



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

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Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE

December 12, 2014

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Palo, Iowa.

The City's receipts totaled \$3,612,573 for the year ended June 30, 2014, an 18% decrease from the prior year. The receipts included \$374,173 in property tax, \$111,075 from tax increment financing, \$527,144 from charges for service, \$798,917 from operating grants, contributions and restricted interest, \$1,533,773 from capital grants, contributions and restricted interest, \$122,949 from local option sales tax, \$557 from unrestricted interest on investments and \$143,985 from other general receipts. The significant decrease in receipts is primarily due to a decrease in FEMA disaster assistance as the flood recovery work is nearing completion.

Disbursements for the year ended June 30, 2014 totaled \$2,939,490, a 37% decrease from the prior year, and included \$1,841,023 for capital projects, \$243,960 for culture and recreation and \$149,604 for general government. Also, disbursements for business type activities totaled \$426,411. The significant decrease in disbursements from the prior year is primarily due to fewer capital projects disbursements.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1421-0549-B00F.pdf>.

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**CITY OF PALO**

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

**JUNE 30, 2014**

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**City of Palo**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Thomas Sanders	Mayor	Jan 2014
Trent Miller	Mayor Pro tem	Jan 2014
Scott Packingham	Council Member	(Resigned)
Doug Hanover	Council Member	Jan 2014
Micah Mogle (Appointed)	Council Member	Jan 2014
Brian Beaty	Council Member	Jan 2016
Josh Frank	Council Member	Jan 2016
Michelle NejdI	City Clerk	Indefinite
Stacy Chabak	Deputy City Clerk	Indefinite
Erek Sittig	Attorney	Indefinite
<b>(After January 2014)</b>		
Thomas Yock	Mayor	Jan 2018
Thomas Sanders	Mayor Pro tem	Jan 2018
Brian Beaty	Council Member	Jan 2016
Josh Frank	Council Member	Jan 2016
Doug Hanover	Council Member	Jan 2018
Delmar Jellison	Council Member	Jan 2018
Michelle NejdI	City Clerk	(Resigned)
Trisca Dix (Appointed)	City Clerk	Indefinite
Stacy Chabak	Deputy City Clerk	(Resigned)
Jenny Jellison (Appointed)	Deputy City Clerk	Indefinite
Erek Sittig	Attorney	Indefinite

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Mary Mosiman, CPA  
Auditor of State

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

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

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palo's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2014 on our consideration of the City of Palo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Palo's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 12, 2014

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Palo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 13%, or approximately \$471,000, from fiscal year 2013 to fiscal year 2014. Capital grants, contributions and restricted interest decreased approximately \$995,000 and miscellaneous receipts increased approximately \$144,000. Receipts decreased due to fewer grant funds since capital projects are nearing completion.
- Disbursements of the City's governmental activities increased 42.7%, or approximately \$1,871,000. Capital projects, debt service and public safety disbursements decreased approximately \$801,000, \$862,000 and \$163,000, respectively.
- The City's total cash basis net position increased 98.8%, or approximately \$673,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased approximately \$638,000 and the cash basis net position of the business type activities increased approximately \$35,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds. The Sewer Fund is considered to be a major fund of the City.

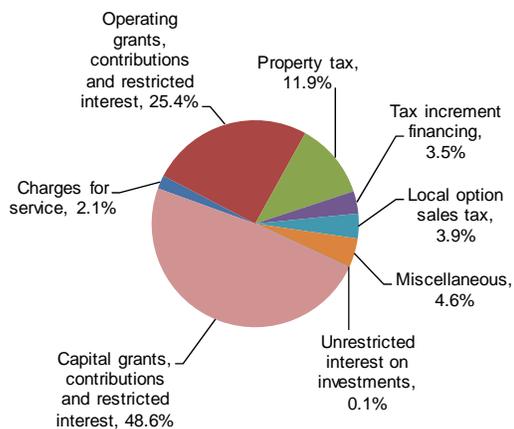
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

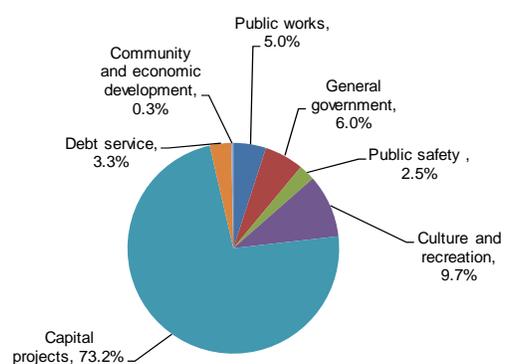
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$404,000 to approximately \$1,043,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 66,034	85,254
Operating grants, contributions and restricted interest	798,917	382,370
Capital grants, contributions and restricted interest	1,533,773	2,528,318
General receipts:		
Property tax	374,173	338,560
Tax increment financing	111,075	169,402
Local option sales tax	122,949	116,260
Unrestricted interest on investments	557	417
Miscellaneous	143,983	1,914
Total receipts	3,151,461	3,622,495
Disbursements:		
Public safety	63,875	226,636
Public works	126,022	171,160
Culture and recreation	243,960	206,876
Community and economic development	6,297	676
General government	149,604	193,093
Debt service	82,298	943,983
Capital projects	1,841,023	2,641,990
Total disbursements	2,513,079	4,384,414
Change in cash basis net position	638,382	(761,919)
Cash basis net position beginning of year	404,395	1,166,314
Cash basis net position end of year	\$ 1,042,777	404,395

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 13%, or approximately \$471,000. The total cost of all programs and services decreased approximately \$1.9 million, or 42.7%. The significant decrease in the cost of programs and services was primarily the result of a decrease in FEMA receipts as capital improvement projects were nearing completion in 2014.

The cost of all governmental activities this year was approximately \$2.5 million compared to approximately \$4.4 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$114,000 because some of the cost was paid by those directly benefited from the programs (approximately \$66,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$2.33 million). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2014 from approximately \$2,996,000 to approximately \$2,399,000, principally due to reduced FEMA receipts for capital projects completed in 2014.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 340,313	344,979
Water	120,797	74,839
Total receipts	461,110	419,818
Disbursements:		
Sewer	332,047	231,498
Water	94,364	60,345
Total disbursements	426,411	291,843
Change in cash basis net position	34,699	127,975
Cash basis net position beginning of year	277,185	149,210
Cash basis net position end of year	\$ 311,884	277,185

Total business type activities cash basis net position increased from approximately \$277,000 at June 30, 2013 to approximately \$312,000 at June 30, 2014. This increase is principally due to an increase in water utility receipts due to adding users during the construction phase of the project.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Palo completed the year, its governmental funds reported a combined fund balance of \$1,042,777, an increase of \$638,382 from last year's total of \$404,395. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$691,359 from the prior year to a year-end balance of \$818,879. This was primarily due to State funds received from the FEMA project closeout.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$122,949 to \$269,547. This was primarily due to transfers to the sinking account within the Enterprise, Sewer Fund for debt service payment not being made after December 2013 since sufficient funds had been previously transferred to cover the debt payment.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$111,219 to \$155,714.

- The Special Revenue, Road Use Tax Fund cash balance increased \$33,409 to \$121,929.
- The Debt Service Fund cash balance decreased slightly to \$53,128.
- The Capital Projects Fund cash balance decreased \$307,250 to a deficit balance of \$415,306, primarily due to capital project costs incurred before grant proceeds were received. The deficit balance will be eliminated next year when the grant proceeds are received.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Sewer Fund cash balance increased \$8,266 to \$319,029. This was primarily due to increased disbursements related to contracted costs for pumping wastewater with the City of Cedar Rapids. In addition, the City entered into a settlement agreement with Hart-Frederick Consultants for the wastewater treatment project, with the first settlement amount of \$15,000 paid in fiscal year 2014.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on June 25, 2014 and resulted in a decrease in budgeted disbursements related to debt payments and increases for ongoing capital projects in the public works and culture and recreation functions.

The City's receipts were approximately \$211,000 more than budgeted. This was primarily due to the City receiving more CDBG funding than anticipated and an insurance settlement.

Total disbursements were approximately \$649,000 less than the amended budget. This was primarily due to the anticipation of the issuance of general obligation bonds which was delayed until fiscal year 2015 and the delayed start of new projects.

### **DEBT ADMINISTRATION**

At June 30, 2014, the City had \$4,725,000 of bonds outstanding, compared to \$4,775,000 last year, as shown below.

Outstanding Debt at Year-End		
Expressed in Thousands		
	June 30,	
	2014	2013
General obligation bonds	\$ 1,775	1,815
Sewer revenue bonds	2,950	2,960
Total	\$ 4,725	4,775

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,775,000 is below its constitutional debt limit of approximately \$3,235,000. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Palo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2015. Amounts available for appropriation in the operating budget are approximately \$2.2 million, a decrease of 56% from the final fiscal year 2014 budget. A decrease in grant funding for the water system project as it nears completion is the primary reason for this decrease. Budgeted disbursements are expected to decrease approximately \$1.7 million. This decrease is also a result of the water system project nearing completion and most of the FEMA related disaster recovery is near completion. The City has added no major new programs or initiatives to the fiscal year 2015 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$310,000 by the close of fiscal year 2015.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

## **Basic Financial Statements**

City of Palo

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions And Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 63,875	11,796	62,906	-
Public works	126,022	53,247	703,866	-
Culture and recreation	243,960	41	19,173	-
Community and economic development	6,297	-	-	-
General government	149,604	950	12,972	-
Debt service	82,298	-	-	-
Capital projects	1,841,023	-	-	1,533,773
Total governmental activities	2,513,079	66,034	798,917	1,533,773
Business type activities:				
Sewer	332,047	340,313	-	-
Water	94,364	120,797	-	-
Total business type activities	426,411	461,110	-	-
Total	\$ 2,939,490	527,144	798,917	1,533,773
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Insurance recoveries for flood damage				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Local option sales tax				
Urban renewal purposes				
Debt service				
Streets				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
10,827	-	10,827
631,091	-	631,091
(224,746)	-	(224,746)
(6,297)	-	(6,297)
(135,682)	-	(135,682)
(82,298)	-	(82,298)
(307,250)	-	(307,250)
(114,355)	-	(114,355)
-	8,266	8,266
-	26,433	26,433
-	34,699	34,699
(114,355)	34,699	(79,656)
292,923	-	292,923
81,250	-	81,250
111,075	-	111,075
122,949	-	122,949
557	-	557
143,983	-	143,983
752,737	-	752,737
638,382	34,699	673,081
404,395	277,185	681,580
\$ 1,042,777	311,884	1,354,661
\$ 269,547	-	269,547
155,714	-	155,714
53,128	14,125	67,253
121,929	-	121,929
38,886	-	38,886
403,573	297,759	701,332
\$ 1,042,777	311,884	1,354,661

City of Palo

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

As of and for the year ended June 30, 2014

	Special		
	General	Local Option Sales Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 275,736	-	-
Tax increment financing	-	-	111,075
Other city tax	1,852	122,949	-
Licenses and permits	1,440	-	-
Use of money and property	17,694	-	144
Intergovernmental	653,958	-	-
Charges for service	53,249	-	-
Miscellaneous	170,193	-	-
Total receipts	1,174,122	122,949	111,219
Disbursements:			
Operating:			
Public safety	54,672	-	-
Public works	51,627	-	-
Culture and recreation	233,840	-	-
Community and economic development	5,412	-	-
General government	137,212	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	482,763	-	-
Change in cash balances	691,359	122,949	111,219
Cash balances beginning of year	127,520	146,598	44,495
Cash balances end of year	\$ 818,879	269,547	155,714
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Local option sales tax	\$ -	269,547	-
Urban renewal purposes	-	-	155,714
Debt service	-	-	-
Streets	-	-	-
Other purposes	-	-	-
Unassigned	818,879	-	-
Total cash basis fund balances	\$ 818,879	269,547	155,714

See notes to financial statements.

Revenue				
Road Use Tax	Debt Service	Capital Projects	Nonmajor	Total
-	81,250	-	15,335	372,321
-	-	-	-	111,075
-	-	-	-	124,801
-	-	-	-	1,440
-	-	-	-	17,838
102,450	-	1,533,773	-	2,290,181
-	-	-	-	53,249
-	-	-	10,363	180,556
102,450	81,250	1,533,773	25,698	3,151,461
-	-	-	9,203	63,875
69,041	-	-	5,354	126,022
-	-	-	10,120	243,960
-	-	-	885	6,297
-	-	-	12,392	149,604
-	82,298	-	-	82,298
-	-	1,841,023	-	1,841,023
69,041	82,298	1,841,023	37,954	2,513,079
33,409	(1,048)	(307,250)	(12,256)	638,382
88,520	54,176	(108,056)	51,142	404,395
121,929	53,128	(415,306)	38,886	1,042,777
-	-	-	-	269,547
-	-	-	-	155,714
-	53,128	-	-	53,128
121,929	-	-	-	121,929
-	-	-	38,886	38,886
-	-	(415,306)	-	403,573
121,929	53,128	(415,306)	38,886	1,042,777

**City of Palo**

City of Palo

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

As of and for the year ended June 30, 2014

	Enterprise		
	Sewer	Nonmajor Water	Total
Operating receipts:			
Charges for service	\$ 340,313	120,797	461,110
Operating disbursements:			
Business type activities	225,847	94,364	320,211
Excess of operating receipts over operating disbursements	114,466	26,433	140,899
Non-operating disbursements:			
Debt service	(106,200)	-	(106,200)
Change in cash balances	8,266	26,433	34,699
Cash balances beginning of year	310,763	(33,578)	277,185
Cash balances end of year	\$ 319,029	(7,145)	311,884
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ 14,125		14,125
Unrestricted	304,904	(7,145)	297,759
Total cash basis fund balances	\$ 319,029	(7,145)	311,884

See notes to financial statements.

City of Palo

Notes to Financial Statements

June 30, 2014

**(1) Summary of Significant Accounting Policies**

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

A. Reporting Entity

For financial reporting purposes, the City of Palo has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for road improvements, sanitary sewer improvements, park and recreational expenditures, infrastructure improvements and other community improvement projects.

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

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

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

The Capital Projects Fund is used to account for receipts and disbursements related to capital projects in progress in the City.

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the business type activities function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

**(3) Bonds Payable**

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

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$ 120,000	41,377	81,000	88,500	201,000	129,877	330,877
2016	125,000	40,418	83,000	86,070	208,000	126,488	334,488
2017	125,000	39,168	86,000	83,580	211,000	122,748	333,748
2018	125,000	37,605	88,000	81,000	213,000	118,605	331,605
2019	125,000	35,730	91,000	78,360	216,000	114,090	330,090
2020-2024	695,000	135,140	498,000	349,140	1,193,000	484,280	1,677,280
2025-2029	460,000	31,615	577,000	269,820	1,037,000	301,435	1,338,435
2030-2034	-	-	670,000	177,900	670,000	177,900	847,900
2035-2039	-	-	776,000	71,170	776,000	71,170	847,170
Total	\$ 1,775,000	361,053	2,950,000	1,285,540	4,725,000	1,646,593	6,371,593

Sewer Revenue Bonds

On December 13, 2007, the City entered into a state revolving fund loan and disbursement agreement with the Iowa Finance Authority and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$3,000,000 of sewer revenue bonds with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.83 of the Code of Iowa for the purpose of paying the cost of constructing improvements and extensions to the City's sewer system.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2039. The total principal and interest remaining to be paid on the bonds is \$4,235,540. For the current year, principal and interest paid and total customer net receipts were \$106,200 and \$114,466, respectively. Annual principal and interest payments on the bonds required approximately 93% of net receipts for the year ended June 30, 2014.

The resolution providing for the issuance of the bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Sewer user rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- (d) The City shall keep proper books and cause the books to be audited annually by an independent auditor.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$13,346, \$16,002 and \$18,199, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation leave for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2014, primarily relating to the General Fund, is \$9,200.

This liability has been computed based on rates of pay in effect at June 30, 2014.

**(6) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 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 or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$3,204. An additional payment of \$23,078 was made in June 2013.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance 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. As of June 30, 2014, 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 claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$25,000, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Deficit Balances**

The Capital Projects Fund and the Enterprise, Water Fund had deficit balances of \$415,306 and \$7,145, respectively, at June 30, 2014. The City believes the deficits will be eliminated as grant proceeds are received for the water system project and fees are collected by the water system.

**(8) Construction in Progress**

The City has entered into contracts totaling \$4,132,465. As of June 30, 2014, the City had made payments on the contracts totaling \$4,058,922. The balance remaining on the contracts at June 30, 2014, totaling \$73,543, will be paid as work on the projects progress.

**(9) Settlement Agreement**

On April 21, 2014, the City entered into a settlement and release agreement with Hart-Frederick Consultants for work related to the 2006 State Revolving Fund Wastewater Conveyance Project. Under the agreement, the City is required to make payments to Hart-Frederick Consultants in the total amount of \$45,000, payable in four payments. The City made its first payment of \$15,000 on April 25, 2014. The City is scheduled to make three additional payments of \$10,000 each under the agreement on or before April 1, 2015, 2016 and 2017.

**(10) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

## **Other Information**

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

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 372,321	-	372,321
Tax increment financing	111,075	-	111,075
Other city tax	124,801	-	124,801
Licenses and permits	1,440	-	1,440
Use of money and property	17,838	-	17,838
Intergovernmental	2,290,181	-	2,290,181
Charges for service	53,249	461,110	514,359
Miscellaneous	180,556	-	180,556
Total receipts	<u>3,151,461</u>	<u>461,110</u>	<u>3,612,571</u>
Disbursements:			
Public safety	63,875	-	63,875
Public works	126,022	-	126,022
Culture and recreation	243,960	-	243,960
Community and economic development	6,297	-	6,297
General government	149,604	-	149,604
Debt service	82,298	-	82,298
Capital projects	1,841,023	-	1,841,023
Business type activities	-	426,411	426,411
Total disbursements	<u>2,513,079</u>	<u>426,411</u>	<u>2,939,490</u>
Excess (deficiency) of receipts over (under) disbursements	638,382	34,699	673,081
Balances beginning of year	404,395	277,185	681,580
Balances end of year	<u>\$ 1,042,777</u>	<u>311,884</u>	<u>1,354,661</u>

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Total
		Variance
370,783	370,783	1,538
113,568	113,568	(2,493)
120,691	120,691	4,110
1,525	1,525	(85)
16,050	16,050	1,788
2,204,761	2,204,761	85,420
491,700	491,700	22,659
82,550	82,550	98,006
<u>3,401,628</u>	<u>3,401,628</u>	<u>210,943</u>
66,400	66,400	2,525
209,900	244,900	118,878
167,417	247,417	3,457
40,908	65,908	59,611
239,100	239,100	89,496
581,598	431,598	349,300
1,930,700	1,930,700	89,677
362,620	362,620	(63,791)
<u>3,598,643</u>	<u>3,588,643</u>	<u>649,153</u>
(197,015)	(187,015)	860,096
<u>1,067,353</u>	<u>1,077,353</u>	<u>(395,773)</u>
<u>870,338</u>	<u>890,338</u>	<u>464,323</u>

City of Palo

Notes to Other Information – Budgetary Reporting

June 30, 2014

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$10,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the business type activities function.

**City of Palo**

## **Supplementary Information**

## City of Palo

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

Year ended June 30, 2014

	Special Revenue		
	Employee Benefits	Palo Volunteer Fire Department	Total
Receipts:			
Property tax	\$ 15,335	-	15,335
Miscellaneous	-	10,363	10,363
Total receipts	15,335	10,363	25,698
Disbursements:			
Operating:			
Public safety	-	9,203	9,203
Public works	5,354	-	5,354
Culture and recreation	10,120	-	10,120
Community and economic development	885	-	885
General government	12,392	-	12,392
Total disbursements	28,751	9,203	37,954
Change in cash balances	(13,416)	1,160	(12,256)
Cash balances beginning of year	40,818	10,324	51,142
Cash balances end of year	\$ 27,402	11,484	38,886
<b>Cash Basis Fund Balances</b>			
Restricted for other purposes	\$ 27,402	11,484	38,886

See accompanying independent auditor's report.

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City of Palo  
Schedule of Indebtedness  
Year ended June 30, 2014

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose and refunding	Apr 23, 2012	.80-3.50%	\$ 1,815,000
Sewer revenue bonds:			
Sewer improvements	Dec 13, 2007	* 3.00%	\$ 3,000,000

\* - The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest and Servicing Fee Paid
1,815,000	-	40,000	1,775,000	41,698
2,960,000	-	10,000	2,950,000	96,200

**Schedule 3**

City of Palo  
 Bond Maturities  
 June 30, 2014

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds	
	Corporate Purpose and Refunding		Sewer Improvements	
	Issued April 23, 2012		Issued Dec 13, 2007	
	Interest Rates	Amount	Interest Rates	Amount
2015	0.80%	\$ 120,000	3.00%	\$ 81,000
2016	1.00	125,000	3.00	83,000
2017	1.25	125,000	3.00	86,000
2018	1.50	125,000	3.00	88,000
2019	1.80	125,000	3.00	91,000
2020	2.10	135,000	3.00	94,000
2021	2.40	135,000	3.00	97,000
2022	2.60	140,000	3.00	99,000
2023	2.80	140,000	3.00	102,000
2024	3.00	145,000	3.00	106,000
2025	3.20	150,000	3.00	109,000
2026	3.40	155,000	3.00	112,000
2027	3.50	155,000	3.00	115,000
2028		-	3.00	119,000
2029		-	3.00	122,000
2030		-	3.00	126,000
2031		-	3.00	130,000
2032		-	3.00	134,000
2033		-	3.00	138,000
2034		-	3.00	142,000
2035		-	3.00	146,000
2036		-	3.00	151,000
2037		-	3.00	155,000
2038		-	3.00	160,000
2039		-	3.00	164,000
Total		<u>\$ 1,775,000</u>		<u>\$ 2,950,000</u>

See accompanying independent auditor's report.

**City of Palo**

City of Palo

Schedule of Receipts By Source and Disbursements By Function  
All Governmental Funds

For the Last Six Years

	2014	2013	2012	2011
<b>Receipts:</b>				
Property tax	\$ 372,321	338,560	279,496	292,684
Tax increment financing	111,075	169,402	201,870	61,279
Other city tax	124,801	118,173	127,984	117,630
Licenses and permits	1,440	1,349	1,389	1,372
Use of money and property	17,838	8,991	11,632	7,767
Intergovernmental	2,290,181	2,906,366	3,816,845	3,733,089
Charges for service	53,249	54,015	49,914	49,490
Miscellaneous	180,556	25,639	266,434	94,153
<b>Total</b>	<b>\$ 3,151,461</b>	<b>3,622,495</b>	<b>4,755,564</b>	<b>4,357,464</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 63,875	226,636	1,671,735	4,002,420
Public works	126,022	171,160	247,642	273,155
Culture and recreation	243,960	206,876	394,431	374,987
Community and economic development	6,297	676	2,058	1,920
General government	149,604	193,093	265,783	219,308
Debt service	82,298	943,983	2,286,601	48,570
Capital projects	1,841,023	2,641,990	2,150,546	499,123
<b>Total</b>	<b>\$ 2,513,079</b>	<b>4,384,414</b>	<b>7,018,796</b>	<b>5,419,483</b>

See accompanying independent auditor's report.

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<u>2010</u>	<u>2009</u>
300,726	233,045
4,073	168,307
182,737	282,589
4,703	5,743
7,904	9,696
2,025,559	2,852,557
59,639	46,041
131,286	26,448
<u>2,716,627</u>	<u>3,624,426</u>

3,010,290	2,346,171
291,799	113,498
279,849	114,554
1,498	142,280
219,320	150,540
46,669	-
298,787	2,902,392
<u>4,148,212</u>	<u>5,769,435</u>

**Schedule 5**

## City of Palo

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRI-236	\$ 1,789,882
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DR-IA	4,864
Total			\$ 1,794,746

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Palo and is presented on the basis of cash receipts and disbursement, which is a basis of accounting other than U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Palo, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 12, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Palo's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-14 through II-C-14 to be material weaknesses.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The City of Palo's Responses to the Findings

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

## Purpose of this Report

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

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



MARY MOSIMAN, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 12, 2014

**Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133**

**City of Palo**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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Mary Mosiman, CPA  
Auditor of State

Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Palo, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Palo's major federal program for the year ended June 30, 2014. The City of Palo's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Palo's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Palo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Palo's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Palo complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

The management of the City of Palo is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Palo's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Palo's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 12, 2014

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Palo did not qualify as a low-risk auditee.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-14 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For the City and the Palo Volunteer Fire Department, one individual has control over each of the following areas:

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

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City of Palo and the Palo Volunteer Fire Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – The Palo Volunteer Fire Department monthly bank statements are provided to the Mayor and City Council to be reviewed then signed and dated. The City of Palo has instituted further control procedures for handling receipts and disbursements.

Conclusion – Response accepted.

II-B-14 Monthly Bank Reconciliations - Although monthly bank reconciliations were prepared, supporting documentation was not maintained and the reconciliations did not reconcile the amount of money in the bank to the amount recorded in the City's general ledger. In addition, the bank reconciliations were not dated to document when they were prepared or reviewed.

Recommendation - To provide better control over financial transactions and overall accountability, monthly bank reconciliations should be prepared to include all checking accounts, investments, petty cash and reconciling items. The reconciliations should agree with the fund and account balances in the City Clerk/Treasurer's monthly financial report. The reconciliations should also be dated when they are prepared and when they are independently reviewed.

Response – The City will include all checking accounts, investments, petty cash and reconciling items as well as verify the fund and account balances reconcile showing the date it was prepared.

Conclusion – Response accepted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

II-C-14 Utility Billings, Collections and Delinquent Accounts Records and Procedures –

Although a utilities reconciliation is being performed, there are many unexplained variances between the reconciliation and the support. There are no formal written procedures to follow to accurately perform the utility reconciliation. In addition, utility reconciliations were not performed between the months of February 2014 and April 2014. Procedures should be established to document reconciliation of utility billings, collections and delinquent accounts for each billing period.

Recommendation – An independent person should review the utility reconciliation and document this review. All support for the reconciliation should be kept with the reconciliation so it is available for the independent reviewer. The City Council should ensure reconciliations are being performed monthly.

Response – The City is developing a policy and procedure for utility billing reconciliation.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No matters were noted.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-14 Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the business type activities function. In addition, disbursements exceeded amounts budgeted prior to the budget amendment in the debt service, culture and recreation, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - The City will amend the budget in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Conclusion - Response accepted.

IV-B-14 Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.

The Palo Volunteer Fire Department paid \$64 to Peck's Flower Shop for flowers for a funeral.

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

Recommendation - The Fire Department, with assistance from the City, should determine and document the public purpose served by paying for funeral flowers. If this practice is continued, written policies and procedures, including the requirement for proper documentation, should be established.

Response - The City will work with the Fire Department on establishing further written policies and procedures, including proper documentation.

Conclusion - Response accepted.

IV-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-14 Business Transactions - No business transactions between the City and City officials or employees were noted.

IV-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- IV-F-14 City Council Minutes - No transactions were found that we believe should have been approved in the City Council minutes but were not.
- IV-G-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-14 Revenue Bonds - No instances of non-compliance with the revenue bond resolution were noted.
- IV-I-14 Tax Increment Financing (TIF) - The TIF debt certifications made to the County Auditor were reviewed and the following were noted:

The City certified \$1,465,585 related to the issuance of 2012 general obligation bonds. Principal and interest on the debt of \$1,815,000 and \$402,750, respectively, should be included on the City's certification.

The City authorized \$21,099 of interest and administrative fees related to the 2012 general obligation bonds on May 20, 2013 as TIF debt. The \$21,099 has not been included on a TIF certification.

The City certified \$108,168 as a TIF interfund loan for a Senior Dining Program. The Senior Dining Program was not implemented per discussions with City personnel. This loan should be decertified.

Recommendation - The City should ensure all authorized debt has been certified to the County Auditor. Also, the interfund loan certified as TIF debt should be decertified.

Response - The City is not certifying the full amount of \$1,815,000 plus interest. Not all of this amount was TIF. The part not certified will be paid by the Debt Service Fund. The amounts of principal and interest are \$1,195,000 of principal and \$300,118 of interest. The City will ensure all authorized debt has been certified to the County Auditor. The interfund loan will be reviewed and decertified where necessary.

Conclusion - Response accepted.

- IV-J-14 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. The report was reviewed and the following were noted.

TIF debt reported on the Levy Authority Summary was understated by the \$300,000 for the new Municipal Fire Station which was certified to the County on November 24, 2013.

The City reported \$69,397 of TIF debt outstanding related to interfund loans for which documentation was not provided identifying the specific interfund loans paid.

Recommendation - The City should ensure the amounts reported on the Levy Authority Summary agree with City's records.

City of Palo

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Response – The City will ensure the amounts reported on the levy Authority summary agree with the City’s records.

Conclusion – Response accepted.

IV-K-14 Financial Condition – At June 30, 2014, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
Capital Projects	\$ 415,306
Enterprise:	
Water	7,145

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

Response – The City will be receiving funds for the capital improvement projects to eliminate the deficit. The City will also be adding all residents to the water utility to eliminate the deficit.

Conclusion – Response accepted.

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City of Palo

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager  
Stephen J. Hoffman, Staff Auditor  
Melissa E. Janssen, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State