing	-	-	213,247	-	-
Other city tax	4,618	-	-	-	128,134
Licenses and permits	36,594	-	-	-	-
Use of money and property	24,532	-	579	-	-
Intergovernmental	6,016	132,545	-	268,887	-
Charges for service	84,400	-	-	-	-
Miscellaneous	25,240	-	-	-	-
Total receipts	573,306	132,545	213,826	268,887	128,134
Disbursements:					
Operating:					
Public safety	94,493	-	-	203,067	-
Public works	94,669	125,247	-	-	-
Health and social services	4,665	-	-	-	-
Culture and recreation	208,263	-	-	-	-
Community and economic development	1,572	-	-	-	-
General government	164,061	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	567,723	125,247	-	203,067	-
Excess (deficiency) of receipts over (under) disbursements	5,583	7,298	213,826	65,820	128,134
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(32,596)	-	(212,624)	-	-
Total other financing sources (uses)	(32,596)	-	(212,624)	-	-
Change in cash balances	(27,013)	7,298	1,202	65,820	128,134
Cash balances beginning of year	1,029,854	(4,609)	137,137	(204,028)	95,855
Cash balances end of year	\$ 1,002,841	2,689	138,339	(138,208)	223,989
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	2,689	-	-	-
Employee benefits	-	-	-	-	-
Debt service	-	-	138,339	-	-
Fire	-	-	-	-	-
Other purposes	-	-	-	-	223,989
Unassigned	1,002,841	-	-	(138,208)	-
Total cash basis fund balances	\$ 1,002,841	2,689	138,339	(138,208)	223,989

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
81,835	-	46,446	520,187
-	-	-	213,247
-	-	-	132,752
-	-	-	36,594
-	-	-	25,111
1,070	-	706	409,224
-	-	-	84,400
-	-	7,241	32,481
82,905	-	54,393	1,453,996
-	-	11,078	308,638
-	-	11,560	231,476
-	-	-	4,665
-	-	6,992	215,255
-	-	452	2,024
-	-	25,267	189,328
233,975	-	-	233,975
-	34,934	-	34,934
233,975	34,934	55,349	1,220,295
(151,070)	(34,934)	(956)	233,701
152,363	92,857	-	245,220
-	-	-	(245,220)
152,363	92,857	-	-
1,293	57,923	(956)	233,701
(1,293)	(452,560)	60,359	660,715
-	(394,637)	59,403	894,416
-	-	-	2,689
-	-	57,959	57,959
-	-	-	138,339
-	-	6,504	6,504
-	-	1,343	225,332
-	(394,637)	(6,403)	463,593
-	(394,637)	59,403	894,416

City of Palo

City of Palo

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

As of and for the year ended June 30, 2019

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 184,501	433,557	618,058
Miscellaneous	245	-	245
Total operating receipts	184,746	433,557	618,303
Operating disbursements:			
Business type activities	150,175	278,866	429,041
Excess of operating receipts over operating disbursements	34,571	154,691	189,262
Non-operating disbursements:			
Debt service	-	(143,240)	(143,240)
Capital outlay	-	(11,726)	(11,726)
Net non-operating disbursements	-	(154,966)	(154,966)
Change in cash balances	34,571	(275)	34,296
Cash balances beginning of year	238,629	201,075	439,704
Cash balances end of year	\$ 273,200	200,800	474,000
Cash Basis Fund Balances			
Restricted for debt service	\$ -	138,118	138,118
Unrestricted	273,200	62,682	335,882
Total cash basis fund balances	\$ 273,200	200,800	474,000

See notes to financial statements.

City of Palo

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Discretely Presented Component Unit

The Palo Iowa Firefighters Association has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate for charitable purposes to assist the Palo Iowa Volunteer Fire Department. A financial benefit/burden relationship exists between the City and the Association. The Association is presented as a discretely presented component unit in these financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, Linn County Joint 911 Service Board and the Corridor Metropolitan Planning Organization.

B. Basis of Presentation

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

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

The FEMA Fund is used to account the City's disbursements and related receipts from the Federal Emergency Management Agency.

The Local Option Sales Tax Fund is used to account for the City's local option sales tax (LOST) receipts and related disbursements.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City'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 with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the debt service function. In addition, disbursements exceeded the amount budgeted in the public safety function prior to the budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2019 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 City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 190,000	49,800	94,000	44,118	284,000	93,918
2021	190,000	46,140	97,000	42,473	287,000	88,613
2022	195,000	41,910	99,000	40,775	294,000	82,685
2023	200,000	37,280	102,000	39,043	302,000	76,323
2024	205,000	32,100	106,000	37,258	311,000	69,358
2025-2029	790,000	70,750	577,000	157,396	1,367,000	228,146
2030-2034	75,000	2,250	670,000	103,775	745,000	106,025
2035-2039	-	-	776,000	41,528	776,000	41,528
Total	\$ 1,845,000	280,230	2,521,000	506,366	4,366,000	786,596

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,000,000 of sewer revenue bonds issued in December 2007. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2039. Annual principal and interest payments on the bonds were 88% of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,027,366. The City is also required to pay a 0.25% servicing fee on the outstanding principal balance. For the current year, principal and interest paid and total customer net receipts were \$136,710 and \$154,691, respectively.

On June 1, 2018, the Iowa Finance Authority reduced the interest rate on the sewer revenues bonds from 3.00% to 1.75% per annum.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

The City did not make the required monthly transfers to the sewer revenue bond sinking account during the year as required by the revenue bond resolution.

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City 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 PO 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-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 – 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 percentage point. 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 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%.

The City's contributions to IPERS for the year ended June 30, 2019 totaled \$17,737.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$164,932 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2018, the City's proportion was 0.002606%, which was a decrease of 0.000132% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$22,347, \$43,650 and \$27,477, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 City 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 of 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 City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 279,923	164,932	68,472

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.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave payable to employees at June 30, 2019, primarily relating to the General Fund, totaled approximately \$2,000. This liability has been computed based on rates of pay in effect at June 30, 2019.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 119,767
	General	<u>32,596</u>
		<u>152,363</u>
Capital Projects	Special Revenue:	
	Urban Renewal Tax Increment	<u>92,857</u>
Total		<u>\$ 245,220</u>

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

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$4,358 during the year ended June 30, 2019.

(8) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 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 casualty 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 estimated for the fiscal 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 property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2019 were \$43,117.

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 \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City'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 City'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 City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts 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.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. 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 City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulted from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Subsequent Events

In September 2019, the City issued \$440,000 of general obligation corporate purpose bonds to pay costs for constructing street, water system, sanitary sewer system, storm water drainage and sidewalk improvements; and acquiring and installing street lighting, signage and signalization.

In September 2019, the City issued \$310,000 of general obligation corporate purpose bonds to pay the costs of undertaking an urban renewal project consisting of financing an economic development forgivable loan in connection with the development of residential housing in the urban renewal area.

In December 2019, the City issued \$150,000 of general obligation equipment acquisition notes for the acquisition of vehicles and equipment for use by the municipal public works department.

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the City of Palo, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the City's operations and finances.

City of Palo

Other Information

City of Palo

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

Other Information

Year ended June 30, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 520,187	-	520,187
Tax increment financing	213,247	-	213,247
Other city tax	132,752	-	132,752
Licenses and permits	36,594	-	36,594
Use of money and property	25,111	-	25,111
Intergovernmental	409,224	-	409,224
Charges for service	84,400	618,058	702,458
Miscellaneous	32,481	245	32,726
Total receipts	1,453,996	618,303	2,072,299
Disbursements:			
Public safety	308,638	-	308,638
Public works	231,476	-	231,476
Health and social services	4,665	-	4,665
Culture and recreation	215,255	-	215,255
Community and economic development	2,024	-	2,024
General government	189,328	-	189,328
Debt service	233,975	-	233,975
Capital projects	34,934	-	34,934
Business type activities	-	584,007	584,007
Total disbursements	1,220,295	584,007	1,804,302
Excess of receipts over disbursements	233,701	34,296	267,997
Balances beginning of year	660,715	439,704	1,100,419
Balances end of year	\$ 894,416	474,000	1,368,416

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
518,742	518,742	1,445
212,624	212,624	623
145,101	145,101	(12,349)
1,400	33,400	3,194
7,500	7,500	17,611
140,000	615,000	(205,776)
599,600	672,100	30,358
9,750	9,750	22,976
<u>1,634,717</u>	<u>2,214,217</u>	<u>(141,918)</u>
72,200	403,801	95,163
174,500	237,580	6,104
-	4,850	185
162,160	233,006	17,751
4,500	67,500	65,476
203,724	203,724	14,396
233,375	233,375	(600)
221,200	256,135	221,201
500,000	708,226	124,219
<u>1,571,659</u>	<u>2,348,197</u>	<u>543,895</u>
63,058	(133,980)	401,977
<u>1,219,545</u>	<u>1,092,780</u>	<u>7,639</u>
<u>1,282,603</u>	<u>958,800</u>	<u>409,616</u>

City of Palo

Notes to Other Information – Budgetary Reporting

June 30, 2019

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for the discretely presented component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$776,538. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the debt service function. In addition, disbursements exceeded the amount budgeted in the public safety function prior to the budget amendment.

City of Palo

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

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	<u>2019</u>	<u>2018</u>
City's proportion of the net pension liability	0.002606%	0.002738%
City's proportionate share of the net pension liability	\$ 165	182
City's covered payroll	\$ 196	204
City's proportionate share of the net pension liability as a percentage of its covered payroll	84.18%	89.22%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Palo

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Two Years
(In Thousands)

Other Information

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 18	18
Contributions in relation to the statutorily required contribution	<u>(18)</u>	<u>(18)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered payroll	\$ 188	196
Contributions as a percentage of covered payroll	9.44%	8.93%
See accompanying independent auditor's report.		

City of Palo

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) 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.

City of Palo

Supplementary Information

City of Palo

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

As of and for the year ended June 30, 2019

			Special
	Employee Benefits	Property Acquisition	Storm Water
Receipts:			
Property tax	\$ 46,446	-	-
Intergovernmental	706	-	-
Miscellaneous	-	-	-
Total receipts	47,152	-	-
Disbursements:			
Operating:			
Public safety	-	-	6,403
Public works	11,560	-	-
Cultures and recreation	6,992	-	-
Community and economic development	452	-	-
General government	25,267	-	-
Total disbursements	44,271	-	6,403
Change in cash balances	2,881	-	(6,403)
Cash balances beginning of year	55,078	1,193	-
Cash balances end of year	\$ 57,959	1,193	(6,403)
Cash Basis Fund Balances			
Restricted for:			
Employee benefits	57,959	-	-
Fire	-	-	-
Other purposes	-	1,193	-
Unassigned	-	-	(6,403)
Total cash basis fund balances	\$ 57,959	1,193	(6,403)

See accompanying independent auditor's report.

Revenue		
Concession Stand	Palo Volunteer Fire Department	Total
-	-	46,446
-	-	706
-	7,241	7,241
-	7,241	54,393
-	4,675	11,078
-	-	11,560
-	-	6,992
-	-	452
-	-	25,267
-	4,675	55,349
-	2,566	(956)
150	3,938	60,359
150	6,504	59,403
-	-	57,959
-	6,504	6,504
150	-	1,343
-	-	(6,403)
150	6,504	59,403

City of Palo
 Schedule of Indebtedness
 Year ended June 30, 2019

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate Purpose and Refunding, Series 2012	May 9, 2012	0.80-3.50%	\$ 1,815,000
Corporate Purpose, Series 2015	Feb 17, 2015	1.20-3.00	900,000
Total			
Sewer revenue bonds	Dec 13, 2007	1.75%	\$ 3,000,000

* The City is also required to pay a 0.25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
1,280,000	-	125,000	1,155,000	35,730	2,790
745,000	-	55,000	690,000	17,145	1,360
<u>\$ 2,025,000</u>	<u>-</u>	<u>180,000</u>	<u>1,845,000</u>	<u>52,875</u>	<u>4,150</u>
<u>2,612,000</u>	<u>-</u>	<u>91,000</u>	<u>2,521,000</u>	<u>45,710</u>	<u>3,676</u>

City of Palo

City of Palo
Bond and Note Maturities
June 30, 2019

Year Ending June 30,	General Obligation Bonds					Revenue Bonds			
	Refunding, Series 2012 Issued May 9, 2012		Projects, Series 2015 Issued Feb 17, 2015			Total	Sewer Issued Dec 13, 2007		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates		Amount		
2020	2.10%	\$ 135,000	1.50%	\$ 55,000	190,000	1.75%	\$ 94,000		
2021	2.40	135,000	1.80	55,000	190,000	1.75	97,000		
2022	2.60	140,000	1.80	55,000	195,000	1.75	99,000		
2023	2.80	140,000	2.10	60,000	200,000	1.75	102,000		
2024	3.00	145,000	2.10	60,000	205,000	1.75	106,000		
2025	3.20	150,000	2.40	60,000	210,000	1.75	109,000		
2026	3.40	155,000	2.40	65,000	220,000	1.75	112,000		
2027	3.50	155,000	2.70	65,000	220,000	1.75	115,000		
2028		-	2.70	70,000	70,000	1.75	119,000		
2029		-	3.00	70,000	70,000	1.75	122,000		
2030		-	3.00	75,000	75,000	1.75	126,000		
2031		-		-	-	1.75	130,000		
2032		-		-	-	1.75	134,000		
2033		-		-	-	1.75	138,000		
2034		-		-	-	1.75	142,000		
2035		-		-	-	1.75	146,000		
2036		-		-	-	1.75	151,000		
2037		-		-	-	1.75	155,000		
2038		-		-	-	1.75	160,000		
2039		-		-	-	1.75	164,000		
Total		<u>\$ 1,155,000</u>		<u>\$ 690,000</u>	<u>1,845,000</u>		<u>\$ 2,521,000</u>		

See accompanying independent auditor's report.



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

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 9, 2020. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified 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 City of Palo's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described Schedule of Findings as items (A) through (C) 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 deficiency described in the accompanying Schedule of Findings as item (D) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Palo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which 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 City's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

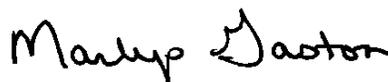
City of Palo's Responses to the Findings

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

Purpose of this Report

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

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



Marlys K. Gaston, CPA
Deputy Auditor of State

July 9, 2020

City of Palo

Schedule of Findings

Year ended June 30, 2019

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

- (1) Accounting system – performance of all accounting functions and having custody of assets.
- (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement transactions, handling and recording cash and recording bank accounts.
- (3) Long-term debt – maintaining long-term debt records and handling and recording.
- (4) Receipts – opening mail, collecting, depositing, journalizing, recording and reconciling.
- (5) Disbursements – purchasing, disbursement preparation, recording, check writing, signing and reconciling.
- (6) Payroll – entering rates into the system, preparing, reconciling and recording.
- (7) Journal entries are not reviewed and approved by an independent person.

For the Palo Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, reconciling and recording.
- (3) Disbursements – preparing, recording and signing.

For the Palo Iowa Firefighters Association, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, reconciling and recording.
- (3) Disbursements – preparing, recording and signing.

City of Palo

Schedule of Findings

Year ended June 30, 2019

Cause – The City, the Palo Volunteer Fire Department and the Palo Iowa Firefighters Association have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s and the Palo Volunteer Fire Department’s and the Palo Iowa Firefighters Association’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Palo Volunteer Fire Department and the Palo Iowa Firefighters Association should review their operating procedures to obtain the maximum internal control possible under the circumstances. The City, the Palo Volunteer Fire Department and the Palo Iowa Firefighters Association should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

Response – We are implementing as much segregation of duties as possible, including implementing a second person to review processes.

Conclusion – Response accepted.

(B) Bank Reconciliation

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the City’s monthly financial report. However, the monthly bank reconciliations are not reviewed and approved by an independent person. Additionally, the bank reconciliations prepared for the Palo Volunteer Fire Department and Palo Iowa Firefighters Association are not reviewed and approved by an independent person.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are independently reviewed for completeness and accuracy.

Effect – The lack of independent review of bank reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

Response – The Mayor will review month end reports and sign for verification of his review.

City of Palo

Schedule of Findings

Year ended June 30, 2019

Conclusion – Response accepted.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances. Independent review of the reconciliations can help ensure the accuracy of recorded amounts.

Condition – The reconciliation of utility billings, collections and delinquent accounts is not reviewed by an independent person.

Cause – Policies and procedures have not been established to require the reconciliations of utility billings, collections and delinquent accounts be reviewed by an independent person.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – The reconciliation of utility billings, collections and delinquent accounts should be reviewed by an independent person.

Response – The City will start to have two people review the utility billing month end reports while documenting the review with signatures.

Conclusion – Response accepted.

(D) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and helps ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies and procedures requiring user access to be suspended after three failed login attempts.

Additionally, the written disaster recovery plan does not include:

- (1) Identification of critical applications.
- (2) Identification of staff responsibilities.
- (3) Identification of steps for recovery of the system.
- (4) Identification of computer equipment needed for temporary processing.
- (5) Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.

City of Palo

Schedule of Findings

Year ended June 30, 2019

- (6) Requirement a copy of the disaster recovery plan be kept off site.
- (7) An inventory of all hardware and components.
- (8) An inventory of software applications.
- (9) A requirement extra stocks of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.

Cause – Management has not required written policies for the above computer and password controls or certain written disaster recovery plan controls, including testing of the disaster recovery plan.

Effect – Lack of written policies for the computer-based system could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a written disaster recovery plan that includes the above essential elements could result in the City’s inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written policies requiring user access to be suspended after three failed login attempts to improve the City’s control over its computer system. Additionally, the City should review and modify the current disaster recovery plan to include the above items.

Response – The City will try to work on writing a computer disaster recovery plan when time allows.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Palo

Schedule of Findings

Year ended June 30, 2019

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the debt service function. In addition, disbursements exceeded the amount budgeted prior to the budget amendment in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will try not to exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Designs Unlimited	Clothing	\$ 2,029
Trisca Dix	Reimbursement for flowers	63
Chris Denley*	Christmas gift	75
Danial Denley*	Christmas gift	75
AJ Seely*	Christmas gift	75
Kurtis Dix*	Christmas gift	75
Andrew Lutter*	Reimbursement for Chirtmas party	1,406
Rob Jangquist*	Reimbursement for food for fire station cleaning	39
Jeff Gibbons*	Reimbursement for postage for get well cards	2

* These items were paid for from the bank account maintained by the Palo Volunteer Fire Department.

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

Recommendation – The City Council should determine and document the public purpose served by these types of disbursements prior to authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – In the future, we will not use City funds for memorial flowers. The current Clerk will inform the Mayor and Council members that the City cannot give donations to the Fire Department or buy shirts for volunteers/helpers.

Conclusion – Response accepted.

City of Palo

Schedule of Findings

Year ended June 30, 2019

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council 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 City's investment policy were noted.
- (8) Revenue Bonds – The City's sewer revenue bond resolution requires a sewer bond sinking account be established and transfers are to be made to the sinking account in equal monthly installments on the first day of each month. The City has not established a sewer revenue bond sinking account.

Recommendation – The City should establish the required account in accordance with the bond agreement and ensure principal and interest payments are made from the account.

Response – The City will work to establish the required sewer bond sinking account.

Recommendation – Response accepted.

- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1.

The City's beginning and ending cash balances and the receipts of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's general ledger.

In addition, the amount reported by the City as TIF debt outstanding was overstated by \$1,360,392.

Recommendation – The City should ensure the cash balances, receipts and debt amounts reported on the Levy Authority Summary agree with the City's records.

Response – The current Clerk will ensure the Annual Urban Renewal Report is done accurately.

Conclusion – Response accepted.

City of Palo

Schedule of Findings

Year ended June 30, 2019

- (10) Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The Palo Volunteer Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. While this Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department separate account should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

Response – The current Clerk will make the Council aware of the requirement.

Conclusion – Response accepted.

- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires the retention in this manner to include an image of both the front and back of each cancelled check. The City and the Palo Volunteer Fire Department do not retain electronic images of the backs of cancelled checks.

Recommendation – The City and the Palo Volunteer Fire Department should retain an image of both the front and back of each cancelled check, as required.

Response – The current Clerk has already made this change, beginning as of July 10, 2020.

Conclusion – Response accepted.

- (12) Financial Condition – The Capital Projects Fund and the Special Revenue, FEMA and Storm Water Funds had deficit balances of \$394,637, \$138,208 and \$6,403, respectively at June 30, 2019.

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

City of Palo

Schedule of Findings

Year ended June 30, 2019

Response – The Council will work to try to limit deficit fund balances.

Conclusion – Response accepted.

- (13) Senior Discount – Chapter 388.6 of the Code of Iowa states, “A city utility or combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies, as provided in Chapter 384.91.” The City Council provides senior discounts on sewer rates.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial. The City Council should implement procedures which ensure nondiscriminatory sewer rates are used for all customers, as required.

Response – We have already stopped senior rate discounts.

Conclusion – Response accepted.

- (14) Unclaimed Property – Chapters 556.8 and 556.11 of the Code of Iowa require each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – We have already started reviewing our outstanding items and have plans to submit to the Great Iowa Treasure Hunt each year.

Conclusion – Response accepted.

- (15) Fund Transfers – In accordance with Chapter 545-2.1 of the Administrative Code of Iowa, a fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. During the ended June 30, 2019, the City did not complete resolutions for fund transfers from the General Fund and Special Revenue, Urban Renewal Tax Increment Fund to the Debt Service Fund and from the Special Revenue, Urban Renewal Tax Increment Fund to the Capital Projects Fund.

Recommendation – The City should comply with the Administrative Code of Iowa and complete a fund transfer resolution for all transfers between funds.

Response – The current Clerk documents transfer resolutions in the minutes.

Conclusion – Response accepted.

City of Palo

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Tammy A. Hollingsworth, CIA, Manager
Anthony M. Heibult, Senior Auditor II
April R. Davenport, Assistant Auditor
Tristan J. Swiggum, Assistant Auditor