



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 28, 2018

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$21,559,230 for the year ended June 30, 2017, which included \$1,686,611 in tax credits from the state. The County forwarded \$14,826,105 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$6,733,125 of the local tax revenue to finance County operations, a 1.8% decrease from the prior year. Other revenues included charges for service of \$1,688,540, operating grants, contributions and restricted interest of \$4,203,961, capital grants, contributions and restricted interest of \$1,662,705, local option sales tax of \$352,235, tax increment financing of \$864,015, gaming tax of \$141,160, unrestricted investment earnings of \$106,095 and other general revenues of \$576,820.

Expenses for County operations for the year ended June 30, 2017 totaled \$13,163,862, a 15.2% increase over the prior year. Expenses included \$5,411,636 for roads and transportation, \$1,952,125 for public safety and legal services and \$1,812,276 for non-program.

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

A copy of the audit report is available for review in the County Auditor's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1710-0074-B00F>.

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PALO ALTO COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

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Palo Alto County

Officials

(Before January 2017)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Graettinger	Board of Supervisors	Jan 2017
Edward Noonan	Board of Supervisors	Jan 2017
Craig Merrill	Board of Supervisors	Jan 2019
Linus Solberg	Board of Supervisors	Jan 2019
Keith Wirtz	Board of Supervisors	Jan 2019
Carmen Moser	County Auditor	Jan 2017
Robin Jamison	County Treasurer	Jan 2019
Susan Ruppert	County Recorder	Jan 2019
Lynn Schultes	County Sheriff	Jan 2017
Peter Hart	County Attorney	Jan 2019
Lois Naig	County Assessor	Jan 2022

(After January 2017)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Craig Merrill	Board of Supervisors	Jan 2019
Linus Solberg	Board of Supervisors	Jan 2019
Keith Wirtz	Board of Supervisors	Jan 2019
Ronald Graettinger	Board of Supervisors	Jan 2021
Roger Faulstick	Board of Supervisors	Jan 2021
Carmen Moser	County Auditor	Jan 2021
Robin Jamison	County Treasurer	Jan 2019
Susan Ruppert	County Recorder	Jan 2019
Lynn Schultes	County Sheriff	Jan 2021
Peter Hart	County Attorney	Jan 2019
Lois Naig	County Assessor	Jan 2022

Palo Alto County



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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report

To the Officials of Palo Alto County:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County as of June 30, 2017, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 17 and 56 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palo Alto County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2018 on our consideration of Palo Alto County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 County'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 Palo Alto County's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

March 7, 2018

Palo Alto County

MANAGEMENT'S DISCUSSION AND ANALYSIS

Palo Alto County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Palo Alto County's total governmental activities revenues increased approximately \$966,000 from fiscal year 2017. Capital grants, contributions and restricted interest increased approximately \$1,019,000 over fiscal year 2016. In addition, operating grants, contributions and restricted interest increased approximately \$180,000 over fiscal year 2016. Charges for service decreased approximately \$577,000
- Palo Alto County's governmental activities expenses increased approximately \$1,740,000 over fiscal year 2016.
- The County's net position at June 30, 2017 increased 10.5%, or approximately \$3,166,000 over the June 30, 2016 balance.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

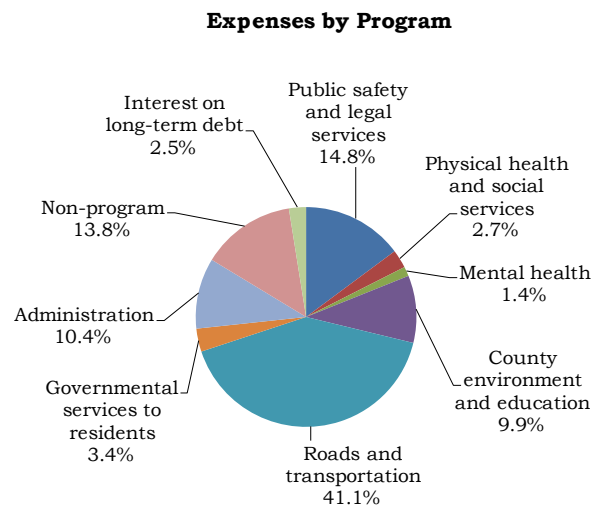
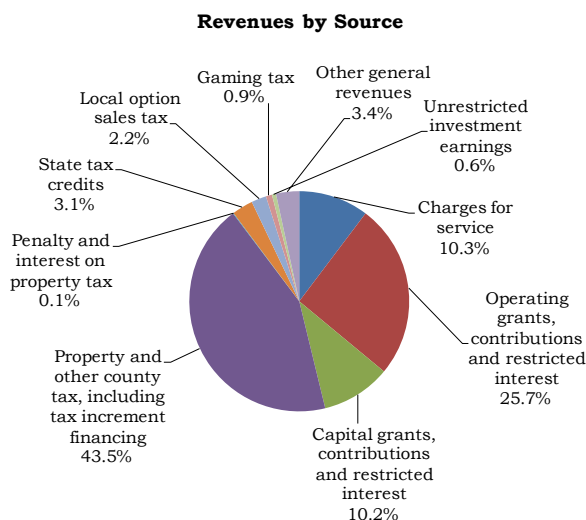
GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Palo Alto County's combined net position increased from approximately \$30,249,000 to approximately \$33,415,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities.

Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2017	2016
Current and other assets	\$ 27,048	27,144
Capital assets	34,634	31,727
Total assets	61,682	58,871
Deferred outflows of resources	889	434
Long-term liabilities	20,548	21,264
Other liabilities	766	459
Total liabilities	21,314	21,723
Deferred inflows of resources	7,842	7,333
Net position:		
Net investment in capital assets	21,529	19,078
Restricted	13,005	12,572
Unrestricted	(1,119)	(1,401)
Total net position	\$ 33,415	30,249

The net position of Palo Alto County's governmental activities increased 10.5% (approximately \$33.4 million compared to approximately \$30.2 million). The largest portion of the County's net position is net investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased from a deficit of approximately \$1,401,000 at June 30, 2016 to a deficit of approximately \$1,119,000 at June 30, 2017, an increase of 20.1%. The unrestricted net position deficit is due to reporting the net pension liability.

Changes in Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Revenues:		
Program revenues:		
Charges for service	\$ 1,689	2,266
Operating grants, contributions and restricted interest	4,204	4,024
Capital grants, contributions and restricted interest	1,663	644
General revenues:		
Property and other county tax, including tax increment financing	7,091	7,066
Penalty and interest on property tax	14	30
State tax credits	507	506
Local option sales tax	352	433
Gaming tax	141	144
Unrestricted investment earnings	106	47
Other general revenues	563	204
Total revenues	16,330	15,364
Program expenses:		
Public safety and legal services	1,952	1,753
Physical health and social services	355	333
Mental health	186	440
County environment and education	1,299	1,560
Roads and transportation	5,412	4,579
Governmental services to residents	451	363
Administration	1,371	1,287
Non-program	1,812	806
Interest on long-term debt	326	303
Total expenses	13,164	11,424
Change in net position	3,166	3,940
Net position beginning of year	30,249	26,309
Net position end of year	\$ 33,415	30,249



The County decreased overall property tax rates for fiscal year 2017 by 4.25%. However, based on increases in total assessed valuation, property tax revenue was budgeted to decrease approximately \$100,000 this year. Property and other county tax, excluding tax increment financing, decreased approximately \$121,000.

The cost of all governmental activities this year was approximately \$13.2 million compared to approximately \$11.4 million last year. However, as shown in the Statement of Activities on page 21, the amount taxpayers ultimately financed for these activities was approximately \$5.6 million because some of the cost was paid by those directly benefiting from the programs (approximately \$1,689,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$5,867,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased approximately \$622,000 in fiscal year 2017 from approximately \$6,934,000 to approximately \$7,556,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$14.3 million, a decrease of approximately \$0.5 million from last year's total of approximately \$14.8 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund ending fund balance increased approximately \$323,000 from the prior year to approximately \$1,977,000. General Fund revenues increased approximately \$795,000 and expenditures increased approximately \$149,000. The increase in revenues was primarily due to an increase in conservation grant revenue from the State and insurance reimbursements for the Brinks building. The increase in expenditures was primarily due to higher expenditures for public safety and for capital projects for repairs to the Brinks building.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$193,000, a decrease of 56.3% from the prior year, and revenues decreased approximately \$213,000. The Special Revenue, Mental Health Fund balance decreased approximately \$4,000 to approximately \$450,000 at year end.
- Special Revenue, Rural Services Fund expenditures increased approximately \$86,000 over the prior year primarily to pay the costs associated with workmans comp premiums. Revenues increased approximately \$38,000, primarily due to higher property and other county taxes. The Rural Services Fund balance increased approximately \$50,000 to approximately \$890,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$69,000.
- Special Revenue, Secondary Roads Fund expenditures decreased approximately \$2,000 from the prior year. Revenues decreased approximately \$295,000 primarily due to lower FEMA reimbursements. Transfers from the Special Revenue, Rural Services Fund increased approximately \$69,000. The Secondary Roads Fund ending fund balance increased approximately \$1,457,000, or 17.5%, during the year.
- Special Revenue, Drainage Districts Fund revenues decreased approximately \$577,000 from the prior year due to decreased drainage assessments. Expenditures increased approximately \$94,000, due primarily to increased drainage projects in the current year compared to fiscal year 2016. Drainage warrants issued increased approximately \$222,000. The Drainage Districts Fund end of year fund balance decreased approximately \$340,000 from the prior year.

- The Special Revenue, Tax Increment Financing Fund balance decreased approximately \$36,000 to approximately \$103,000 at June 30, 2017. The balance will be used to pay the principal and interest on general obligation urban renewal bonds issued in April 2013 and July 2016.
- Debt Service Fund revenues increased approximately \$37,000 over the prior year. The balance in the fund at June 30, 2017 was approximately \$360,000, or an increase of approximately \$214,000 over the prior year ending fund balance. The current year debt service payment for various general obligation bonds and refunding bonds was approximately \$1.9 million.
- Capital Projects Fund revenues decreased approximately \$5,000. Expenditures increased approximately \$1,131,000 due to significant road projects in the current year. All expenditures for the projects are charged to this fund, except for the principal and interest payments which are paid from the Debt Service Fund. The end of the year fund balance decreased approximately \$2,137,000 as a result of completing road projects during fiscal year 2017.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget two times. The amendments were made on September 6, 2016 and May 9, 2017 and resulted in an increase in budgeted receipts of \$579,462 and an increase in budgeted disbursements of \$692,545. The increase in budgeted receipts was to receive additional insurance proceeds for the Brinks building, and grant funds for the Sheriff and Conservation departments. The majority of the increase in disbursements was due to higher anticipated disbursements for juvenile justice and building repairs for the Brinks building and the courthouse.

The County's receipts were \$691,528 more than budgeted, a variance of 5.3%. The most significant variance resulted from the County receiving more intergovernmental receipts than anticipated.

Total disbursements were \$2,744,279 less than the amended budget. Actual disbursements for the capital projects and roads and transportation functions were \$632,476 and \$1,460,969, respectively, less than budgeted. The variance affecting the capital projects function was due to over estimating the amount of work that would ultimately be completed on roads. The variance in the roads and transportation function was due to lower overall disbursements than anticipated. The remaining variances are a result of budgeted disbursements not being expended by June 30, 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, Palo Alto County had approximately \$34.6 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges and intangible assets. This is a net increase (including additions and deletions) of approximately \$2.9 million, or 9.2%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2017	2016
Land	\$ 1,426	1,352
Buildings and improvements	1,137	720
Equipment and vehicles	3,090	3,020
Intangibles	323	363
Infrastructure	28,658	26,272
Total	\$ 34,634	31,727
This year's major additions included (in thousands):		
Infrastructure, including road network	\$	3,956
Buildings		468
Vehicles and other equipment		501
Total	\$	4,925

The County had depreciation/amortization expense of approximately \$2.1 million in fiscal year 2017 and total accumulated depreciation/amortization of approximately \$15.4 million at June 30, 2017. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2017, Palo Alto County had approximately \$16.9 million of outstanding long-term debt, which included \$13,105,000 of general obligation bonds and approximately \$3,819,000 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation bonds	\$ 13,105	14,775
Drainage warrants	3,819	3,413
Total	\$ 16,924	18,188

Debt decreased as a result of making scheduled principal payments of \$1,670,000 on general obligation Series 2012, Series 2013 and Series 2014 bonds. In addition, drainage warrants increased slightly from the prior year.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Palo Alto County's outstanding general obligation and other applicable debt is significantly below its constitutional debt limit of approximately \$71.0 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Palo Alto County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2018 budget, tax rates and fees for various County activities. One of those factors is the economy. Unemployment in the County now stands at 2.8% versus 3.6% a year ago. This compares with the State's unemployment rate of 3.2% and the national rate of 4.3% during June 2017.

The national Consumer Price Index (CPI) rose 1.6% from June 2016 to June 2017. This increase is greater than the 1% increase during fiscal year 2016 reported last year.

The above factors were all part of the considerations for the fiscal year 2018 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2018 Dollars Certified	2017 Dollars Certified	Percentage Change
General Fund	\$ 3,848,547	3,268,754	17.7%
Mental Health Fund	91,850	193,263	-52.47
Rural Services Fund	2,161,060	1,976,538	9.34
Debt Service Fund	1,115,202	1,115,202	0.00
Total	<u>\$ 7,216,659</u>	<u>6,553,757</u>	<u>10.11</u>

No new services were added to the fiscal year 2018 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2018 are as follows:

	2018	2017	Percentage Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.66085	1.22997	35.03
Mental health levy	0.12317	0.27966	-55.96
Rural services basic levy	3.95000	3.95000	0.00
Debt service levy	1.40824	1.51000	6.74
Total	<u>\$ 10.64226</u>	<u>10.46963</u>	<u>1.65</u>

These factors were taken into account when adopting the budget for fiscal year 2018. Amounts appropriated in the operating budget are \$14,777,535, a decrease of \$1,782,475, or 10.8%, from the final fiscal year 2017 budget. The majority of the disbursements budgeted are for public safety and legal services and roads and transportation as road improvements continue during fiscal year 2018. The Code of Iowa limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy increased from \$1.22997 per \$1,000 of taxable valuation in fiscal year 2017 to \$1.66085 per \$1,000 of taxable valuation in fiscal year 2018. Palo Alto County decreased the mental health levy from \$.27966 per \$1,000 of taxable valuation to \$.12317 per \$1,000 of taxable valuation. The Debt service levy decreased from \$1.51000 per \$1,000 of taxable valuation to \$1.40824 per \$1,000 of taxable valuation. Additionally, the rural services basic levy rate for fiscal year 2018 remained the same at \$3.95 per \$1,000 of taxable valuation.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Palo Alto County

Basic Financial Statements

Palo Alto County
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash, cash equivalents and pooled investments	\$ 13,619,273
Receivables:	
Property tax:	
Delinquent	4,671
Succeeding year	7,667,000
Interest and penalty on property tax	15,453
Accounts	91,125
Accrued interest	76,174
Drainage assessments	4,358,289
Due from other governments	416,452
Inventories	650,247
Prepaid insurance	149,966
Capital assets, net of accumulated depreciation/amortization	<u>34,633,938</u>
Total assets	<u>61,682,588</u>
Deferred Outflows of Resources	
Pension related deferred outflows	<u>888,919</u>
Liabilities	
Accounts payable	449,096
Accrued interest payable	207,211
Salaries and benefits payable	65,518
Due to other governments	44,303
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	1,690,000
Drainage warrants	1,204,666
Compensated absences	163,465
Portion due or payable after one year:	
General obligation bonds	11,415,000
Drainage warrants	2,614,293
Compensated absences	100,481
Net pension liability	2,772,308
Net OPEB liability	<u>588,130</u>
Total liabilities	<u>21,314,471</u>
Deferred Inflows of Resources	
Unavailable property tax revenue	7,667,000
Pension related deferred inflows	<u>175,382</u>
Total deferred inflows of resources	<u>7,842,382</u>
Net Position	
Net investment in capital assets	21,528,938
Restricted for:	
Supplemental levy purposes	326,323
Mental health purposes	450,312
Rural services purposes	879,592
Secondary roads purposes	9,649,691
Drainage district purposes	422,144
Debt service	343,966
Capital projects	575,618
Other purposes	356,851
Unrestricted	<u>(1,118,781)</u>
Total net position	<u>\$ 33,414,654</u>

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,952,125	273,801	2,675	-	(1,675,649)
Physical health and social services	355,206	85,515	38,082	-	(231,609)
Mental health	186,232	-	-	-	(186,232)
County environment and education	1,299,012	311,505	529,793	11,761	(445,953)
Roads and transportation	5,411,636	60,182	3,633,411	1,649,931	(68,112)
Governmental services to residents	450,759	199,880	-	-	(250,879)
Administration	1,370,813	11,311	-	-	(1,359,502)
Non-program	1,812,276	746,346	-	1,013	(1,064,917)
Interest on long-term debt	325,803	-	-	-	(325,803)
Total	\$ 13,163,862	1,688,540	4,203,961	1,662,705	(5,608,656)
General Revenues:					
Property and other county tax levied for:					
General purposes					5,172,937
Debt service					1,053,668
Tax increment financing					864,015
Penalty and interest on property tax					13,541
State tax credits					506,520
Local option sales tax					352,235
Gaming tax					141,160
Unrestricted investment earnings					106,095
Miscellaneous					563,279
Total general revenues					8,773,450
Change in net position					3,164,794
Net position beginning of year					30,249,860
Net position end of year					\$ 33,414,654
See notes to financial statements.					

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2017

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash, pooled investments and cash equivalents	\$ 1,866,931	450,242	889,792	8,913,969
Receivables:				
Property tax:				
Delinquent	2,966	70	824	-
Succeeding year	3,608,000	86,000	2,001,000	-
Interest and penalty on property tax	15,453	-	-	-
Accounts	32,046	-	11,281	41,460
Accrued interest	76,056	-	-	-
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	4,044
Due from other governments	55,530	-	31,854	328,682
Inventories	-	-	-	650,247
Prepaid insurance	26,156	-	533	21,976
Total assets	\$ 5,683,138	536,312	2,935,284	9,960,378
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	\$ 56,846	-	12,385	87,982
Salaries and benefits payable	-	-	5,300	60,218
Due to other funds	2,985	-	1,059	-
Due to other governments	17,180	-	24,627	2,411
Total liabilities	77,011	-	43,371	150,611
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,608,000	86,000	2,001,000	-
Other	21,171	70	824	32,587
Total deferred inflows of resources	3,629,171	86,070	2,001,824	32,587
Fund balances:				
Nonspendable:				
Inventories	-	-	-	650,247
Prepaid insurance	26,156	-	533	21,976
Restricted for:				
Supplemental levy purposes	338,705	-	-	-
Mental health purposes	-	450,242	-	-
Rural services purposes	-	-	889,556	-
Secondary roads purposes	-	-	-	9,104,957
Drainage purposes	-	-	-	-
Conservation land acquisition/capital improvements	134,969	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	22,554	-	-	-
Assigned:				
County buildings repair	175,000	-	-	-
Unassigned	1,279,572	-	-	-
Total fund balances	1,976,956	450,242	890,089	9,777,180
Total liabilities, deferred inflows of resources and fund balances	\$ 5,683,138	536,312	2,935,284	9,960,378

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
342,635	103,459	360,155	575,500	95,568	13,598,251
-	-	811	-	-	4,671
-	922,000	1,050,000	-	-	7,667,000
-	-	-	-	-	15,453
-	-	-	-	-	84,787
-	-	-	118	-	76,174
4,358,289	-	-	-	-	4,358,289
-	-	-	-	-	4,044
-	-	-	-	386	416,452
-	-	-	-	-	650,247
-	-	-	-	-	48,665
4,700,924	1,025,459	1,410,966	575,618	95,954	26,924,033
269,606	-	-	-	-	426,819
-	-	-	-	-	65,518
-	-	-	-	-	4,044
-	-	-	-	85	44,303
269,606	-	-	-	85	540,684
-	922,000	1,050,000	-	-	7,667,000
4,358,289	-	808	-	-	4,413,749
4,358,289	922,000	1,050,808	-	-	12,080,749
-	-	-	-	-	650,247
-	-	-	-	-	48,665
-	-	-	-	-	338,705
-	-	-	-	-	450,242
-	-	-	-	-	889,556
-	-	-	-	-	9,104,957
73,029	-	-	-	-	73,029
-	-	-	-	-	134,969
-	-	360,158	-	-	360,158
-	-	-	575,618	-	575,618
-	103,459	-	-	95,869	221,882
-	-	-	-	-	175,000
-	-	-	-	-	1,279,572
73,029	103,459	360,158	575,618	95,869	14,302,600
4,700,924	1,025,459	1,410,966	575,618	95,954	26,924,033

Palo Alto County

Palo Alto County

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

June 30, 2017

Total governmental fund balances (page 23)	\$ 14,302,600
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***Amounts reported for governmental activities in the
Statement of Net Position are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$50,024,596 and the accumulated depreciation / amortization is \$15,390,658.

34,633,938

Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.

4,413,749

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

106,384

Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 888,919	
Deferred inflows of resources	<u>(175,382)</u>	713,537

Long-term liabilities, including general obligation bonds payable, drainage warrants payable, compensated absences payable, other postemployment benefits payable, net pension liability and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.

(20,755,554)**Net position of governmental activities (page 20)**\$ 33,414,654

See notes to financial statements.

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

Year ended June 30, 2017

		Special		
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 3,229,576	182,602	1,902,747	-
Local option sales tax	-	-	352,235	-
Interest and penalty on property tax	24,219	-	-	-
Intergovernmental	943,799	14,525	161,553	3,649,286
Licenses and permits	3,475	-	-	16,000
Charges for service	375,535	-	275,613	41,678
Use of money and property	113,295	-	-	27,325
Miscellaneous	544,890	-	3,975	22,485
Total revenues	5,234,789	197,127	2,696,123	3,756,774
Expenditures:				
Operating:				
Public safety and legal services	1,728,728	-	132,038	-
Physical health and social services	347,152	-	-	-
Mental health	-	193,262	-	-
County environment and education	731,256	-	683,556	-
Roads and transportation	-	-	230,593	3,581,177
Governmental services to residents	427,695	-	-	-
Administration	1,111,525	-	-	-
Non-program	-	-	92,863	-
Debt service	-	-	-	-
Capital projects	565,760	-	3,284	221,904
Total expenditures	4,912,116	193,262	1,142,334	3,803,081
Excess (deficiency) of revenues over (under) expenditures	322,673	3,865	1,553,789	(46,307)
Other financing sources (uses):				
Transfers in	-	-	-	1,503,044
Transfers out	-	-	(1,503,832)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	-	-	(1,503,832)	1,503,044
Change in fund balances	322,673	3,865	49,957	1,456,737
Fund balances beginning of year	1,654,283	446,377	840,132	8,320,443
Fund balances end of year	\$ 1,976,956	450,242	890,089	9,777,180

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	864,015	1,053,904	-	-	7,232,844
-	-	-	-	-	352,235
-	-	-	-	-	24,219
1,013	62,776	83,597	-	17,270	4,933,819
-	-	-	-	-	19,475
-	-	-	-	2,257	695,083
-	-	-	2,333	91	143,044
896,729	-	-	-	2,025	1,470,104
897,742	926,791	1,137,501	2,333	21,643	14,870,823
-	-	-	-	1,883	1,862,649
-	-	-	-	-	347,152
-	-	-	-	-	193,262
-	-	-	-	8,885	1,423,697
-	-	-	-	-	3,811,770
-	-	-	-	4,994	432,689
-	-	-	-	-	1,111,525
1,554,615	-	-	-	-	1,647,478
674,611	-	1,886,621	-	-	2,561,232
-	-	-	2,139,679	257	2,930,884
2,229,226	-	1,886,621	2,139,679	16,019	16,322,338
(1,331,484)	926,791	(749,120)	(2,137,346)	5,624	(1,451,515)
-	-	963,092	-	788	2,466,924
-	(963,092)	-	-	-	(2,466,924)
991,806	-	-	-	-	991,806
991,806	(963,092)	963,092	-	788	991,806
(339,678)	(36,301)	213,972	(2,137,346)	6,412	(459,709)
412,707	139,760	146,186	2,712,964	89,457	14,762,309
73,029	103,459	360,158	575,618	95,869	14,302,600

Palo Alto County
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances –
Governmental Funds to the Statement
of Activities

Year ended June 30, 2017

Change in fund balances - Total governmental funds (page 27) \$ (459,709)

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

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

Expenditures for capital assets	\$ 3,334,673	
Capital assets contributed by the Iowa Department of Transportation	1,647,598	
Depreciation/amortization expense	<u>(2,075,787)</u>	2,906,484

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

Property tax	(1,064)	
Other	<u>(433,992)</u>	(435,056)

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

Issued	(991,806)	
Repaid	<u>2,255,828</u>	1,264,022

The current year County share of IPERS contributions is reported as expenditures in the governmental funds, but is reported as deferred outflows of resources in the Statement of Net Position.

330,837

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

Compensated absences	(9,906)	
Other postemployment benefits	16,414	
Pension expense	(325,810)	
Interest on long-term debt	<u>(20,401)</u>	(339,703)

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

(102,081)

Change in net position of governmental activities (page 21)

\$ 3,164,794

See notes to financial statements.

Palo Alto County
Statement of Net Position
Proprietary Fund

June 30, 2017

	<u>Internal Service - Employee Group Health</u>
Current Assets	
Cash and cash equivalents	\$ 21,022
Accounts receivable	6,338
Prepaid insurance	<u>101,301</u>
Total current assets	128,661
Current Liabilities	
Accounts payable	<u>22,277</u>
Net Position	
Unrestricted	<u><u>\$ 106,384</u></u>

See notes to financial statements.

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

Year ended June 30, 2017

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,149,189
Reimbursements from employees and others		<u>84,474</u>
Total operating revenues		1,233,663
Operating expenses:		
Medical claims	\$ 246,840	
Insurance premiums	1,072,034	
Administrative fees	<u>16,870</u>	<u>1,335,744</u>
Operating loss		(102,081)
Net position beginning of year		<u>208,465</u>
Net position end of year		<u>\$ 106,384</u>
See notes to financial statements.		

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2017

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,149,189
Cash received from employees and others	78,136
Cash paid to suppliers for services	<u>(1,340,494)</u>
Net cash used by operating activities	(113,169)
Cash and cash equivalents beginning of year	<u>134,191</u>
Cash and cash equivalents end of year	<u><u>\$ 21,022</u></u>
Reconciliation of operating loss to net cash	
used by operating activities:	
Operating loss	\$ (102,081)
Adjustments to reconcile operating loss to net cash	
used by operating activities:	
Decrease in accounts receivable	(617)
Increase in prepaid insurance	(12,487)
Increase in accounts payable	<u>2,016</u>
Net cash used by operating activities	<u><u>\$ (113,169)</u></u>

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

Assets

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 1,037,322
Other County officials	29,133

Receivables:

Property tax:

Delinquent	13,738
Succeeding year	13,650,000

Accounts	8,885
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Accrued interest	41
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Drainage assessments	11,506
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Special assessments	296,817
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Due from other governments	53,370
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Total assets

15,100,812

Liabilities

Accounts payable	11,955
------------------	--------

Due to other governments	15,052,859
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Trusts payable	24,848
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Compensated absences	11,150
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Total liabilities

15,100,812

Net position

\$ -

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Palo Alto County Assessor's Conference Board, Palo Alto County Emergency Management Commission and Palo Alto County Joint E-911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2015 assessed property valuations; is for the tax accrual period July 1, 2016 through June 30, 2017 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2016.

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

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

Special Assessments Receivable – Special assessments receivable represent the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not more than 15 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Special assessments receivable represent assessments which have been made but have not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2017, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles acquired after July 1, 1980 are reported in the governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense, contributions from the County after the measurement date but before the end of the County's reporting period and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2017. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

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

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

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measureable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected with sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized until the year for which it is levied and unrecognized items not yet credited to pension expense.

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

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

E. Budgets and Budgetary Accounting

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

(2) Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Secondary Roads	General	\$ 2,985
	Special Revenue:	
	Rural Services	1,059
Total		<u>\$ 4,044</u>

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 963,092
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	1,503,044
Closure/Post Closure	Rural Services	788
Total		<u>\$ 2,466,924</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 1,352,259	73,608	-	1,425,867
Intangibles	210,113	-	-	210,113
Construction in progress	1,455,068	3,956,482	4,386,580	1,024,970
Total capital assets not being depreciated/amortized	3,017,440	4,030,090	4,386,580	2,660,950
Capital assets being depreciated/amortized:				
Buildings	1,561,746	468,189	-	2,029,935
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	8,292,348	500,536	46,629	8,746,255
Intangibles	331,255	-	-	331,255
Infrastructure, road network	31,018,871	4,386,580	-	35,405,451
Infrastructure, other	757,351	-	-	757,351
Total capital assets being depreciated/amortized	42,054,970	5,355,305	46,629	47,363,646
Less accumulated depreciation/amortization for:				
Buildings	880,724	47,171	-	927,895
Improvements other than buildings	54,643	3,504	-	58,147
Equipment and vehicles	5,272,419	414,036	30,085	5,656,370
Intangibles	177,875	40,067	-	217,942
Infrastructure, road network	6,823,214	1,531,230	-	8,354,444
Infrastructure, other	136,081	39,779	-	175,860
Total accumulated depreciation/amortization	13,344,956	2,075,787	30,085	15,390,658
Total capital assets being depreciated/amortized, net	28,710,014	3,279,518	16,544	31,972,988
Governmental activities capital assets, net	\$ 31,727,454	7,309,608	4,403,124	34,633,938

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 30,159
County environment and education	83,811
Roads and transportation	1,892,058
Governmental services to residents	4,640
Administration	65,119
Total depreciation/amortization expense - governmental activities	<u>\$ 2,075,787</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2017 is as follows:

Fund	Description	Amount
General	Services	\$ 17,180
Special Revenue:		
Rural Services	Services	24,627
Secondary Roads	Services	2,411
Sheriff Reserve	Services	85
		<u>27,123</u>
Total for governmental funds		<u>\$ 44,303</u>
Agency:		
County Offices	Collections	\$ 10,479
Agricultural Extension Education		175,818
County Assessor		461,848
Schools		8,277,553
Community Colleges		708,967
Corporations		2,749,688
Townships		154,633
City Special Assessments		298,442
Auto License and Use Tax		251,821
All other		<u>1,963,610</u>
Total for agency funds		<u>\$ 15,052,859</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net Pension Liability	Net OPEB Liability	Total
Balance beginning of year	\$ 14,775,000	3,412,981	254,040	2,216,966	604,544	21,263,531
Increases	-	991,806	251,842	555,342	36,827	1,835,817
Decreases	1,670,000	585,828	241,936	-	53,241	2,551,005
Balance end of year	<u>\$ 13,105,000</u>	<u>3,818,959</u>	<u>263,946</u>	<u>2,772,308</u>	<u>588,130</u>	<u>20,548,343</u>
Due within one year	<u>\$ 1,690,000</u>	<u>1,204,666</u>	<u>163,465</u>	<u>-</u>	<u>-</u>	<u>3,058,131</u>

General Obligation Bonds

A summary of the County's June 30, 2017 general obligation bond indebtedness is as follows:

Year Ending June 30,	Refunding Series 2012 Issued December 20, 2012			
	Interest Rates	Principal	Interest	Total
2018	0.65%	\$ 825,000	60,238	885,238
2019	0.80	850,000	53,638	903,638
2020	0.95	900,000	45,562	945,562
2021	1.15	950,000	35,212	985,212
2022	1.30	1,025,000	22,862	1,047,862
2023	1.45-1.60	500,000	8,000	508,000
Total		\$ 5,050,000	225,512	5,275,512

Year Ending June 30,	Urban Renewal Series 2013 Issued April 23, 2013			
	Interest Rates	Principal	Interest	Total
2018	0.60%	\$ 625,000	58,750	683,750
2019	0.75	625,000	54,063	679,063
2020	1.00	625,000	47,812	672,812
2021	1.10	625,000	40,938	665,938
2022	1.30	625,000	32,812	657,812
2023-2024	1.30-2.00	1,250,000	35,937	1,285,937
Total		\$ 4,375,000	270,312	4,645,312

Year Ending June 30,	General Obligation Urban Renewal Bonds Series 2014 Issued July 9, 2014						
	Interest Rates	Principal	Interest	Total	Principal	Interest	Total
2018	1.50%	\$ 240,000	85,008	325,008	1,690,000	203,996	1,893,996
2019	2.00	230,000	80,208	310,208	1,705,000	187,909	1,892,909
2020	2.00	195,000	75,608	270,608	1,720,000	168,982	1,888,982
2021	2.00	170,000	71,708	241,708	1,745,000	147,858	1,892,858
2022	2.00	120,000	68,563	188,563	1,770,000	124,237	1,894,237
2023-2025	1.85-2.60	2,725,000	139,342	2,864,342	4,475,000	183,279	4,658,279
Total		\$ 3,680,000	520,437	4,200,437	13,105,000	1,016,261	14,121,261

During the year ended June 30, 2008, the County issued \$10,000,000 of general obligation bonds. The proceeds of the bonds were used to construct improvements to County roads in order to assist in economic development, which creates jobs and wealth. On December 20, 2012, the County issued \$6,650,000 of general obligation refunding bonds for a crossover advance refunding of the County's outstanding general obligation bonds, series 2007B, dated December 31, 2007 and the general obligation bonds, series 2008, dated May 1, 2008. The bonds bear interest at 0.55% to 1.60% per annum and mature June 1, 2023.

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

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

Drainage Warrants

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

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

(8) Pension Plan

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

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

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

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

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

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

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

Contributions – 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 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the County contributed 8.93% of covered payroll, for a total rate of 14.88%. The Sheriff, deputies and the County each contributed 9.63% of covered payroll, for a total rate of 19.26%. Protection occupation members contributed 6.56% of covered payroll and the County contributed 9.84% of covered payroll, for a total rate of 16.40%.

The County's contributions to IPERS for the year ended June 30, 2017 were \$330,837.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the County reported a liability of \$2,772,308 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the County's proportion was 0.044052%, which was a decrease of 0.000822% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the County recognized pension expense of \$325,810. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,041	52,736
Changes of assumptions	39,776	10,159
Net difference between projected and actual earnings on IPERS' investments	483,035	-
Changes in proportion and differences between County contributions and the County's proportionate share of contributions	12,230	112,487
County contributions subsequent to the measurement date	330,837	-
Total	<u>\$ 888,919</u>	<u>175,382</u>

\$330,837 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Amount
2018	\$ 24,178
2019	24,178
2020	225,159
2021	119,151
2022	(9,966)
Total	<u>\$ 382,700</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
County's proportionate share of the net pension liability:	\$ 4,813,007	2,772,308	1,051,414

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

Payables to IPERS – All legally required County contributions and legally required employee contributions which had been withheld from employee wages were remitted by the County to IPERS by June 30, 2017.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 82 active and 6 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2017, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 107,142
Interest on net OPEB obligation	15,114
Adjustment to annual required contribution	<u>(85,429)</u>
Annual OPEB cost	36,827
Contributions made	<u>53,241</u>
Decrease in net OPEB obligation	(16,414)
Net OPEB obligation beginning of year	<u>604,544</u>
Net OPEB obligation end of year	<u>\$ 588,130</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2017.

For the year ended June 30, 2017, the County contributed \$53,241 to the plan.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 56,027	11.3%	\$ 618,478
2016	37,202	137.5	604,544
2017	36,827	144.6	588,130

Funded Status and Funding Progress – As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2016 through June 30, 2017, the actuarial accrued liability was \$588,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$588,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,418,000 and the ratio of the UAAL to covered payroll was 17.2%. As of June 30, 2017, there were no trust fund assets.

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

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2015 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the County's funding policy. The projected annual and ultimate medical trend rate is 6%.

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

Projected claim costs of the medical plan are \$1,351 per month for retirees less than age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group over 30 years.

(10) Risk Management

The County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 753 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 and 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 County's property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The County's contributions to the Pool for the year ended June 30, 2017 were \$145,995.

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 County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the County'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.

The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2017, no liability has been recorded in the County's financial statements. As of June 30, 2017, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

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

(11) Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial self-funding of the County's health insurance benefit plan. The plan is funded by County contributions and is administered by Eagle Ridge. Employees may choose from three options and depending on the option selected the County self-funds up to \$5,000 per individual or \$10,000 per family, with employees contributing the first \$750/\$1000/\$2500 and \$1,500/\$2,000/\$5,000, respectively depending on the plan selected. Claims in excess of the deductible are insured through the purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures by the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark, Blue Cross and Blue Shield from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2017 was \$1,149,189.

Amounts payable from the Employee Group Health Fund at June 30, 2017 total \$22,277, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$106,384 at June 30, 2017 and is reported as a designation of the Internal Service, Employee Group Health Fund net position. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 20,261
Incurred claims (including claims incurred but not reported at June 30, 2017)	246,840
Payment on claims during the fiscal year	<u>(244,824)</u>
Unpaid claims end of year	<u>\$ 22,277</u>

(12) Transfer Station Closure Care

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

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

The total closure care costs for the County as of June 30, 2017 have been estimated at \$7,788. A balance of \$7,788 has been deposited in the Special Revenue, Closure/Postclosure Fund. The balance is restricted and the estimated closure care costs are fully funded at June 30, 2017.

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

Northwest Iowa Care Connections Region, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective April 25, 2015, includes the following member counties: Clay County, Dickinson County, Lyon County, O'Brien County, Osceola County and Palo Alto County. The financial activity of Palo Alto County's Special Revenue, Mental Health Fund is included in the Northwest Iowa Care Connections Region for the year ended June 30, 2017, as follows:

Revenues:		
Property and other county tax		\$ 182,602
Intergovernmental:		
State tax credits	\$ 14,516	
Other	9	14,525
Total revenues		<u>197,127</u>
Expenditures:		
General administration:		
Distribution to regional fiscal agent		<u>193,262</u>
Excess of revenues over expenditures		3,865
Fund balance beginning of year		<u>446,377</u>
Fund balance end of year		<u>\$ 450,242</u>

(14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the County's other postemployment benefits.

Required Supplementary Information

Palo Alto County

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

Required Supplementary Information

Year ended June 30, 2017

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 7,565,879	-	7,565,879
Interest and penalty on property tax	24,210	-	24,210
Intergovernmental	4,820,547	1,013	4,819,534
Licenses and permits	24,195	-	24,195
Charges for service	670,178	-	670,178
Use of money and property	83,083	-	83,083
Miscellaneous	1,517,750	896,729	621,021
Total receipts	14,705,842	897,742	13,808,100
Disbursements:			
Public safety and legal services	1,861,713	-	1,861,713
Physical health and social services	345,723	-	345,723
Mental health	203,562	-	203,562
County environment and education	1,413,081	-	1,413,081
Roads and transportation	3,540,705	-	3,540,705
Governmental services to residents	434,222	-	434,222
Administration	1,211,173	-	1,211,173
Non-program	1,342,452	1,342,452	-
Debt service	2,561,229	674,608	1,886,621
Capital projects	2,918,931	-	2,918,931
Total disbursements	15,832,791	2,017,060	13,815,731
Deficiency of receipts under disbursements	(1,126,949)	(1,119,318)	(7,631)
Other financing sources, net	991,806	991,806	-
Deficiency of receipts and other financing sources under disbursements and other financing uses	(135,143)	(127,512)	(7,631)
Balance beginning of year	13,733,394	470,147	13,263,247
Balance end of year	\$ 13,598,251	342,635	13,255,616

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
7,676,995	7,676,995	(111,116)
15,600	15,600	8,610
4,021,211	4,128,626	690,908
9,350	9,350	14,845
645,831	645,831	24,347
60,473	60,473	22,610
107,650	579,697	41,324
12,537,110	13,116,572	691,528
1,958,224	1,982,416	120,703
443,075	453,075	107,352
466,104	466,104	262,542
1,370,587	1,473,823	60,742
5,001,674	5,001,674	1,460,969
460,821	460,821	26,599
1,255,069	1,284,069	72,896
-	-	-
1,886,621	1,886,621	-
3,025,290	3,551,407	632,476
15,867,465	16,560,010	2,744,279
(3,330,355)	(3,443,438)	3,435,807
-	-	-
(3,330,355)	(3,443,438)	3,435,807
9,426,973	9,426,973	3,836,274
6,096,618	5,983,535	7,272,081

Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2017

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 14,705,842	164,981	14,870,823
Expenditures	15,832,791	489,547	16,322,338
Net	(1,126,949)	(324,566)	(1,451,515)
Other financing sources, net	991,806	-	991,806
Beginning fund balances	13,733,394	1,028,915	14,762,309
Ending fund balances	<u>\$ 13,598,251</u>	<u>704,349</u>	<u>14,302,600</u>

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2017

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$692,545. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E-911 System by the Joint E-911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.

Palo Alto County

Palo Alto County

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

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

Required Supplementary Information

	2017	2016	2015
County's proportion of the net pension liability	0.044052%	0.044874%	0.042869%
County's proportionate share of the net pension liability	\$ 2,772	2,217	1,700
County's covered-employee payroll	\$ 3,598	3,615	3,558
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	77.04%	61.30%	47.78%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* 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.

Palo Alto County

Schedule of County Contributions

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

Required Supplementary Information

	2017	2016	2015	2014
Statutorily required contribution	\$ 331	327	329	324
Contributions in relation to the statutorily required contribution	(331)	(327)	(329)	(324)
Contribution deficiency (excess)	\$ -	-	-	-
County's covered-employee payroll	\$ 3,652	3,598	3,615	3,558
Contributions as a percentage of covered-employee payroll	9.06%	9.09%	9.10%	9.12%

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2017

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.

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

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (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.

Palo Alto County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	-	\$ 1,340	1,340	0.0%	\$ 3,088	43.4%
2011	Jul 1, 2009	-	1,315	1,315	0.0%	2,988	44.0
2012	Jul 1, 2009	-	1,241	1,241	0.0%	2,936	42.3
2013	Jul 1, 2012	-	495	495	0.0%	2,719	18.2
2014	Jul 1, 2012	-	452	452	0.0%	3,048	14.8
2015	Jul 1, 2012	-	390	390	0.0%	3,263	12.0
2016	Jul 1, 2015	-	527	527	0.0%	3,276	16.1
2017	Jul 1, 2015	-	588	588	0.0%	3,418	17.2

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

See accompanying independent auditor's report.

Palo Alto County

Supplementary Information

Palo Alto County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

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	<hr/>		
	Sheriff	Resource	County
	Investigation	Enhancement	Recorder's
		and Protection	Records
			Management
	<hr/>		
Assets			
Cash, cash equivalents and pooled investments	\$ 1,149	49,963	9,563
Due from other governments	-	-	-
	<hr/>		
Total assets	\$ 1,149	49,963	9,563
	<hr/>		
Liabilities and Fund Balances			
Liabilities:			
Due to other governments	\$ -	-	-
Fund balances:			
Restricted for other purposes	1,149	49,963	9,563
	<hr/>		
Total liabilities and fund balances	\$ 1,149	49,963	9,563
	<hr/>		

See accompanying independent auditor's report.

Special Revenue			
Sheriff Reserve	Closure/ Postclosure	County Attorney Collections	Total
4,769	7,788	22,336	95,568
-	-	386	386
4,769	7,788	22,722	95,954
85	-	-	85
4,684	7,788	22,722	95,869
4,769	7,788	22,722	95,954

Palo Alto County

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

Year ended June 30, 2017

	Special		
	Sheriff Investigation	Resource Enhancement and Protection	County Recorder's Records Management
Revenues:			
Intergovernmental	\$ -	12,742	-
Charges for service	-	-	2,257
Use of money and property	-	71	20
Miscellaneous	-	-	-
Total revenues	-	12,813	2,277
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	8,885	-
Government services to residents	-	-	4,994
Capital Projects	-	-	-
Total expenditures	-	8,885	4,994
Excess (deficiency) of revenues over (under) expenditures	-	3,928	(2,717)
Other financing sources:			
Transfers in	-	-	-
Change in fund balances	-	3,928	(2,717)
Fund balances beginning of year	1,149	46,035	12,280
Fund balances end of year	\$ 1,149	49,963	9,563

See accompanying independent auditor's report.

Revenue

Sheriff Reserve	Five Island Trails	Closure/ Postclosure	County Attorney Collections	Total
650	-	-	3,878	17,270
-	-	-	-	2,257
-	-	-	-	91
2,025	-	-	-	2,025
2,675	-	-	3,878	21,643
1,207	-	-	676	1,883
-	-	-	-	8,885
-	-	-	-	4,994
-	257	-	-	257
1,207	257	-	676	16,019
1,468	(257)	-	3,202	5,624
-	-	788	-	788
1,468	(257)	788	3,202	6,412
3,216	257	7,000	19,520	89,457
4,684	-	7,788	22,722	95,869

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

June 30, 2017

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	1,675	215,162	77,919
Other County officials	29,133	-	-	-
Receivables:				
Property tax:				
Delinquent	-	143	217	6,634
Succeeding year	-	174,000	263,000	8,193,000
Accounts	1,225	-	-	-
Accrued interest	-	-	-	-
Drainage assessments	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 30,358	175,818	478,379	8,277,553
Liabilities				
Liabilities:				
Accounts payable	\$ 690	-	7,895	-
Due to other governments	10,479	175,818	461,848	8,277,553
Trusts payable	19,189	-	-	-
Compensated absences	-	-	8,636	-
Total liabilities	\$ 30,358	175,818	478,379	8,277,553

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
6,397	23,806	1,604	1,625	251,821	457,313	1,037,322
-	-	-	-	-	-	29,133
570	4,882	29	-	-	1,263	13,738
702,000	2,721,000	153,000	-	-	1,444,000	13,650,000
-	-	-	-	-	7,660	8,885
-	-	-	-	-	41	41
-	-	-	-	-	11,506	11,506
-	-	-	296,817	-	-	296,817
-	-	-	-	-	53,370	53,370
708,967	2,749,688	154,633	298,442	251,821	1,975,153	15,100,812
-	-	-	-	-	3,370	11,955
708,967	2,749,688	154,633	298,442	251,821	1,963,610	15,052,859
-	-	-	-	-	5,659	24,848
-	-	-	-	-	2,514	11,150
708,967	2,749,688	154,633	298,442	251,821	1,975,153	15,100,812

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2017

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 23,075	165,549	454,918	7,798,010
Additions:				
Property and other county tax	-	175,586	265,248	8,256,035
E911 surcharge	-	-	-	-
State tax credits	-	13,164	19,897	621,513
Drivers license fees	-	-	-	-
Office fees and collections	321,839	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	108,956	-	-	-
Miscellaneous	-	-	1,636	-
Total additions	430,795	188,750	286,781	8,877,548
Deductions:				
Agency remittances:				
To other funds	165,722	-	-	-
To other governments	152,865	178,481	263,320	8,398,005
Trusts paid out	104,925	-	-	-
Total deductions	423,512	178,481	263,320	8,398,005
Balances end of year	\$ 30,358	175,818	478,379	8,277,553

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
637,954	2,516,435	151,778	358,451	245,842	1,843,491	14,195,503
707,511	2,629,185	155,931	-	-	1,456,518	13,646,014
-	-	-	-	-	50,672	50,672
50,510	360,253	8,089	-	-	106,665	1,180,091
-	-	-	-	28,175	-	28,175
-	-	-	-	-	-	321,839
-	-	-	-	3,416,787	-	3,416,787
-	-	-	1,819	-	11,260	13,079
-	-	-	-	-	-	108,956
-	-	-	-	-	282,469	284,105
758,021	2,989,438	164,020	1,819	3,444,962	1,907,584	19,049,718
-	-	-	-	129,312	-	295,034
687,008	2,756,185	161,165	61,828	3,309,671	1,775,922	17,744,450
-	-	-	-	-	-	104,925
687,008	2,756,185	161,165	61,828	3,438,983	1,775,922	18,144,409
708,967	2,749,688	154,633	298,442	251,821	1,975,153	15,100,812

Palo Alto County

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

For the Last Ten Years

				Modified
	2017	2016	2015	2014
Revenues:				
Property and other county tax	\$ 7,232,844	7,209,829	6,434,592	6,455,692
Local option sales tax	352,235	432,521	465,145	433,932
Interest and penalty on property tax	24,219	27,218	26,172	25,497
Intergovernmental	4,933,819	4,816,292	4,466,781	3,912,315
Licenses and permits	19,475	22,379	15,448	14,701
Charges for service	695,083	655,020	613,017	675,118
Use of money and property	143,044	110,037	109,598	105,959
Miscellaneous	1,470,104	1,670,155	2,508,166	1,198,791
Total	<u>\$ 14,870,823</u>	<u>14,943,451</u>	<u>14,638,919</u>	<u>12,822,005</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,862,649	1,765,900	1,758,102	1,715,696
Physical health and social services	347,152	333,962	315,938	345,250
Mental health	193,262	442,343	518,741	441,820
County environment and education	1,423,697	1,493,651	1,280,216	1,340,012
Roads and transportation	3,811,770	3,593,743	4,076,273	4,351,228
Governmental services to residents	432,689	431,905	402,691	424,021
Administration	1,111,525	1,170,815	1,179,145	1,127,496
Non-program	1,647,478	623,771	1,796,929	924,130
Debt service	2,561,232	3,274,586	10,040,124	2,768,798
Capital projects	2,930,884	1,861,379	5,260,226	1,751,867
Total	<u>\$ 16,322,338</u>	<u>14,992,055</u>	<u>26,628,385</u>	<u>15,190,318</u>

See accompanying independent auditor's report.

Accrual Basis					
2013	2012	2011	2010	2009	2008
6,467,510	6,479,439	6,036,591	5,603,209	5,324,307	4,895,452
361,974	363,359	328,462	333,579	333,000	293,697
23,143	32,834	30,237	23,945	21,939	24,668
5,753,093	4,236,506	4,151,228	4,254,845	4,114,678	3,801,314
14,578	11,544	7,411	10,067	9,013	23,505
747,829	649,422	616,306	554,575	545,346	487,402
76,332	132,469	202,748	294,229	466,243	485,647
746,189	1,285,823	761,672	406,075	246,814	472,628
14,190,648	13,191,396	12,134,655	11,480,524	11,061,340	10,484,313
1,677,580	1,615,221	1,582,458	1,611,100	1,514,188	1,440,928
325,218	330,422	298,385	308,296	303,222	305,488
498,060	1,287,366	1,187,643	1,130,674	1,349,910	1,470,535
1,367,347	1,441,657	1,531,174	1,331,955	1,183,855	1,173,111
3,923,103	3,759,031	3,834,536	4,008,318	3,295,372	3,072,587
404,747	388,793	362,160	363,348	354,520	465,185
1,156,543	1,139,244	1,102,432	1,171,615	1,059,081	951,245
5,730,306	1,132,729	1,004,990	740,436	338,381	379,250
1,824,566	2,213,254	1,676,728	1,543,430	1,171,045	425,316
2,608,192	3,588,863	3,710,629	1,574,053	447,110	272,549
19,515,662	16,896,580	16,291,135	13,783,225	11,016,684	9,956,194

Palo Alto County



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

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Mary Mosiman, CPA
Auditor of State

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

To the Officials of Palo Alto County:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Palo Alto County, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 7, 2018.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


Palo Alto County's Responses to the Findings

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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State

March 7, 2018

Palo Alto County
Schedule of Findings
Year ended June 30, 2017

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 County'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:

	Applicable Offices
(1) Receipts – opening and listing mail receipts, collecting, depositing, posting and daily reconciling.	County Sheriff and County Recorder
(2) Bank reconciliations are not prepared by someone who doesn't sign checks, handle or record cash.	County Recorder
(3) The person who signs checks is not independent of the individual who records cash receipts and prepares checks.	County Sheriff and County Recorder
(4) All incoming mail is not opened by an employee who is not authorized to make entries to the accounting records and the mail opener does not prepare a listing of cash and checks received.	County Sheriff and County Recorder
(5) Voided receipts are not reviewed by an independent person.	County Recorder

Cause – The County offices noted above have a limited number of employees and procedures have not been designed to adequately segregate duties to provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the County'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.

Palo Alto County

Schedule of Findings

Year ended June 30, 2017

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

Responses –

County Recorder – Due to the number of staff in our office it is difficult to segregate duties. We do have the Auditor's office review our cash mailing list against the daily deposit record on a monthly basis. The bank reconciliations are usually prepared by our clerk, who cannot sign checks or someone from another office. Our voided receipts (usually have none) will be reviewed by another office.

County Sheriff –

1. Periodically receipts are logged from incoming mail and later tracked for proper recording on the accounting system by the Sheriff. The collecting, posting, depositing and daily reconciling is performed by the office manager. We will continue to work to segregate duties the best we can.
2. Check signing duties by the office manager have been reduced and the Sheriff signs all monthly disbursements.
3. The Sheriff periodically opens mail and records cash and checks and tracks them through to the accounting system. We will continue to work at doing this on a more regular basis and maintain evidence of the review.

Conclusions – Responses acknowledged. The County Recorder and County Sheriff should continue to review control procedures of their office to obtain the maximum internal control possible.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design of 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the County's financial statements.

Condition – Material amounts of receivables and capital assets were not properly recorded in the County's financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Palo Alto County

Schedule of Findings

Year ended June 30, 2017

Cause – County policies do not require and procedures have not been established to require independent review of year-end cut-off transactions to ensure the County's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in County employees not detecting the errors in the normal course of performing their assigned functions. As a result, materials adjustments to the County's financial statements were necessary.

Recommendation – The County should implement procedures to ensure all receivables and capital assets are properly recorded and included in the County's financial statements.

Response – Policies and procedures will be put into place to verify all receivables and capital assets are properly recorded in the County's financial statements. The Secondary Roads department will keep a worksheet with active and completed projects. The worksheet will record all progress payments and the date of payment as well as whether the project is active, closed or placed into service. This will resolve end of fiscal year issues with active projects and the GASB 34 infrastructure report.

Conclusion – Response accepted.

(C) County Sheriff – Bank to Book Variance

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.

Condition – The June 30, 2017 book balance did not reconcile to the June 30, 2017 bank balance. In addition, bank reconciliations are not always prepared on a timely basis. Also, fee receipts are not always deposited timely.

Cause – Procedures have not been designed and implemented to ensure all accounts are reconciled and the amounts recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds and receipts are deposited timely.

Effect – A lack of bank to book reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – The Sheriff's Office book balance should be reconciled to the bank balance at the end of each month and variances should be investigated and resolved in a timely manner. Also, all collections should be deposited timely.

Response – We have had our software company design a new report that includes the bank to book reconciliation items the auditors recommended. We have been unable, for a few years now, to reconcile our books to have a zero variance. We have discussed the situation with the auditors every year during the annual audit and it has not been determined why the variance exists. We have now discussed the issue with our software company and are implementing a new way of tracking our commissary accounts within our software program. We anticipate this will solve the variance issue.

Palo Alto County

Schedule of Findings

Year ended June 30, 2017

We make every attempt to make a weekly deposit. However, due to the lack of extra office personnel and multiple duties that the office manager handles it is not always possible to do so. All funds are kept in a locked drawer that is not accessible by anyone other than the sheriff and the office manager.

Conclusion – Response acknowledged. All collections should be deposited timely to minimize the opportunity for misappropriation.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
Schedule of Findings
Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Terry Neary, spouse of Zoning and Sanitation employee, self-employed	Bookkeeping	\$1,086
Rouse Tire & Repair, owner is spouse of County Employee	Repairs	765
Nick Jackson, son of Deputy Sheriff	Lawn services	428
Becky Jamison, mother-in-law of County Treasurer	Primary Elections Worker	144
Terry Chamberlain, spouse of Sheriff's dispatcher	Cleaning services	75

In accordance with Chapter 331.342 of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since the total transactions with each individual were less than \$1,500 during the fiscal year.

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

Palo Alto County

Schedule of Findings

Year ended June 30, 2017

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

Disbursements during the year ended June 30, 2017 for the County Extension Office did not exceed the amount budgeted.

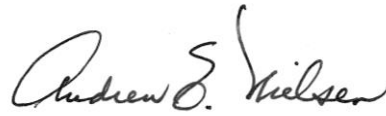
- (10) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

Palo Alto County

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager
Janet K. Mortvedt, CPA, Senior Auditor II
Zachery J. Koziolk, Staff Auditor
Anthony J.T, Mallie, Assistant Auditor
Mitchell W. Shipman, Assistant Auditor
Erin M. Wittrock, Assistant Auditor
Terry Erhlbacher, Auditor Intern

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State