



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

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

April 1, 2019

Contact: Marlys Gaston
515/281-5834

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

The County had local tax revenue of \$22,588,362 for the year ended June 30, 2018, which included \$1,708,660 in tax credits from the state. The County forwarded \$15,184,394 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$7,403,968 of the local tax revenue to finance County operations, a 10% increase over the prior year. Other revenues included charges for service of \$3,249,626, operating grants, contributions and restricted interest of \$3,637,292, capital grants, contributions and restricted interest of \$3,938,611, local option sales tax of \$363,448, tax increment financing of \$861,311, gaming tax of \$142,784, unrestricted investment earnings of \$161,484 and other general revenues of \$206,492.

Expenses for County operations for the year ended June 30, 2018 totaled \$14,150,935, a 7.5% increase over the prior year. Expenses included \$6,027,765 for roads and transportation, \$2,061,367 for public safety and legal services and \$1,796,467 for non-program.

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

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PALO ALTO COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2018

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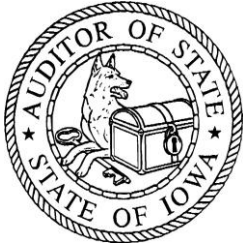
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Palo Alto County

Officials

<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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Rob Sand
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, 2018, 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, 2018, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 16 to the financial statements, Palo Alto County adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of County Contributions and the Schedule of Changes in the County's Total OPEB Liability, Related Ratios and Notes on pages 9 through 16 and 54 through 63 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, 2017 (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 18, 2019 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.

A handwritten signature in black ink, appearing to read "Rob Sand", is positioned above the printed name and title.

ROB SAND
Auditor of State

March 18, 2019

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, 2018. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- The County implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, during fiscal year 2018. The beginning net position for governmental activities was restated by \$353,496 to retroactively report the increase in the OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.
- Revenues of the County's governmental activities increased 22.3%, or approximately \$3,635,000, from fiscal year 2017 to fiscal year 2018. Property tax increased approximately \$660,000 and capital grants, contributions and restricted interest increased approximately \$2,276,000.
- Palo Alto County's governmental activities expenses increased approximately \$987,000 over fiscal year 2017.
- The County's net position at June 30, 2018 increased 17.2%, or approximately \$5,814,000 over the restated June 30, 2017 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 Changes in the County's Total OPEB Liability, Related Ratios and Notes.

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

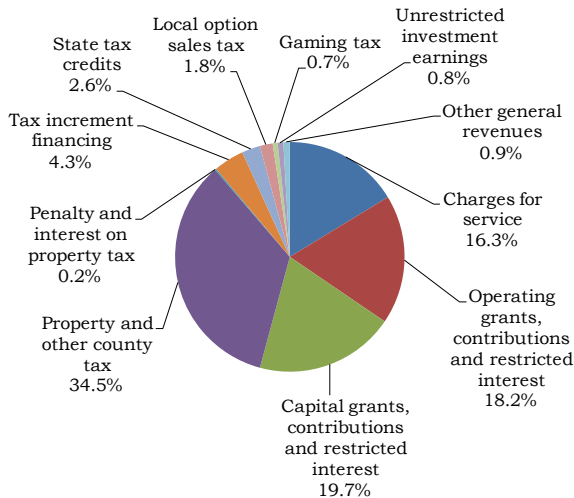
As noted earlier, net position may serve over time as a useful indicator of financial position. Palo Alto County's combined net position increased from approximately \$33,415,000 to approximately \$39,582,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities, before restatement.

Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2018	2017 (Not Restated)
Current and other assets	\$ 29,149	27,048
Capital assets	37,179	34,634
Total assets	66,328	61,682
Deferred outflows of resources	977	889
Long-term liabilities	18,821	20,548
Other liabilities	862	766
Total liabilities	19,683	21,314
Deferred inflows of resources	8,040	7,842
Net position:		
Net investment in capital assets	25,764	21,529
Restricted	13,904	13,005
Unrestricted	(86)	(1,119)
Total net position	\$ 39,582	33,415

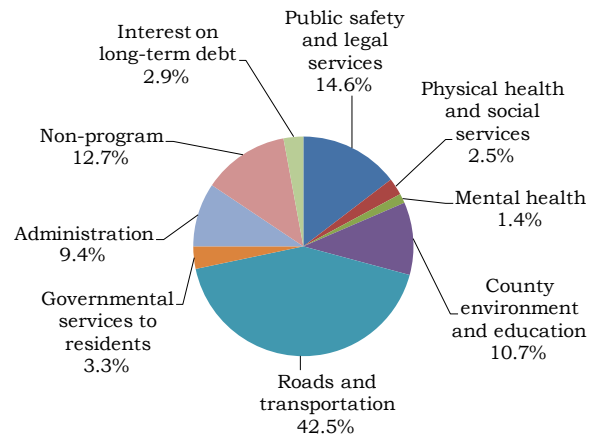
Prior to restatement, net position of Palo Alto County's governmental activities increased 18.5% (approximately \$39.6 million compared to approximately \$33.4 million). The largest portion of the County's net position is net investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. This net position increased approximately \$4,235,000 or 19.7%, primarily due to increases in road infrastructure. 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 \$1,119,000 at June 30, 2017 to a deficit of approximately \$86,000 at June 30, 2018, an increase in unrestricted net position of 92.3%. The change in the unrestricted net position deficit is due in part to restating of the OPEB liability and an increase in the General Fund and the Internal Service Fund balances at year end.

Changes in Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2018	2017 (Not Restated)
Revenues:		
Program revenues:		
Charges for service	\$ 3,250	1,689
Operating grants, contributions and restricted interest	3,637	4,204
Capital grants, contributions and restricted interest	3,939	1,663
General revenues:		
Property and other county tax	6,887	6,227
Tax increment financing	861	864
Penalty and interest on property tax	30	14
State tax credits	517	507
Local option sales tax	363	352
Gaming tax	143	141
Unrestricted investment earnings	162	106
Other general revenues	176	563
Total revenues	19,965	16,330
Program expenses:		
Public safety and legal services	2,061	1,952
Physical health and social services	348	355
Mental health	193	186
County environment and education	1,510	1,299
Roads and transportation	6,028	5,412
Governmental services to residents	473	451
Administration	1,331	1,371
Non-program	1,797	1,812
Interest on long-term debt	410	326
Total expenses	14,151	13,164
Change in net position	5,814	3,166
Net position beginning of year, as restated	33,768	30,249
Net position end of year	\$ 39,582	33,415

Revenues by Source



Expenses by Program



Palo Alto County's governmental activities net position increased approximately \$5,814,000 during the year. Revenues for governmental activities increased approximately \$3,635,000 over the prior year, with property tax revenue up over the prior year approximately \$660,000, or 10.6%

The County increased overall property tax rates for fiscal year 2018 by 1.65%. However, based on increases in total assessed valuation, property tax revenue was budgeted to increase approximately \$663,000 this year.

The cost of all governmental activities this year was approximately \$14.1 million compared to approximately \$13.2 million last year. However, as shown in the Statement of Activities on page 19, the amount taxpayers ultimately financed for these activities was approximately \$3.3 million because some of the cost was paid by those directly benefiting from the programs (approximately \$3,250,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$7,576,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased approximately \$3,270,000 in fiscal year 2018 from approximately \$7,556,000 to approximately \$10,826,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$15.4 million, an increase of approximately \$1.1 million over last year's total of approximately \$14.3 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 \$552,000 over the prior year to approximately \$2,529,000. General Fund revenues decreased approximately \$69,000 and expenditures decreased approximately \$299,000. The decrease in revenues was primarily due to a decrease in conservation grant revenue from the State and insurance reimbursements for the Brinks building. The decrease in expenditures was primarily due to lower capital projects for repairs to the Brinks building that occurred in the prior year.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$193,000, a decrease of less than 1% from the prior year, and revenues decreased approximately \$103,000. The Special Revenue, Mental Health Fund balance decreased approximately \$99,000 to approximately \$351,000 at year end.
- Special Revenue, Rural Services Fund expenditures increased approximately \$178,000 over the prior year, primarily for increased salary costs and the purchase of a vehicle. Revenues increased approximately \$193,000, primarily due to higher property and other county taxes. The Rural Services Fund balance decreased approximately \$74,000 to approximately \$816,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$140,000.
- Special Revenue, Secondary Roads Fund expenditures increased approximately \$647,000 over the prior year, primarily for additional road maintenance and snow and ice control costs, approximately \$193,000 more spent on capital projects and approximately \$88,000 in additional equipment purchase costs. Revenues decreased approximately \$117,000 primarily due to lower road use tax receipts. Transfers from the Special Revenue, Rural Services Fund increased approximately \$140,000. The Secondary Roads Fund ending fund balance increased approximately \$833,000, or 8.5%, during the year.

- Special Revenue, Drainage Districts Fund revenues increased approximately \$432,000 over the prior year due to increased drainage assessments. Expenditures increased approximately \$753,000, due primarily to increased drainage projects in the current year compared to fiscal year 2017. Drainage warrants issued increased approximately \$435,000 and drainage warrants paid increased approximately \$577,000. The Drainage Districts Fund end of year fund balance decreased approximately \$225,000 from the prior year.
- The Special Revenue, Tax Increment Financing Fund balance decreased approximately \$11,000 to approximately \$92,000 at June 30, 2018. The balance will be used to pay the principal and interest on general obligation urban renewal bonds issued in April 2013 and July 2014.
- Debt Service Fund revenues decreased approximately \$1,000 from the prior year. The balance in the fund at June 30, 2018 was approximately \$536,000 or an increase of approximately \$176,000 over the prior year ending fund balance. The current year debt service payments for various general obligation bonds and refunding bonds was approximately \$1.9 million.
- Capital Projects Fund revenues decreased approximately \$280. Expenditures decreased approximately \$2,137,000 due to significant road projects completed in the prior year. The end of the year fund balance decreased approximately \$450 during the current year to approximately \$575,000

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget three times. The amendments were made on September 5, 2017, November 21, 2017, and May 1, 2018 and resulted in an increase in budgeted receipts of \$300,729 and an increase in budgeted disbursements of \$4,608,379. The increase in budgeted receipts was to receive additional insurance proceeds for the conservation's nature center, and grant funds for the Zoning & Sanitation Departments. The majority of the increase in disbursements was due to capital projects for the Engineer's Office.

The County's receipts were \$312,169 more than budgeted, a variance of 2.3%. The most significant variance resulted from the County receiving more miscellaneous and intergovernmental receipts than anticipated.

Total disbursements were \$6,825,455 less than the amended budget. Actual disbursements for the capital projects and roads and transportation functions were \$4,888,706 and \$1,202,702, 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, 2018.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, Palo Alto County had approximately \$37.2 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 \$2.6 million, or 7.4%, over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2018	2017
Land	\$ 1,426	1,426
Buildings and improvements	1,185	1,137
Equipment and vehicles	3,127	3,090
Intangibles	297	323
Infrastructure	31,144	28,658
Total	<u>\$ 37,179</u>	<u>34,634</u>
This year's major additions included (in thousands):		
Infrastructure, including road network	\$	4,168
Buildings		101
Vehicles and other equipment		452
Total	<u>\$</u>	<u>4,721</u>

The County had depreciation/amortization expense of approximately \$2.1 million in fiscal year 2018 and total accumulated depreciation/amortization of approximately \$17.2 million at June 30, 2018. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2018, Palo Alto County had approximately \$15.5 million of outstanding long-term debt, which included \$11,415,000 of general obligation bonds and approximately \$4,084,000 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2018	2017
General obligation bonds	\$ 11,415	13,105
Drainage warrants	4,084	3,819
Total	<u>\$ 15,499</u>	<u>16,924</u>

Debt decreased as a result of making scheduled principal payments of \$1,690,000 on general obligation Series 2012, Series 2013 and Series 2014 bonds. In addition, drainage warrants increased slightly over 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 \$67.5 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Palo Alto County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2019 budget, tax rates and fees for various County activities. One of those factors is the economy. Unemployment in the County now stands at 2.2% versus 2.8% a year ago. This compares with the State's unemployment rate of 2.7% and the national rate of 4.0% during June 2018.

The national Consumer Price Index (CPI) rose 2.9% from June 2017 to June 2018. This increase is greater than the 1.6% increase during fiscal year 2017 reported last year.

The above factors were all part of the considerations for the fiscal year 2019 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2019 Dollars Certified	2018 Dollars Certified	Percentage Change
General Fund	\$ 3,843,846	3,848,547	-0.12%
Mental Health Fund	90,470	91,850	-1.50
Rural Services Fund	2,182,591	2,161,060	1.00
Debt Service Fund	1,219,600	1,115,202	9.36
Total	<u>\$ 7,336,507</u>	<u>7,216,659</u>	<u>1.66</u>

No new services were added to the fiscal year 2019 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2019 are as follows:

	2019	2018	Percentage Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	1.56000	1.66085	-6.07
Mental health levy	0.11909	0.12317	-3.31
Rural services basic levy	3.95000	3.95000	0.00
Debt service levy	1.51000	1.40824	7.23
Total	<u>\$ 10.63909</u>	<u>10.64226</u>	<u>0.03</u>

These factors were taken into account when adopting the budget for fiscal year 2019. Amounts appropriated in the operating budget are \$17,312,924, a decrease of \$2,072,990, or 17.2%, from the final fiscal year 2018 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 2019. The Code of Iowa limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy decreased from \$1.66085 per \$1,000 of taxable valuation in fiscal year 2018 to \$1.56 per \$1,000 of taxable valuation in fiscal year 2019. Palo Alto County decreased the mental health levy from \$.12317 per \$1,000 of taxable valuation to \$.11909 per \$1,000 of taxable valuation. The Debt service levy increased from \$1.40824 per \$1,000 of taxable valuation to \$1.51 per \$1,000 of taxable valuation. Additionally, the rural services basic levy rate for fiscal year 2019 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.

Basic Financial Statements

Palo Alto County
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash, cash equivalents and pooled investments	\$ 15,002,971
Receivables:	
Property tax:	
Delinquent	5,294
Succeeding year	6,873,000
Succeeding year tax increment financing	941,000
Interest and penalty on property tax	18,585
Accounts	60,929
Accrued interest	128,860
Drainage assessments	4,970,686
Due from other governments	294,611
Inventories	696,517
Prepaid insurance	156,932
Capital assets, net of accumulated depreciation/amortization	37,179,462
Total assets	66,328,847
Deferred Outflows of Resources	
Pension related deferred outflows	976,556
Liabilities	
Accounts payable	559,572
Accrued interest payable	219,785
Salaries and benefits payable	45,322
Due to other governments	37,026
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	1,705,000
Drainage warrants	1,273,646
Compensated absences	168,624
Portion due or payable after one year:	
General obligation bonds	9,710,000
Drainage warrants	2,809,934
Compensated absences	96,760
Net pension liability	2,862,277
Net OPEB liability	195,067
Total liabilities	19,683,013
Deferred Inflows of Resources	
Unavailable property tax revenue	6,873,000
Unavailable tax increment financing revenue	941,000
Pension related deferred inflows	215,328
OPEB related deferred inflows	10,831
Total deferred inflows of resources	8,040,159
Net Position	
Net investment in capital assets	25,764,462
Restricted for:	
Supplemental levy purposes	428,991
Mental health purposes	350,975
Rural services purposes	782,216
Secondary roads purposes	10,377,569
Drainage district purposes	530,838
Debt service	613,329
Capital projects	575,168
Other purposes	244,412
Unrestricted	(85,729)
Total net position	\$ 39,582,231

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2018

	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	\$ 2,061,367	336,419	375	-	(1,724,573)
Physical health and social services	348,427	63,421	31,063	-	(253,943)
Mental health	193,000	-	-	-	(193,000)
County environment and education	1,510,166	319,988	98,996	4,920	(1,086,262)
Roads and transportation	6,027,765	76,903	3,506,858	3,933,691	1,489,687
Governmental services to residents	472,587	220,562	-	-	(252,025)
Administration	1,331,177	32,251	-	-	(1,298,926)
Non-program	1,796,467	2,200,082	-	-	403,615
Interest on long-term debt	409,979	-	-	-	(409,979)
Total	<u>\$ 14,150,935</u>	<u>3,249,626</u>	<u>3,637,292</u>	<u>3,938,611</u>	<u>(3,325,406)</u>
General Revenues:					
Property and other county tax levied for:					
General purposes					5,828,773
Debt service					1,058,030
Tax increment financing					861,311
Penalty and interest on property tax					30,149
State tax credits					517,165
Local option sales tax					363,448
Gaming tax					142,784
Unrestricted investment earnings					161,484
Miscellaneous					<u>176,343</u>
Total general revenues					<u>9,139,487</u>
Change in net position					5,814,081
Net position beginning of year, as restated					<u>33,768,150</u>
Net position end of year					<u>\$ 39,582,231</u>
See notes to financial statements.					

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2018

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash, cash equivalents and pooled investments	\$ 2,384,168	350,905	833,534	9,781,223
Receivables:				
Property tax:				
Delinquent	3,214	70	1,049	-
Succeeding year	3,613,000	85,000	2,025,000	-
Succeeding year tax increment financing	-	-	-	-
Interest and penalty on property tax	18,585	-	-	-
Accounts	39,585	-	-	20,751
Accrued interest	128,460	-	-	-
Drainage assessments	-	-	-	-
Due from other funds	-	-	-	4,483
Due from other governments	20,867	-	30,961	242,373
Inventories	-	-	-	696,517
Prepaid insurance	25,605	-	477	21,050
Total assets	\$ 6,233,484	435,975	2,891,021	10,766,397
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	\$ 59,526	-	17,154	88,788
Salaries and benefits payable	-	-	6,221	39,101
Due to other funds	3,275	-	1,208	-
Due to other governments	4,565	-	24,536	7,925
Total liabilities	67,366	-	49,119	135,814
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,613,000	85,000	2,025,000	-
Succeeding year tax increment financing	-	-	-	-
Other	23,743	70	896	20,060
Total deferred inflows of resources	3,636,743	85,070	2,025,896	20,060
Fund balances:				
Nonspendable:				
Inventories	-	-	-	696,517
Prepaid insurance	25,605	-	477	21,050
Restricted for:				
Supplemental levy purposes	440,572	-	-	-
Mental health purposes	-	350,905	-	-
Rural services purposes	-	-	815,529	-
Secondary roads purposes	-	-	-	9,892,956
Conservation land acquisition/capital improvements	151,009	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	5,468	-	-	-
Assigned:				
County buildings repair	200,000	-	-	-
Unassigned	1,706,721	-	-	-
Total fund balances	2,529,375	350,905	816,006	10,610,523
Total liabilities, deferred inflows of resources and fund balances	\$ 6,233,484	435,975	2,891,021	10,766,397

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
229,676	92,068	535,959	574,774	87,322	14,869,629
-	-	961	-	-	5,294
-	-	1,150,000	-	-	6,873,000
-	941,000	-	-	-	941,000
-	-	-	-	-	18,585
-	-	-	-	197	60,533
-	-	-	394	6	128,860
4,970,686	-	-	-	-	4,970,686
-	-	-	-	-	4,483
-	-	-	-	410	294,611
-	-	-	-	-	696,517
-	-	-	-	-	47,132
5,200,362	1,033,068	1,686,920	575,168	87,935	28,910,330
381,821	-	-	-	-	547,289
-	-	-	-	-	45,322
-	-	-	-	-	4,483
-	-	-	-	-	37,026
381,821	-	-	-	-	634,120
-	-	1,150,000	-	-	6,873,000
-	941,000	-	-	-	941,000
4,970,686	-	902	-	-	5,016,357
4,970,686	941,000	1,150,902	-	-	12,830,357
-	-	-	-	-	696,517
-	-	-	-	-	47,132
-	-	-	-	-	440,572
-	-	-	-	-	350,905
-	-	-	-	-	815,529
-	-	-	-	-	9,892,956
-	-	-	-	-	151,009
-	92,068	536,018	-	-	628,086
-	-	-	575,168	-	575,168
-	-	-	-	87,935	93,403
-	-	-	-	-	200,000
(152,145)	-	-	-	-	1,554,576
(152,145)	92,068	536,018	575,168	87,935	15,445,853
5,200,362	1,033,068	1,686,920	575,168	87,935	28,910,330

Palo Alto County

Palo Alto County

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

June 30, 2018

Total governmental fund balances (page 21)	\$ 15,445,853
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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 \$54,361,010 and the accumulated depreciation / amortization is \$17,181,548.	37,179,462
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Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	5,016,357
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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.	231,255
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Pension and OPEB 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	\$ 976,556	
Deferred inflows of resources	<u>(226,159)</u>	750,397

Long-term liabilities, including general obligation bonds payable, drainage warrants payable, compensated absences payable, net pension liability, total OPEB liability and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(19,041,093)</u>
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Net position of governmental activities (page 18)	<u>\$ 39,582,231</u>
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See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2018

				Special
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 3,796,485	87,197	2,087,745	-
Tax increment financing	-	-	-	-
Local option sales tax	-	-	363,448	-
Interest and penalty on property tax	27,092	-	-	-
Intergovernmental	565,551	6,466	161,229	3,525,141
Licenses and permits	4,183	-	-	14,665
Charges for service	383,713	-	272,706	54,928
Use of money and property	164,285	-	-	17,149
Miscellaneous	224,233	-	4,094	27,965
Total revenues	5,165,542	93,663	2,889,222	3,639,848
Expenditures:				
Operating:				
Public safety and legal services	1,790,654	-	274,674	-
Physical health and social services	356,980	-	-	-
Mental health	-	193,000	-	-
County environment and education	779,300	-	723,557	-
Roads and transportation	-	-	243,608	4,034,786
Governmental services to residents	477,593	-	-	-
Administration	1,181,676	-	-	-
Non-program	-	-	77,142	-
Debt service	-	-	-	-
Capital projects	26,920	-	961	415,082
Total expenditures	4,613,123	193,000	1,319,942	4,449,868
Excess (deficiency) of revenues over (under) expenditures	552,419	(99,337)	1,569,280	(810,020)
Other financing sources (uses):				
Transfers in	-	-	-	1,643,363
Transfers out	-	-	(1,643,363)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	-	-	(1,643,363)	1,643,363
Change in fund balances	552,419	(99,337)	(74,083)	833,343
Fund balances beginning of year	1,976,956	450,242	890,089	9,777,180
Fund balances end of year	\$ 2,529,375	350,905	816,006	10,610,523

See notes to financial statements.

Revenue					
Drainage Districts	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	-	1,057,936	-	-	7,029,363
-	861,311	-	-	-	861,311
-	-	-	-	-	363,448
-	-	-	-	-	27,092
-	60,651	78,566	-	14,080	4,411,684
-	-	-	-	-	18,848
-	-	-	-	2,424	713,771
-	-	-	2,050	81	183,565
1,329,561	-	-	-	-	1,585,853
1,329,561	921,962	1,136,502	2,050	16,585	15,194,935
-	-	-	-	2,330	2,067,658
-	-	-	-	-	356,980
-	-	-	-	-	193,000
-	-	-	-	16,779	1,519,636
-	-	-	-	-	4,278,394
-	-	-	-	5,410	483,003
-	-	-	-	-	1,181,676
1,625,942	-	-	-	-	1,703,084
1,356,022	-	1,893,995	-	-	3,250,017
-	-	-	2,500	-	445,463
2,981,964	-	1,893,995	2,500	24,519	15,478,911
(1,652,403)	921,962	(757,493)	(450)	(7,934)	(283,976)
-	-	933,353	-	-	2,576,716
-	(933,353)	-	-	-	(2,576,716)
1,427,229	-	-	-	-	1,427,229
1,427,229	(933,353)	933,353	-	-	1,427,229
(225,174)	(11,391)	175,860	(450)	(7,934)	1,143,253
73,029	103,459	360,158	575,618	95,869	14,302,600
(152,145)	92,068	536,018	575,168	87,935	15,445,853

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, 2018

Change in fund balances - Total governmental funds (page 25) \$ 1,143,253

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	\$ 743,217	
Capital assets contributed by the Iowa Department of Transportation	3,931,638	
Depreciation/amortization expense	<u>(2,129,331)</u>	2,545,524

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	224	
Other	<u>602,384</u>	602,608

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	(1,427,229)	
Repaid	<u>2,852,608</u>	1,425,379

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

348,464

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	(1,438)	
Pension expense	(390,742)	
OPEB expense	28,736	
Interest on long-term debt	<u>(12,574)</u>	(376,018)

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.

124,871

Change in net position of governmental activities (page 19)

\$ 5,814,081

See notes to financial statements.

Palo Alto County
Statement of Net Position
Proprietary Fund
June 30, 2018

	<u>Internal Service - Employee Group Health</u>
Current Assets	
Cash and cash equivalents	\$ 133,342
Accounts receivable	396
Prepaid insurance	<u>109,800</u>
Total current assets	243,538
Current Liabilities	
Accounts payable	<u>12,283</u>
Net Position	
Unrestricted	<u><u>\$ 231,255</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, 2018

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,415,225
Reimbursements from employees and others		<u>80,138</u>
Total operating revenues		1,495,363
Operating expenses:		
Medical claims	\$ 135,899	
Insurance premiums	1,218,048	
Administrative fees	<u>16,545</u>	<u>1,370,492</u>
Operating income		124,871
Net position beginning of year		<u>106,384</u>
Net position end of year		<u>\$ 231,255</u>

See notes to financial statements.

Palo Alto County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2018

	<u>Internal Service - Employee Group Health</u>
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,414,828
Cash received from employees and others	86,477
Cash paid to suppliers for services	<u>(1,388,985)</u>
Net cash provided by operating activities	112,320
Cash and cash equivalents beginning of year	<u>21,022</u>
Cash and cash equivalents end of year	<u><u>\$ 133,342</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 124,871
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	5,942
Increase in prepaid insurance	(8,499)
Decrease in accounts payable	<u>(9,994)</u>
Net cash provided by operating activities	<u><u>\$ 112,320</u></u>

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2018

Assets

Cash, cash equivalents and pooled investments:

County Treasurer \$ 1,195,106

Other County officials 39,854

Receivables:

Property tax:

Delinquent 14,475

Succeeding year 14,048,000

Accounts 10,781

Accrued interest 47

Drainage assessments 234

Special assessments 262,971

Due from other governments 92,822

Total assets 15,664,290**Liabilities**

Accounts payable 17,046

Due to other governments 15,524,316

Trusts payable 110,599

Compensated absences 12,329

Total liabilities 15,664,290**Net position** \$ -

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2018

(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 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, 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 Balance

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 and tax increment financing receivables have been recorded, the related revenue is reported as a deferred inflow of resources in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which they are 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, 2016 assessed property valuations; is for the tax accrual period July 1, 2017 through June 30, 2018 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2017.

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. Drainage assessments receivable represent assessments which are due and payable but have not been collected and 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, 2018, 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 if purchased or constructed. 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.

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

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

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

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position 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 and contributions from the County after the measurement date but before the end of the County's reporting period.

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2018. 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.

Total OPEB Liability – For purposes of measuring the total OPEB liability, deferred inflows of resources related to OPEB and OPEB expense, information has been determined based on Palo Alto County's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB 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 in the fund financial statements consist of property tax receivable and other receivables not collected within sixty days after year end and succeeding year property tax and tax increment financing receivables that will not be recognized until the year for which they are levied.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable and tax increment financing receivable that will not be recognized until the year for which they are levied, unrecognized items not yet charged to pension and OPEB expense and the unamortized portion of the net difference between projected and actual earnings on pension plan assets.

Fund Balance – 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, 2018 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, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Secondary Roads	General	\$ 3,275
	Special Revenue:	
	Rural Services	<u>1,208</u>
Total		<u>\$ 4,483</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, 2018 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 933,353
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	<u>1,643,363</u>
Total		<u>\$ 2,576,716</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, 2018 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 1,425,867	-	-	1,425,867
Intangibles	210,113	-	-	210,113
Construction in progress	1,024,970	4,167,546	1,104,653	4,087,863
Total capital assets not being depreciated/amortized	2,660,950	4,167,546	1,104,653	5,723,843
Capital assets being depreciated/amortized:				
Buildings	2,029,935	100,757	-	2,130,692
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	8,746,255	451,996	349,490	8,848,761
Intangibles	331,255	-	-	331,255
Infrastructure, road network	35,405,451	1,070,258	-	36,475,709
Infrastructure, other	757,351	-	-	757,351
Total capital assets being depreciated/amortized	47,363,646	1,623,011	349,490	48,637,167
Less accumulated depreciation/amortization for:				
Buildings	927,895	49,186	-	977,081
Improvements other than buildings	58,147	3,504	-	61,651
Equipment and vehicles	5,656,370	403,363	338,441	5,721,292
Intangibles	217,942	26,184	-	244,126
Infrastructure, road network	8,354,444	1,614,432	-	9,968,876
Infrastructure, other	175,860	32,662	-	208,522
Total accumulated depreciation/amortization	15,390,658	2,129,331	338,441	17,181,548
Total capital assets being depreciated/amortized, net	31,972,988	(506,320)	11,049	31,455,619
Governmental activities capital assets, net	<u>\$ 34,633,938</u>	<u>3,661,226</u>	<u>1,115,702</u>	<u>37,179,462</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 20,656
County environment and education	77,420
Roads and transportation	1,975,378
Governmental services to residents	4,640
Administration	51,237
Total depreciation/amortization expense - governmental activities	<u>\$ 2,129,331</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, 2018 is as follows:

Fund	Description	Amount
General	Services	\$ 4,565
Special Revenue:		
Rural Services	Services	24,536
Secondary Roads	Services	7,925
		<u>32,461</u>
Total for governmental funds		<u>\$ 37,026</u>
Agency:		
County Offices	Collections	\$ 12,789
Agricultural Extension Education		180,031
County Assessor		470,351
Schools		8,411,108
Community Colleges		814,185
Corporations		2,837,300
Townships		147,530
City Special Assessments		269,261
Auto License and Use Tax		259,360
All other		<u>2,122,401</u>
Total for agency funds		<u>\$ 15,524,316</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	General Obligation Bonds	Drainage Warrants	Compen- sated Absences	Net Pension Liability	Total OPEB Liability	Total
Balance beginning of year, as restated	\$ 13,105,000	3,818,959	263,946	2,772,308	234,634	20,194,847
Increases	-	1,427,229	270,444	89,969	25,240	1,812,882
Decreases	1,690,000	1,162,608	269,006	-	64,807	3,186,421
Balance end of year	<u>\$ 11,415,000</u>	<u>4,083,580</u>	<u>265,384</u>	<u>2,862,277</u>	<u>195,067</u>	<u>18,821,308</u>
Due within one year	\$ 1,705,000	1,273,646	168,624	-	-	3,147,270

General Obligation Bonds

A summary of the County's June 30, 2018 general obligation bond indebtedness is as follows:

Year Ending June 30,	Refunding Series 2012 Issued December 20, 2012			
	Interest Rates	Principal	Interest	Total
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	1.60	500,000	8,000	508,000
Total		\$ 4,225,000	165,274	4,390,274

Year Ending June 30,	Urban Renewal Series 2013 Issued April 23, 2013			
	Interest Rates	Principal	Interest	Total
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	1.30	625,000	23,437	648,437
2024	2.00	625,000	12,500	637,500
Total		\$ 3,750,000	211,562	3,961,562

Year Ending June 30,	General Obligation Urban Renewal Bonds Series 2014 Issued July 9, 2014						
	Interest Rates	Principal	Interest	Total	Total		
					Principal	Interest	Total
2019	1.50%	\$ 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	2.00	665,000	66,103	731,103	1,790,000	97,540	1,887,540
2024-2025	1.85-2.60	2,060,000	73,240	2,133,240	2,685,000	85,740	2,770,740
Total		\$ 3,440,000	435,430	3,875,430	11,415,000	812,266	12,227,266

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 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 2018, 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 9.38% of covered payroll, for a total rate of 18.76%. 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, 2018 were \$348,464.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the County reported a liability of \$2,862,278 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the County's proportion was 0.042969%, which was a decrease of 0.001083% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of \$390,742. At June 30, 2018, 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	\$ 36,444	37,361
Changes of assumptions	582,997	5,603
Net difference between projected and actual earnings on IPERS' investments	-	36,747
Changes in proportion and differences between County contributions and the County's proportionate share of contributions	8,651	135,617
County contributions subsequent to the measurement date	348,464	-
Total	<u>\$ 976,556</u>	<u>215,328</u>

\$348,464 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, 2019. 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
2019	\$ 29,862
2020	225,949
2021	122,688
2022	(2,805)
2023	37,070
Total	<u>\$ 412,764</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	100.0%	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
County's proportionate share of the net pension liability:	\$ 5,079,346	2,862,278	1,001,205

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, 2018.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The County administers a single-employer benefit plan which provides medical, prescription drug and dental benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by Palo Alto County and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. 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.

Retired participants must be age 55 or older at retirement. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	6
Active employees	<u>71</u>
Total	<u>77</u>

Total OPEB Liability – The County's total OPEB liability of \$195,067 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017. The total OPEB liability was rolled forward from the valuation date to the plan's fiscal year ended June 30, 2018.

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation	
(effective June 30, 2018)	3.00% per annum.
Discount rate	3.72% compounded annually,
(effective June 30, 2018)	
Healthcare cost trend rate	6.00% per annum
(effective June 30, 2018)	

Discount Rate – The discount rate used to measure the total OPEB liability was 3.72% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the SOA RPH-2017 total dataset mortality table fully generational using Scale MP-2017. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	Total OPEB Liability
Total OPEB liability beginning of year, as restated	\$ 234,634
Changes for the year:	
Service cost	16,840
Interest	8,400
Differences between expected and actual experiences	(12,177)
Benefit payments	(52,630)
Net changes	(39,567)
Total OPEB liability end of year	\$ 195,067

Changes of assumptions reflect a change in the discount rate from 4.50% in fiscal year 2017 to 3.72% in fiscal year 2018.

Sensitivity of the County's Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.72%) or 1% higher (4.72%) than the current discount rate.

	1% Decrease (2.72%)	Discount Rate (3.72%)	1% Increase (4.72%)
Total OPEB liability	\$ 206,648	195,067	184,614

Sensitivity of the County's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.00%) or 1% higher (7.00%) than the current healthcare cost trend rates.

	1% Decrease (5.00%)	Healthcare Cost Trend Rate (6.00%)	1% Increase (7.00%)
Total OPEB liability	\$ 179,778	195,067	213,161

OPEB Expense and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the County recognized OPEB expense of \$28,736. At June 30, 2018, the County reported deferred inflows of resources related to OPEB from the following resources:

	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (10,831)

The amount reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ending June 30,	Amount
2019	\$ 1,346
2020	1,346
2021	1,346
2022	1,346
2023	1,346
Thereafter	4,101
	<u>\$ 10,831</u>

(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 775 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, 2018 were \$141,396.

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, 2018, no liability has been recorded in the County's financial statements. As of June 30, 2018, 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, 2018 was \$1,415,225.

Amounts payable from the Employee Group Health Fund at June 30, 2018 total \$12,283, 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 \$231,255 at June 30, 2018 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	\$ 22,277
Incurred claims (including claims incurred but not reported at June 30, 2018)	135,899
Payment on claims during the fiscal year	<u>(145,893)</u>
Unpaid claims end of year	<u>\$ 12,283</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, 2018 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, 2018.

(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, 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, 2018, as follows:

Revenues:	
Property and other county tax	\$ 87,197
Intergovernmental:	
State tax credits	\$ 6,441
Other	<u>25</u>
Total revenues	<u>93,663</u>
Expenditures:	
General administration:	
Distribution to regional fiscal agent	<u>193,000</u>
Excess of expenditures over revenues	(99,337)
Fund balance beginning of year	<u>450,242</u>
Fund balance end of year	<u>\$ 350,905</u>

(14) Deficit Balance

The Special Revenue, Drainage Districts Fund had a deficit balance of \$152,145 at June 30, 2018. The deficit balance is a result of project costs and repair costs incurred prior to the availability of funds. The County will investigate ways to eliminate the deficit.

(15) Construction Commitment

The County has a construction commitment as of June 30, 2018 totaling \$5,731,244 for road construction. Payments will be made on the contract as work progresses.

(16) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position for governmental activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

	<u>Governmental Activities</u>
Net position June 30, 2017, as previously reported	\$ 33,414,654
Net OPEB obligation measured under previous standards	588,130
Total OPEB liability at June 30, 2017	<u>(234,634)</u>
Net position July 1, 2017, as restated	<u>\$ 33,768,150</u>

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, 2018

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 8,255,273	-	8,255,273
Interest and penalty on property tax	27,012	-	27,012
Intergovernmental	4,518,665	-	4,518,665
Licenses and permits	19,463	-	19,463
Charges for service	739,813	-	739,813
Use of money and property	130,702	-	130,702
Miscellaneous	1,583,429	1,329,561	253,868
Total receipts	15,274,357	1,329,561	13,944,796
Disbursements:			
Public safety and legal services	2,065,682	-	2,065,682
Physical health and social services	367,217	-	367,217
Mental health	193,000	-	193,000
County environment and education	1,510,314	-	1,510,314
Roads and transportation	4,362,849	-	4,362,849
Governmental services to residents	482,741	-	482,741
Administration	1,261,693	-	1,261,693
Non-program	1,513,727	1,513,727	-
Debt service	3,250,017	1,356,022	1,893,995
Capital projects	422,968	-	422,968
Total disbursements	15,430,208	2,869,749	12,560,459
Excess (deficiency) of receipts over (under) disbursements	(155,851)	(1,540,188)	1,384,337
Other financing sources, net	1,427,229	1,427,229	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,271,378	(112,959)	1,384,337
Balance beginning of year	13,598,251	342,635	13,255,616
Balance end of year	\$ 14,869,629	229,676	14,639,953

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
8,329,127	8,329,127	(73,854)
15,600	15,600	11,412
4,171,103	4,253,848	264,817
10,850	10,850	8,613
649,667	649,667	90,146
32,507	32,507	98,195
123,044	341,028	(87,160)
13,331,898	13,632,627	312,169
2,016,767	2,136,112	70,430
431,297	584,897	217,680
396,352	396,352	203,352
1,442,964	1,616,860	106,546
5,493,051	5,565,551	1,202,702
493,980	493,980	11,239
1,324,454	1,386,492	124,799
-	-	-
1,893,996	1,893,996	1
1,284,674	5,311,674	4,888,706
14,777,535	19,385,914	6,825,455
(1,445,637)	(5,753,287)	7,137,624
-	-	-
(1,445,637)	(5,753,287)	7,137,624
10,127,670	10,127,670	3,127,946
8,682,033	4,374,383	10,265,570

Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2018

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 15,274,357	(79,422)	15,194,935
Expenditures	15,430,208	48,703	15,478,911
Net	(155,851)	(128,125)	(283,976)
Other financing sources, net	1,427,229	-	1,427,229
Beginning fund balances	13,598,251	704,349	14,302,600
Ending fund balances	<u>\$ 14,869,629</u>	<u>576,224</u>	<u>15,445,853</u>

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2018

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, three budget amendments increased budgeted disbursements by \$4,608,379. 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 911 System by the Joint 911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2018, 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 Four Years*
(In Thousands)

Required Supplementary Information

	2018	2017	2016	2015
County's proportion of the net pension liability	0.042969%	0.044052%	0.044874%	0.042869%
County's proportionate share of the net pension liability	\$ 2,862	2,772	2,217	1,700
County's covered payroll	\$ 3,652	3,598	3,615	3,558
County's proportionate share of the net pension liability as a percentage of its covered payroll	78.37%	77.04%	61.30%	47.78%
IPERS' net position as a percentage of the total pension liability	82.21%	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

	2018	2017	2016	2015
Statutorily required contribution	\$ 348	331	327	329
Contributions in relation to the statutorily required contribution	(348)	(331)	(327)	(329)
Contribution deficiency (excess)	\$ -	-	-	-
County's covered payroll	\$ 3,856	3,652	3,598	3,615
Contributions as a percentage of covered payroll	9.02%	9.06%	9.09%	9.10%

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2018

Changes of benefit terms:

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

Changes of assumptions:

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- 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 Changes in the County's
Total OPEB Liability, Related Ratios and Notes
For the Current Year
Required Supplementary Information

	<u>2018</u>
Service cost	\$ 16,840
Interest cost	8,400
Difference between expected and actual experiences	(12,177)
Benefit payments	<u>(52,630)</u>
Net change in total OPEB liability	<u>(39,567)</u>
Total OPEB liability beginning of year, as restated	<u>234,634</u>
Total OPEB liability end of year	<u>\$ 195,067</u>
Covered-employee payroll	\$ 3,607,750
Total OPEB liability as a percentage of covered-employee payroll	5.4%

Notes to Schedule of Changes in the County's Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2018	3.72%
Year ended June 30, 2017	4.50%

Palo Alto County

Supplementary Information

Palo Alto County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

	<hr/>		
	Sheriff	Resource	County
	Investigation	Enhancement	Recorder's
		and Protection	Records
			Management
	<hr/>		
Assets			
Cash, cash equivalents and pooled investments	\$ 1,149	42,804	6,391
Accounts Receivable	-	-	197
Accrued interest	-	5	1
Due from other governments	-	-	-
	<hr/>		
Total assets	\$ 1,149	42,809	6,589
	<hr/>		
Fund Balances			
Fund balances:			
Restricted for other purposes	1,149	42,809	6,589
	<hr/>		
Total fund balances	\$ 1,149	42,809	6,589
	<hr/>		

See accompanying independent auditor's report.

Special Revenue			
Sheriff Reserve	Closure/ Postclosure	County Attorney Collections	Total
3,008	7,788	26,182	87,322
-	-	-	197
-	-	-	6
-	-	410	410
3,008	7,788	26,592	87,935
3,008	7,788	26,592	87,935
3,008	7,788	26,592	87,935

Palo Alto County

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

Year ended June 30, 2018

	<u>Special</u>		
	<u>Sheriff</u>	<u>Resource</u>	<u>County</u>
	<u>Investigation</u>	<u>Enhancement</u>	<u>Recorder's</u>
		<u>and Protection</u>	<u>Records</u>
			<u>Management</u>
Revenues:			
Intergovernmental	\$ -	9,556	-
Charges for service	-	-	2,424
Use of money and property	-	69	12
Total revenues	-	9,625	2,436
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	-	16,779	-
Government services to residents	-	-	5,410
Total expenditures	-	16,779	5,410
Change in fund balances	-	(7,154)	(2,974)
Fund balances beginning of year	1,149	49,963	9,563
Fund balances end of year	\$ 1,149	42,809	6,589

See accompanying independent auditor's report.

Revenue				
Sheriff Reserve	Closure/ Postclosure	County Attorney Collections	Total	
375	-	4,149	14,080	
-	-	-	2,424	
-	-	-	81	
375	-	4,149	16,585	
2,051	-	279	2,330	
-	-	-	16,779	
-	-	-	5,410	
2,051	-	279	24,519	
(1,676)	-	3,870	(7,934)	
4,684	7,788	22,722	95,869	
3,008	7,788	26,592	87,935	

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

June 30, 2018

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	872	219,049	40,624
Other County officials	39,854	-	-	-
Receivables:				
Property tax:				
Delinquent	-	159	238	7,484
Succeeding year	-	179,000	268,000	8,363,000
Accounts	1,240	-	-	-
Accrued interest	-	-	-	-
Drainage assessments	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 41,094	180,031	487,287	8,411,108
Liabilities				
Liabilities:				
Accounts payable	\$ 8,198	-	8,347	-
Due to other governments	12,789	180,031	470,351	8,411,108
Trusts payable	20,107	-	-	-
Compensated absences	-	-	8,589	-
Total liabilities	\$ 41,094	180,031	487,287	8,411,108

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
3,476	26,855	488	6,290	259,360	638,092	1,195,106
-	-	-	-	-	-	39,854
709	4,445	42	-	-	1,398	14,475
810,000	2,806,000	147,000	-	-	1,475,000	14,048,000
-	-	-	-	-	9,541	10,781
-	-	-	-	-	47	47
-	-	-	-	-	234	234
-	-	-	262,971	-	-	262,971
-	-	-	-	-	92,822	92,822
814,185	2,837,300	147,530	269,261	259,360	2,217,134	15,664,290
-	-	-	-	-	501	17,046
814,185	2,837,300	147,530	269,261	259,360	2,122,401	15,524,316
-	-	-	-	-	90,492	110,599
-	-	-	-	-	3,740	12,329
814,185	2,837,300	147,530	269,261	259,360	2,217,134	15,664,290

Palo Alto County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2018

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 30,358	175,818	478,379	8,277,553
Additions:				
Property and other county tax	-	181,405	271,512	8,460,476
911 surcharge	-	-	-	-
State tax credits	-	13,027	19,682	616,411
Drivers license fees	-	-	-	-
Office fees and collections	303,337	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	153,308	-	-	-
Miscellaneous	-	-	474	-
Total additions	456,645	194,432	291,668	9,076,887
Deductions:				
Agency remittances:				
To other funds	161,688	-	-	-
To other governments	138,441	190,219	282,760	8,943,332
Trusts paid out	145,780	-	-	-
Total deductions	445,909	190,219	282,760	8,943,332
Balances end of year	\$ 41,094	180,031	487,287	8,411,108

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
708,967	2,749,688	154,633	298,442	251,821	1,975,153	15,100,812
818,266	2,615,083	151,151	-	-	1,495,006	13,992,899
-	-	-	-	-	110,118	110,118
52,463	374,093	8,004	-	-	107,815	1,191,495
-	-	-	-	42,362	-	42,362
-	-	-	-	-	-	303,337
-	-	-	-	3,306,868	-	3,306,868
-	-	-	15,495	-	15,469	30,964
-	-	-	-	-	77,175	230,483
-	848	-	-	-	370,570	371,892
870,729	2,990,024	159,155	15,495	3,349,230	2,176,153	19,580,418
-	-	-	-	118,689	-	280,377
765,511	2,902,412	166,258	44,676	3,223,002	1,934,172	18,590,783
-	-	-	-	-	-	145,780
765,511	2,902,412	166,258	44,676	3,341,691	1,934,172	19,016,940
814,185	2,837,300	147,530	269,261	259,360	2,217,134	15,664,290

Palo Alto County

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

For the Last Ten Years

				Modified
	2018	2017	2016	2015
Revenues:				
Property and other county tax	\$ 7,029,363	6,368,829	6,491,723	6,107,119
Tax increment financing	861,311	864,015	718,106	327,473
Local option sales tax	363,448	352,235	432,521	465,145
Interest and penalty on property tax	27,092	24,219	27,218	26,172
Intergovernmental	4,411,684	4,933,819	4,816,292	4,466,781
Licenses and permits	18,848	19,475	22,379	15,448
Charges for service	713,771	695,083	655,020	613,017
Use of money and property	183,565	143,044	110,037	109,598
Miscellaneous	1,585,853	1,470,104	1,670,155	2,508,166
Total	<u>\$ 15,194,935</u>	<u>14,870,823</u>	<u>14,943,451</u>	<u>14,638,919</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 2,067,658	1,862,649	1,765,900	1,758,102
Physical health and social services	356,980	347,152	333,962	315,938
Mental health	193,000	193,262	442,343	518,741
County environment and education	1,519,636	1,423,697	1,493,651	1,280,216
Roads and transportation	4,278,394	3,811,770	3,593,743	4,076,273
Governmental services to residents	483,003	432,689	431,905	402,691
Administration	1,181,676	1,111,525	1,170,815	1,179,145
Non-program	1,703,084	1,647,478	623,771	1,796,929
Debt service	3,250,017	2,561,232	3,274,586	10,040,124
Capital projects	445,463	2,930,884	1,861,379	5,260,226
Total	<u>\$ 15,478,911</u>	<u>16,322,338</u>	<u>14,992,055</u>	<u>26,628,385</u>

See accompanying independent auditor's report.

Accrual Basis					
2014	2013	2012	2011	2010	2009
6,145,690	6,167,506	6,176,465	5,736,591	5,209,532	4,964,506
310,002	300,004	302,974	300,000	393,677	359,801
433,932	361,974	363,359	328,462	333,579	333,000
25,497	23,143	32,834	30,237	23,945	21,939
3,912,315	5,753,093	4,236,506	4,151,228	4,254,845	4,114,678
14,701	14,578	11,544	7,411	10,067	9,013
675,118	747,829	649,422	616,306	554,575	545,346
105,959	76,332	132,469	202,748	294,229	466,243
1,198,791	746,189	1,285,823	761,672	406,075	246,814
12,822,005	14,190,648	13,191,396	12,134,655	11,480,524	11,061,340
1,715,696	1,677,580	1,615,221	1,582,458	1,611,100	1,514,188
345,250	325,218	330,422	298,385	308,296	303,222
441,820	498,060	1,287,366	1,187,643	1,130,674	1,349,910
1,340,012	1,367,347	1,441,657	1,531,174	1,331,955	1,183,855
4,351,228	3,923,103	3,759,031	3,834,536	4,008,318	3,295,372
424,021	404,747	388,793	362,160	363,348	354,520
1,127,496	1,156,543	1,139,244	1,102,432	1,171,615	1,059,081
924,130	5,730,306	1,132,729	1,004,990	740,436	338,381
2,768,798	1,824,566	2,213,254	1,676,728	1,543,430	1,171,045
1,751,867	2,608,192	3,588,863	3,710,629	1,574,053	447,110
15,190,318	19,515,662	16,896,580	16,291,135	13,783,225	11,016,684

Palo Alto County



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Rob Sand
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, 2018, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 18, 2019.

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. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2018 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.



ROB SAND
Auditor of State

March 18, 2019

Palo Alto County
Schedule of Findings
Year ended June 30, 2018

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 Sheriff
(3) The person who signs checks is not independent of the individual who records cash receipts and prepares checks.	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 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 each County Office'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, 2018

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 – We will continue to review the control procedures of our office and look for ways to segregate duties to the extent possible with the small number of staff in our office.

County Sheriff – The collecting, posting, depositing and daily reconciling is performed by the Office Manager. We will implement procedures to include an independent review of the bank reconciliation, evidenced by initials of reviewer and date of review. We will continue to work to segregate duties the best we can.

All out going checks are now signed by the Sheriff and then initialed by the Chief Deputy before being returned to the Office Manager to continue the process.

Conclusions – Responses accepted.

(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, payables 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.

Cause – County policies do not require and procedures have not been established to require independent review of year-end cut-off transactions and the capital asset listing 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.

Palo Alto County
Schedule of Findings
Year ended June 30, 2018

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

Response – The County will implement procedures to ensure all receivables, payables, and capital assets are properly recorded and included in the financial statements.

Conclusion – Response accepted.

(C) County Sheriff

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, 2018 book balance did not reconcile to the June 30, 2018 bank balance. Also, fee receipts are not always deposited timely (i.e., weekly).

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 to ensure receipts are deposited timely.

Effect – A lack of bank to book reconciliations and untimely deposits 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 – Our software program system detected a variance that was due to the conversion of data when we first started our new system. Our office worked extensively with the company and these matters are resolved. The monthly reconciliation reports and audit reports now show as balanced with a zero variance.

We make every attempt to make a weekly deposit on Fridays or the last working day of the week. However, due to the lack of extra office personal 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 theft.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
Schedule of Findings
Year ended June 30, 2018

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2018 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	Data entry	\$1,158
Rouse Tire & Repair, owner is spouse of County Employee	Repairs	1,713
Nick Jackson, son of Deputy Sheriff	Lawn services	348

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

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

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

Response – The County will consult with the County Attorney.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

Palo Alto County

Schedule of Findings

Year ended June 30, 2018

- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

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

Disbursements during the year ended June 30, 2018 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.

- (11) Financial Condition – The Special Revenue, Drainage Districts Fund had a deficit balance of \$152,145 at June 30, 2018.

Recommendation – The County should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The County will investigate alternatives to eliminate this deficit.

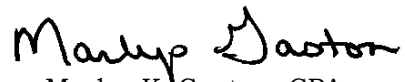
Conclusion – Response accepted.

Palo Alto County

Staff

This audit was performed by:

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