



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

November 17, 2006

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Palo, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2005, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$568,582 for the year ended June 30, 2005. The receipts included \$130,780 in property tax, \$155,281 from charges for service, \$75,004 from operating grants, contributions and restricted interest, \$127,853 from tax increment financing, \$68,671 from local option sales tax and other general receipts of \$10,993.

Disbursements for the year totaled \$555,050, and included \$142,355 for public works, \$87,468 for public safety, \$73,655 for general government and \$33,036 for debt service. Also, disbursements for business type activities totaled \$144,929.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

JUNE 30, 2005

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City of Palo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Dauenbaugh	Mayor	Resigned Feb 14, 2005
John Harris (Appointed)	Mayor	Jan 2006
John Harris	Mayor Pro tem	Resigned Mar 14, 2005
Darrell Cannon	Mayor Pro tem	Jan 2006
Delmar Jellison	Council Member	Resigned Feb 25, 2005
Jeremy Crawford (Appointed)	Council Member	Jan 2006
James Sanders (Appointed)	Council Member	Jan 2006
John Dix	Council Member	Jan 2008
Dave Posekany	Council Member	Jan 2008
Stacy Dix	Clerk	Indefinite
Trisca Smetzer	Deputy Clerk	Indefinite
Scott Peterson	Attorney	Indefinite

City of Palo



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Palo's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, 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 distribution by fund of the total fund balance at July 1, 2004.

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, 2004, 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, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2006 on our consideration of the City of Palo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, 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, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Palo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2005 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by 14%, or approximately \$49,000, primarily due to reduced City spending.
- The cash basis net assets of the City's business type activities decreased by 114%, or approximately \$35,000, due primarily to the cost of sewer repairs and other utility improvements.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor special revenue funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation and general government. Property tax and state grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Tax Increment Financing. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

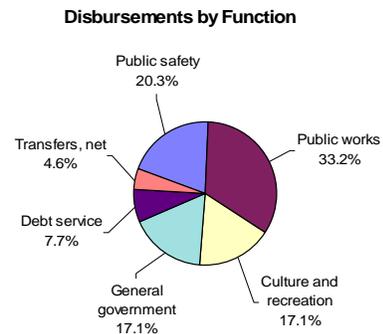
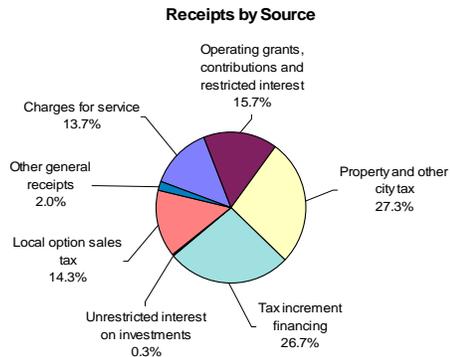
2) Proprietary funds account for the City's Enterprise Fund. The Enterprise Fund is used to report business type activities. The City maintains an Enterprise Fund to provide separate information for the sanitary sewer system.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago from \$347,995 to \$396,742. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service	\$ 65,480
Operating grants, contributions and restricted interest	75,004
General receipts:	
Property and other city tax	130,780
Tax increment financing	127,853
Local option sales tax	68,671
Unrestricted interest on investments	1,285
Other general receipts	9,708
Total receipts	<u>478,781</u>
Disbursements and transfers:	
Public safety	87,468
Public works	142,355
Culture and recreation	73,607
General government	73,655
Debt service	33,036
Transfers, net	19,913
Total disbursements and transfers	<u>430,034</u>
Increase in cash basis net assets	48,747
Cash basis net assets beginning of year	<u>347,995</u>
Cash basis net assets end of year	<u>\$ 396,742</u>



The cash basis net assets for the City's governmental funds increased by approximately \$49,000, primarily due to reductions in City spending.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 89,801
Transfers	19,913
Total receipts and transfers	<u>109,714</u>
Disbursements:	
Sewer	<u>144,929</u>
Decrease in cash basis net assets	(35,215)
Cash basis net assets beginning of year	<u>30,855</u>
Cash basis net assets end of year	<u>\$ (4,360)</u>

The cash basis net assets of the City's business type activities decreased primarily due to the cost of sewer repairs and other utility improvements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Palo completed the year, its governmental funds reported a combined fund balance of \$396,742, an increase of \$48,747 from last year's total of \$347,995. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$29,029 from the prior year to a year-end balance of \$79,901. This decrease is attributable to a general increase in disbursements.
- The Road Use Tax Fund cash balance decreased \$17,052 from the prior year to a year end negative balance of (\$2,789).
- The Local Option Sales Tax Fund balance increased \$27,107 from the prior year to a year end balance of \$79,544. The increase is due to collection of additional local option sales tax over the previous year.
- The Tax Increment Financing Fund balance increased \$74,384 from the prior year to a year end balance of \$220,102. The increase is due to growth in the area and collection within the tax increment area.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$35,215 from the prior year to a year end negative balance of (\$4,360), due primarily to the cost of sewer repairs and other utility improvements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 13, 2005 and resulted in an overall increase of \$109,862 in operating disbursements due to increased operating expenses.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Palo's elected and appointed officials and citizens considered several factors when formulating the FY2006 budget. The first factor is the increase in property tax valuation which has resulted in additional taxes.

Second, the City can no longer depend upon State intergovernmental revenue. The bank franchise tax and allocation are no longer received.

The FY2006 budget contains total revenues of \$613,884 and disbursements of \$606,705.

The FY2006 levy is \$10.60 per \$1,000 of assessed property valuation; a decrease from the \$10.81 levy rate in FY2005. The increase in general revenue results from the increase in property valuation. Utilizing local option sales tax for infrastructure improvements has resulted in a reduction of the amount of the cost which would otherwise have to be paid from local sources or general property taxes.

The City of Palo also has plans for the construction of a wastewater treatment and sewer system plant anticipated to begin during FY2007 with an estimated cost in excess of \$3,000,000. These costs will be financed mainly through a state revolving loan made available from the Iowa Department of Natural Resources and the Iowa Finance Authority when the project gets under way.

These parameters were taken into account when adopting the budget for FY2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stacy Dix, City Clerk, 1006 1st Street, Palo, Iowa 52324.

City of Palo

Basic Financial Statements

City of Palo

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 87,468	24,942	2,950
Public works	142,355	30,235	56,520
Culture and recreation	73,607	9,790	15,000
General government	73,655	513	534
Debt service	33,036	-	-
Total governmental activities	410,121	65,480	75,004
Business type activities:			
Sewer	144,929	89,801	-
Total	\$ 555,050	155,281	75,004

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Bank franchise tax
 Sale of assets
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Local option sales tax
 Urban renewal purposes
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(59,576)	-	(59,576)
(55,600)	-	(55,600)
(48,817)	-	(48,817)
(72,608)	-	(72,608)
(33,036)	-	(33,036)
(269,637)	-	(269,637)
-	(55,128)	(55,128)
(269,637)	(55,128)	(324,765)
130,780	-	130,780
127,853	-	127,853
68,671	-	68,671
1,285	-	1,285
4,171	-	4,171
1,105	-	1,105
4,432	-	4,432
(19,913)	19,913	-
318,384	19,913	338,297
48,747	(35,215)	13,532
347,995	30,855	378,850
\$ 396,742	(4,360)	392,382
\$ 79,544	-	79,544
220,102	-	220,102
19,984	-	19,984
77,112	(4,360)	72,752
\$ 396,742	(4,360)	392,382

City of Palo

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

As of and for the year ended June 30, 2005

	General	Special Revenue		
		Road Use Tax	Local Option Sales Tax	Tax Increment Financing
Receipts:				
Property tax	\$ 113,859	-	-	-
Tax increment financing	-	-	-	127,853
Other city tax	2,235	-	68,671	-
Licenses and permits	17,388	-	-	-
Use of money and property	10,763	-	-	311
Intergovernmental	10,940	51,052	-	-
Charges for service	30,235	-	-	-
Miscellaneous	28,034	-	-	-
Total receipts	213,454	51,052	68,671	128,164
Disbursements:				
Operating:				
Public safety	76,695	-	-	-
Public works	37,144	75,444	4,874	20,744
Culture and recreation	60,001	-	8,077	-
General government	71,108	-	-	-
Debt service	-	-	-	33,036
Total disbursements	244,948	75,444	12,951	53,780
Excess (deficiency) of receipts over (under) disbursements	(31,494)	(24,392)	55,720	74,384
Other financing sources (uses):				
Sale of assets	1,105	-	-	-
Operating transfers in	1,360	7,340	-	-
Operating transfers out	-	-	(28,613)	-
Total other financing sources (uses)	2,465	7,340	(28,613)	-
Net change in cash balances	(29,029)	(17,052)	27,107	74,384
Cash balances beginning of year	108,930	14,263	52,437	145,718
Cash balances end of year	\$ 79,901	(2,789)	79,544	220,102
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 79,901	-	-	-
Special revenue funds	-	(2,789)	79,544	220,102
Total cash basis fund balances	\$ 79,901	(2,789)	79,544	220,102

See notes to financial statements.

Nonmajor	Total
14,686	128,545
-	127,853
-	70,906
-	17,388
83	11,157
-	61,992
-	30,235
1,566	29,600
16,335	477,676
10,773	87,468
4,149	142,355
5,529	73,607
2,547	73,655
-	33,036
22,998	410,121
(6,663)	67,555
-	1,105
-	8,700
-	(28,613)
-	(18,808)
(6,663)	48,747
26,647	347,995
19,984	396,742
-	79,901
19,984	316,841
19,984	396,742

City of Palo

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

As of and for the year ended June 30, 2005

	<u>Enterprise - Sewer</u>
Operating receipts:	
Charges for service	\$ 89,801
Operating disbursements:	
Business type activities	<u>127,251</u>
Deficiency of operating receipts under operating disbursements	(37,450)
Non-operating receipts (disbursements):	
Capital outlays	<u>(17,678)</u>
Deficiency of receipts under disbursements	(55,128)
Operating transfers in	<u>19,913</u>
Net change in cash balance	(35,215)
Cash balance beginning of year	<u>30,855</u>
Cash balance end of year	<u><u>\$ (4,360)</u></u>
 Cash Basis Fund Balances	
Unreserved	<u><u>\$ (4,360)</u></u>

See notes to financial statements.

City of Palo

Notes to Financial Statements

June 30, 2005

(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 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.

These financial statements present the City of Palo (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Palo Volunteer Fire Department is legally separate from the City, but is so intertwined with the City that it, in substance, is the same as the City. It is reported as part of the City and blended into the Special Revenue Funds.

The Palo Volunteer Fire Department has been established pursuant to local ordinance to promote local fund raisers and collect donations to be used to purchase items which are not included in the City's budget. Although the Palo Volunteer Fire Department is legally separate from the City, its purpose is to benefit the City of Palo (the primary government) by providing the above services and managing those funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission and the Linn County Joint E911 Service Board.

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax and its uses.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works and debt service functions.

(2) Cash and Investments

The City's bank deposits at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005, was \$9,064, equal to the required contribution for the year.

(4) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 payable to employees at June 30, 2005, primarily relating to the General Fund, is approximately \$4,400. This liability has been computed based on rates of pay in effect at June 30, 2005.

(5) Risk Management

The City is a member in 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 509 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 to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2005 were \$17,747.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claims and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000.00, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, than payment of such claims shall be obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from another insurer for coverage associated with employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 1,360
Special Revenue: Road Use Tax	Special Revenue: Local Option Sales Tax	7,340
Enterprise: Sewer	Special Revenue: Local Option Sales Tax	19,913
Total		<u>\$ 28,613</u>

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

(7) Development Agreement

The City entered into a development agreement on November 1, 1999 to assist an urban renewal project.

The City agreed to rebate 65.29% of the incremental tax paid by the developer in exchange for installation of certain improvements, including streets, sanitary sewer lines and wastewater treatment facilities, made by the developer. The remaining 34.71% of the funds are retained by the City to provide assistance to low to moderate income families in the City. The portion of the incremental tax received by the City from the developer under Chapter 403.19 of the Code of Iowa will be rebated for a period of ten years, beginning December 1, 2002. The total to be paid to the developer by the City under this agreement is not to exceed \$255,000 plus accrued interest on the unpaid principal at a rate equal to the rate being paid by the developer for private financing.

During the year ended June 30, 2005, the City rebated \$33,036 of incremental tax under this agreement. Prior to the year ended June 30, 2005, the City had rebated \$26,009. The outstanding principal balance on the agreement at June 30, 2005 is \$195,955. The amount of accrued interest has not been determined.

No bonds or notes were issued for this project. To the extent there are insufficient tax increment receipts available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date.

This agreement is not a general obligation of the City. However, the debt payment in the succeeding year is subject to the constitutional debt limitation of the City.

(8) Deficit Balances

The City had deficit balances at June 30, 2005 in the Special Revenue, Road Use Tax and Enterprise, Sewer Fund of \$2,789 and \$4,360, respectively. The deficit balances were a result of the cost of street improvements and sewer repairs and maintenance. The City plans to reduce budgeted expenditures and increase charges for service in fiscal year 2006 to eliminate the deficits.

(9) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Fund Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 128,545	-	-
Tax increment financing	127,853	-	-
Other city tax	70,906	-	-
Licenses and permits	17,388	-	-
Use of money and property	11,157	-	83
Intergovernmental	61,992	-	-
Charges for service	30,235	89,801	-
Miscellaneous	29,600	-	1,566
Total receipts	<u>477,676</u>	<u>89,801</u>	<u>1,649</u>
Disbursements:			
Public safety	87,468	-	936
Public works	142,355	-	-
Culture and recreation	73,607	-	-
Community and economic development	-	-	-
General government	73,655	-	-
Debt service	33,036	-	-
Business type activities	-	144,929	-
Total disbursements	<u>410,121</u>	<u>144,929</u>	<u>936</u>
Excess (deficiency) of receipts over (under) disbursements	67,555	(55,128)	713
Other financing sources (uses), net	(18,808)	19,913	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	48,747	(35,215)	713
Balances beginning of year	347,995	30,855	8,413
Balances end of year	<u>\$ 396,742</u>	<u>(4,360)</u>	<u>9,126</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
128,545	124,642	135,142	(6,597)
127,853	124,714	130,014	(2,161)
70,906	57,476	60,006	10,900
17,388	14,000	18,000	(612)
11,074	16,000	20,000	(8,926)
61,992	63,000	63,000	(1,008)
120,036	99,000	114,000	6,036
28,034	-	25,000	3,034
565,828	498,832	565,162	666
86,532	75,100	95,100	8,568
142,355	99,900	125,000	(17,355)
73,607	53,500	77,000	3,393
-	300	-	-
73,655	76,500	76,500	2,845
33,036	-	-	(33,036)
144,929	150,000	191,562	46,633
554,114	455,300	565,162	11,048
11,714	43,532	-	11,714
1,105	-	-	1,105
12,819	43,532	-	12,819
370,437	371,454	371,454	(1,017)
383,256	414,986	371,454	11,802

City of Palo

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Proprietary Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$109,862. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works and debt service functions.

Other Supplementary Information

Schedule 1

City of Palo

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Special Revenue Funds

As of and for the year ended June 30, 2005

	Employee	Palo Volunteer Fire Department	Total
	Benefits		
Receipts:			
Property tax	\$ 14,686	-	14,686
Use of money and property	-	83	83
Miscellaneous	-	1,566	1,566
Total receipts	14,686	1,649	16,335
Disbursements:			
Operating:			
Public safety	9,837	936	10,773
Public works	4,149	-	4,149
Culture and recreation	5,529	-	5,529
General government	2,547	-	2,547
Total disbursements	22,062	936	22,998
Excess (deficiency) of receipts over (under) disbursements	(7,376)	713	(6,663)
Cash balances beginning of year	18,234	8,413	26,647
Cash balances end of year	\$ 10,858	9,126	19,984
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 10,858	9,126	19,984

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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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 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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 13, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Palo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Palo's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B), (C), (D) and (G) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Palo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that 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, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Palo and other parties to whom the City of Palo may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 13, 2006

City of Palo
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing, journalizing and posting.
- (3) Utility receipts – billing, collection, depositing, posting and reconciling.
- (4) Disbursements – purchasing, check signing, recording and reconciling.
- (5) Payroll – preparing and distributing.
- (6) Transfers – recording and reconciling.
- (7) Financial reporting – Preparing, reconciling and distributing.
- (8) Accounting system – performing all general accounting functions and having custody of City assets.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Palo Volunteer Fire Department should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The City will segregate duties to the extent possible with existing personnel and City Council members. The City and the Palo Volunteer Fire Department will work toward improving segregation of duties.

Conclusion – Response accepted.

City of Palo

Schedule of Findings

Year ended June 30, 2005

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month and delinquent lists should be prepared monthly. The City Council should review the reconciliations and monitor delinquencies.

Response – Reconciliation procedures are currently being established. A delinquent list is provided to the City Council monthly.

Conclusion – Response accepted.

- (C) Receipts – Prenumbered receipts were not issued for City collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all City money. The receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person. For utility collections paid, a daily cash log should be maintained, issuing one receipt for a day's collections, and reconciled with timely deposits.

Response – The City currently has this in place.

Conclusion – Response accepted.

- (D) Records of Accounts – The Palo Volunteer Fire Department maintained its financial accounting records separate from the Clerk's records. The transactions and the resulting balances were not reported to the Council each month and the transactions were not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose."

Additionally, prenumbered receipts were not issued. Also, accounting records did not facilitate the classification of receipts or disbursements by source and object.

Recommendation – The Palo Volunteer Fire Department's financial transactions and balances should be in the Clerk's monthly financial reports. Internal control could be strengthened and operating efficiency could be increased by integrating the accounting receipts and disbursements with the City's accounting records in the Clerk's office.

If the Palo Volunteer Fire Department's receipts and disbursements are not integrated with the City's accounting records, the Palo Volunteer Fire Department should segregate accounting duties to extent possible, require the issuance of prenumbered receipts for all collections and cancel all invoices or other appropriate documentation in a manner to help prevent possible duplicate payments. Accounting records should facilitate the classification of receipts and disbursements by source and object, respectively.

Response – The City and Palo Volunteer Fire Department will establish procedures.

Conclusion – Response accepted.

City of Palo

Schedule of Findings

Year ended June 30, 2005

- (E) Disbursements – Supporting documentation was not always cancelled with the date paid and the check number to help prevent possible duplicate payment.

Recommendation – All supporting disbursement documentation should be cancelled with the date and check number to help avoid duplicate payments of the same invoice.

Response – The City will mark all invoices paid.

Conclusion – Response accepted.

- (F) Transfers – Individual fund/account transfers were not approved by the City Council and documented in the City Council minutes record.

Recommendation – All individual fund/account transfers should be approved by the City Council prior to making the transfer and approval should be documented in the City Council minutes record.

Response – Transfers are currently being approved and documented in the Council minutes record.

Conclusion – Response accepted.

- (G) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City will adopt a written policy.

Conclusion – Response accepted.

- (H) Computer Controls – The City does not have written policies and procedures for:

- (1) requiring password changes or to maintain password privacy.
- (2) requiring computer passwords to be changed every 60 to 90 days.
- (3) Restricting the installation of copyrighted software not licensed to the City.
- (4) Logging off unattended computers.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response – The City will adopt written policies and procedures.

Conclusion – Response accepted.

City of Palo

Schedule of Findings

Year ended June 30, 2005

Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public works and debt service functions. 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 budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Russ Swain, Police Chief, Owner of Russ's Gun Shop	Ammunition	\$ 350

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Police Chief does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

- (6) 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 insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City Council minutes were not always published within 15 days, disbursements approved did not include the purpose of the disbursement and a summary of receipts and disbursements was not included as required by Chapter 372.13(6) of the Code of Iowa. Additionally, City Council workshop meetings were not published as required by Chapter 372.13(6) of the Code of Iowa.

City of Palo

Schedule of Findings

Year ended June 30, 2005

Recommendation – The City should publish minutes as required by the Code of Iowa.

Response – The minutes currently include a summary of disbursements and receipts.
The City will publish as required.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City has not approved an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should approve a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Response – The City will be approving an investment policy as required.

Conclusion – Response accepted.

- (9) City Code of Ordinances – The City has not compiled the City’s ordinances since 2000.

Recommendation – Chapter 380.8 of the Code of Iowa states, “A city shall compile a code of ordinance containing all of the city ordinances in effect at least once every five years.” The City should compile the city ordinances as required.

Response – The City is currently working on updating the code of ordinances.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – The local option sales tax ballot dated June 10, 2003 provided for sanitary sewer improvements, street improvements, park improvements, and infrastructure improvements. During the year ended June 30, 2005, the City disbursed \$4,874 for street Christmas decorations. This disbursement does not appear to be within the ballot approved purposes of sanitary sewer, street, parl and infrastructure improvements approved by voters.

Recommendation – The City should expend local option sales tax in accordance with the local option sales tax ballot.

Response – The disbursement has been credited back to local option sales tax account.
The City will expend local option sales tax in accordance with the local option sales tax ballot.

Conclusion – Response accepted.

- (11) Utility Penalty – The City assesses a one time 10 percent penalty to delinquent utility customers. The City ordinances pertaining to utility billings do not contain approval of assessing a one time 10 percent penalty on delinquent utility customers.

Recommendation – The City should consult legal counsel concerning the one time 10 percent penalty on delinquent utility customers.

Response – City Ordinance #6-5-4 Billing, Penalty is already in place.

Conclusion – Response accepted.

City of Palo

Schedule of Findings

Year ended June 30, 2005

(12) Financial Condition – At June 30, 2005, the City had a deficit balances in the Special Revenue, Road Use Tax Fund of \$2,789 and in the Enterprise, Sewer Fund of \$4,360.

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

Response – The City has addressed this for FY2006.

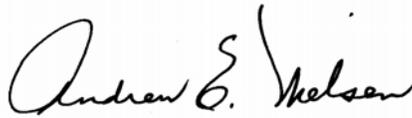
Conclusion – Response accepted.

City of Palo

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Carmon K. Kutcher, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State