



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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Des Moines, Iowa 50319-0006
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NEWS RELEASE

Contact: Ernest Ruben
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FOR RELEASE

March 25, 2022

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

FINANCIAL HIGHLIGHTS:

The County's revenues totaled \$23,556,327 for the year ended June 30, 2021, a 22.1% increase over the prior year. Expenses for County operations for the year ended June 30, 2021 totaled \$18,905,626, a 9.9% increase over the prior year. The significant increase in revenues is due to an increase in contributions from the Iowa Department of Transportation for road infrastructure, an increase in drainage district assessments and reimbursements and an increase in road use tax revenues.

AUDIT FINDINGS:

Sand reported five findings related to the receipt and expenditure of taxpayer funds. They are found on pages 84 through 91 of this report. The findings address issues such as a lack of segregation of duties, material amounts of receivables and capital assets not properly recorded in the County's financial statements and payments to private non-profit entities. Sand provided the County with recommendations to address each of these findings.

Four of the five findings discussed above are repeated from the prior year. The County Board of Supervisors and other County officials have a fiduciary responsibility to provide oversight of the County's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

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PALO ALTO COUNTY

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

JUNE 30, 2021

Palo Alto County



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Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

March 22, 2022

Officials of Palo Alto County
Emmetsburg, Iowa

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for Palo Alto County for the year ended June 30, 2021. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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Palo Alto County

Officials

(Before January 2021)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Graettinger	Board of Supervisors	Jan 2021
Roger Faulstick	Board of Supervisors	Jan 2021
Craig Merrill	Board of Supervisors	Jan 2023
Linus Solberg	Board of Supervisors	Jan 2023
Keith Wirtz	Board of Supervisors	Jan 2023
Carmen Moser	County Auditor	Jan 2021
Robin Jamison	County Treasurer	Jan 2023
Susan Ruppert	County Recorder	Jan 2023
Lynn Schultes	County Sheriff	Jan 2021
Peter Hart	County Attorney	Jan 2023
Lois Naig	County Assessor	Jan 2022

(After January 2021)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Craig Merrill	Board of Supervisors	Jan 2023
Linus Solberg	Board of Supervisors	Jan 2023
Keith Wirtz	Board of Supervisors	Jan 2023
Ronald Graettinger	Board of Supervisors	Jan 2025
Roger Faulstick	Board of Supervisors	Jan 2025
Carmen Moser	County Auditor	Jan 2025
Robin Jamison	County Treasurer	Jan 2023
Susan Ruppert	County Recorder	Jan 2023
Lynn Schultes	County Sheriff	Jan 2025
Peter Hart	County Attorney	Jan 2023
Lois Naig	County Assessor	Jan 2022



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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, 2021, 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, 2021 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 14 to the financial statements, Palo Alto County adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities. 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 8 through 15 and 56 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 pr

cedures 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.

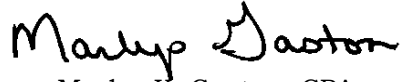
Supplementary Information

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, 2020 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), 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 22, 2022 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.


Marlys K. Gaston, CPA
Chief Deputy Auditor of State

March 22, 2022

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, 2021. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2021 FINANCIAL HIGHLIGHTS

- The County implemented Governmental Accounting Standards Board Statement (GASBS) No. 84, Fiduciary Activities, during fiscal year 2021. The beginning net position for fiduciary (custodial) funds was restated by \$2,759,782 to retroactively report in accordance with the GASBS.
- Revenues of the County's governmental activities increased 22.1%, or approximately \$4,258,000, from fiscal year 2020 to fiscal year 2021. Capital grants increased approximately \$1,694,000, charges for service increased approximately \$1,742,000, operating grants increased approximately \$835,000, and local options sales tax decreased approximately \$194,000.
- Palo Alto County's governmental activities expenses increased 9.9%, or approximately \$1,707,000, over fiscal year 2020. Non-program expenses increased approximately \$1,327,000 and county environment and education expenses increased approximately \$302,000.
- The County's net position at June 30, 2021 increased 10.4%, or approximately \$4,650,000, over the June 30, 2020 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 (Custodial 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 Custodial Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

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, and 3) the Debt Service 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) A 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 custodial capacity for others which cannot be used to support the County’s own programs. These fiduciary funds include Custodial Funds that account for city special assessments, emergency management services and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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 \$44,383,000 to approximately \$49,033,000 during the year. The analysis that follows focuses on the changes in the net position of governmental activities.

Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2021	2020
Current and other assets	\$ 37,316	31,215
Capital assets	41,035	40,623
Total assets	78,351	71,838
Deferred outflows of resources	904	780
Long-term liabilities	20,238	18,843
Other liabilities	2,097	818
Total liabilities	22,335	19,661
Deferred inflows of resources	7,886	8,574
Net position:		
Net investment in capital assets	36,485	34,328
Restricted	11,549	9,276
Unrestricted	999	779
Total net position	\$ 49,033	44,383

Net position of Palo Alto County’s governmental activities increased 10.4% (approximately \$49.0 million compared to approximately \$44.4 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 \$2,157,000, or 6.3%, primarily due to increases in road infrastructure and decrease in long-term debt related to capitalized assets.

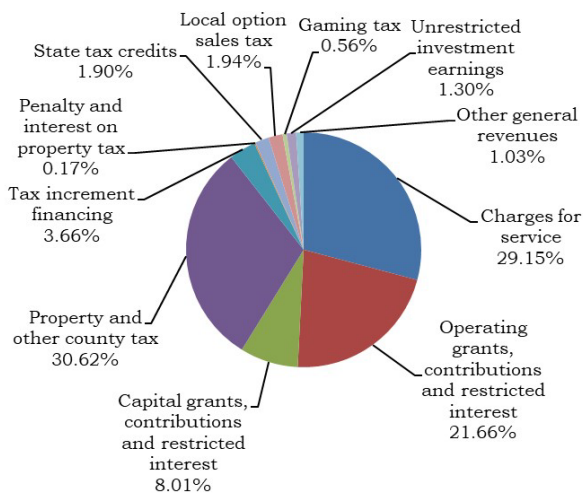
Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. This net position increased approximately \$2,273,000, or 24.5%, primarily due to an increase in amounts restricted for secondary roads and drainage district purposes.

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 approximately \$779,000 at June 30, 2020 to approximately \$999,000 at June 30, 2021, or 28.2%. The change in the unrestricted net position is due in part to an increase in the General Fund balance at year end.

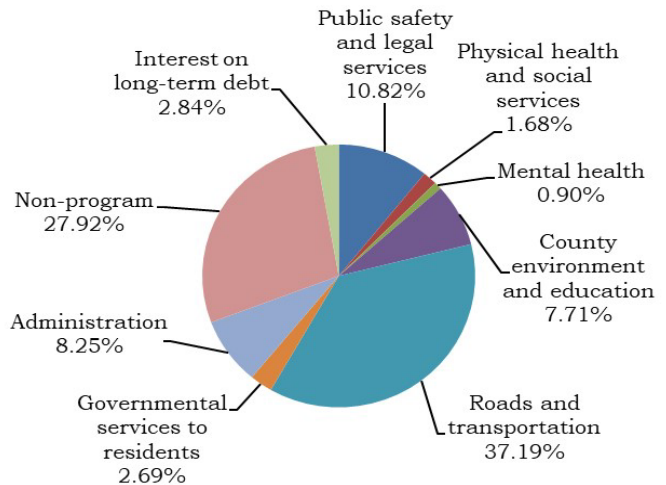
Changes in Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2021	2020
Revenues:		
Program revenues:		
Charges for service	\$ 6,866	5,124
Operating grants, contributions and restricted interest	5,102	4,267
Capital grants, contributions and restricted interest	1,886	192
General revenues:		
Property and other county tax	7,219	7,126
Tax increment financing	861	913
Penalty and interest on property tax	39	10
State tax credits	447	469
Local option sales tax	457	651
Gaming tax	131	101
Unrestricted investment earnings	306	330
Other general revenues	242	115
Total revenues	23,556	19,298
Program expenses:		
Public safety and legal services	2,046	2,173
Physical health and social services	318	350
Mental health	170	142
County environment and education	1,458	1,156
Roads and transportation	7,031	7,042
Governmental services to residents	508	486
Administration	1,560	1,510
Non-program	5,279	3,952
Interest on long-term debt	536	388
Total expenses	18,906	17,199
Change in net position	4,650	2,099
Net position beginning of year	44,383	42,284
Net position end of year	\$ 49,033	44,383

Revenues by Source



Expenses by Program



Palo Alto County's governmental activities net position increased approximately \$4,650,000 during the year. Revenues for governmental activities increased approximately \$4,258,000 over the prior year. Charges for services increased \$1,742,000, or 34.0% due to an increase in drainage assessments and reimbursements. Capital grants, contributions and restricted interest increased \$1,694,000, or 882.3% due to contributions of infrastructure from the Iowa Department of Transportation. Operating grants, contributions, and restricted interest increased \$835,000, or 19.6% due to an increase in federal grants and road use tax receipts. Local options sales tax decreased approximately \$194,000 or 29.8%.

The County increased overall property tax rates for fiscal year 2021 by 0.08% and based on increases in total assessed valuation, property tax revenue was budgeted to increase approximately \$58,000 this year. Property and other county tax revenue increased approximately \$93,000 in fiscal year 2021.

The cost of all governmental activities this year was approximately \$18.9 million compared to approximately \$17.2 million last year. However, as shown in the Statement of Activities on page 19, the amount taxpayers ultimately financed for these activities was approximately \$5.1 million because some of the cost was paid by those directly benefiting from the programs (approximately \$6,866,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$6,988,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased approximately \$4,271,000 in fiscal year 2021 from approximately \$9,583,000 to approximately \$13,854,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$14.7 million, an increase of approximately \$2.4 million over last year's total of approximately \$12.3 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 \$538,000 over the prior year to approximately \$3,975,000. General Fund revenues increased approximately \$130,000 and expenditures increased approximately \$70,000. The increase in revenues was primarily due to an increase in property tax receipts. The increase in expenditures was primarily due to an increase in conservation expenses for conservation projects and increased salaries for public safety.
- The Special Revenue, Mental Health Fund balance increased approximately \$37,000 to approximately \$386,000 at year end. For the year, expenditures totaled approximately \$164,000, an increase of 15.7% over the prior year, and revenues increased approximately \$63,000. The increase in revenues and expenditures is due to an increase in property taxes and an increase in the amount distributed to the regional fiscal agent.
- Special Revenue, Rural Services Fund revenues decreased approximately \$216,000, primarily due to lower local options sales tax revenues. Expenditures increased approximately \$75,000 over the prior year, primarily for increased insurance costs and solid waste and environmental expenses. The Rural Services Fund balance decreased approximately \$32,000 to approximately \$945,000. Transfers to support the Special Revenue, Secondary Roads Fund decreased \$782.
- Special Revenue, Secondary Roads Fund revenues increased approximately \$382,000, primarily due to an increase in road use tax revenues and reimbursements for road repairs. Expenditures increased approximately \$173,000 over the prior year, primarily due to an increase of road projects paid with local funds. Transfers from the Special Revenue, Rural Services Fund increased \$782. The Secondary Roads Fund ending fund balance increased approximately \$1,207,000, or 17.1%, during the year.

- Special Revenue, Drainage Districts Fund revenues increased approximately \$1,847,000 over the prior year due to increased drainage assessment revenues. Expenditures increased approximately \$2,611,000, due primarily to increased drainage projects in the current year compared to fiscal year 2020. Drainage warrants issued increased approximately \$1,078,000. The Drainage Districts Fund end of year fund balance increased approximately \$371,000 over the prior year.
- The Special Revenue, Tax Increment Financing Fund year end fund balance and collections of property tax and credits were used to pay the principal and interest on general obligation urban renewal bonds issued in April 2013 and July 2014.
- The Debt Service Fund balance increased approximately \$351,000 to approximately \$489,000, an increase of 255.1%. Revenues increased approximately \$1,500 over the prior year. Transfers from the Special Revenue, Tax Increment Financing Fund decreased \$126,811. The current year debt service payments for various general obligation bonds and refunding bonds was approximately \$1.9 million, a decrease of \$1.0 million from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget two times. The amendments were made on December 15, 2020 and May 4, 2021 and resulted in an increase in budgeted receipts of \$266,498 and an increase in budgeted disbursements of \$1,342,630. The increase in budgeted receipts was related to an increase in reimbursements and federal grants. The majority of the increase in disbursements was related to capital projects and road projects.

The County's receipts were \$2,074,846 more than budgeted, a variance of 14.5%. The most significant variance resulted from the County receiving more intergovernmental receipts associated with the American Rescue Plan federal grants than anticipated.

Total disbursements were \$3,385,153 less than the amended budget. Actual disbursements for the roads and transportation and debt service functions were \$1,770,078 and \$474,779, respectively, less than budgeted. The variance in the roads and transportation function was due to less project costs than anticipated and less equipment purchases. The debt service variance was due to estimating the budget on prior year debt service expenses. The remaining variances are a result of budgeted disbursements not being expended by June 30, 2021.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2021, Palo Alto County had approximately \$41 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 \$400,000, or 1.0%, over last year.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2021	2020
Land	\$ 1,426	1,426
Buildings and improvements	1,239	1,221
Equipment and vehicles	3,707	3,435
Intangibles	299	245
Infrastructure	34,364	34,296
Total	\$ 41,035	40,623
This year's major additions included (in thousands):		
Infrastructure, including road network	\$	2,274
Restroom at Basswood Rec. Area		86
Pictometry Imagery		75
Vehicles and other equipment		736
Total	\$	3,171

The County had depreciation/amortization expense of approximately \$2.7 million in fiscal year 2021 and total accumulated depreciation/amortization of approximately \$24.2 million at June 30, 2021. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2021, Palo Alto County had approximately \$17 million of outstanding long-term debt, which included \$4,550,000 of general obligation bonds and approximately \$12,137,000 of drainage warrants.

Outstanding Debt of Governmental Activities at Year-End		
(Expressed in Thousands)		
	June 30,	
	2021	2020
General obligation bonds	\$ 4,550	6,295
Drainage warrants	12,137	9,697
Total	\$ 16,687	15,992

Debt decreased as a result of making scheduled principal payments of \$1,745,000 on general obligation Series 2012, Series 2013 and Series 2014 bonds. Drainage warrants increased over the prior year due to additional drainage projects.

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 \$58.4 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 2022 budget, tax rates and fees for various County activities. One of those factors is the economy. Unemployment in the County now stands at 3.5% versus 6.8% a year ago. This compares with the State’s unemployment rate of 4.7% and the national rate of 5.9% during June 2021.

The national Consumer Price Index (CPI) rose 5.4% from June 2020 to June 2021. This increase is greater than the 0.6% increase during fiscal year 2020 reported last year.

The above factors were all part of the considerations for the fiscal year 2022 budget, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

	2022 Dollars Certified	2021 Dollars Certified	Percentage Change
General Fund	\$ 3,601,503	3,824,548	-5.83%
Mental Health Fund	106,632	196,438	-45.72%
Rural Services Fund	2,306,300	2,261,211	1.99%
Debt Service Fund	1,272,699	1,248,486	1.94%
Total	\$ 7,287,134	7,530,683	-3.23%

No new services were added to the fiscal year 2022 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2022 are as follows:

	2022	2021	Percentage Change
General basic levy	\$ 3.50000	3.50000	0.00%
General supplemental levy	0.99946	1.37449	-27.29%
Mental health levy	0.13322	0.25037	-46.79%
Rural services basic levy	3.92770	3.95000	-0.56%
Debt service levy	1.51000	1.51000	0.00%
Total	\$ 10.07038	10.58486	-4.86%

These factors were taken into account when adopting the budget for fiscal year 2022. Budgeted disbursements are \$15,958,988, a decrease of \$958,858, or 5.6%, from the final fiscal year 2021 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 2022. 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 \$1.37 per \$1,000 of taxable valuation in fiscal year 2021 to \$0.99 per \$1,000 of taxable valuation in fiscal year 2022. Palo Alto County decreased the mental health levy from \$0.25037 per \$1,000 of taxable valuation to \$0.13322 per \$1,000 of taxable valuation. The rural services basic levy decreased from \$3.95 per \$1,000 of taxable valuation to \$3.9277 per \$1,000 of taxable valuation in fiscal year 2022. Additionally, the debt service levy rate for fiscal year 2022 remained the same at \$1.51 per \$1,000 of taxable valuation.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

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

Palo Alto County

Basic Financial Statements

Palo Alto County
Statement of Net Position
June 30, 2021

	Governmental Activities
Assets	
Cash, cash equivalents and pooled investments	\$ 14,677,145
Receivables:	
Property tax:	
Delinquent	4,575
Succeeding year	6,893,000
Succeeding year tax increment financing	817,000
Interest and penalty on property tax	15,580
Accounts	84,706
Accrued interest	401,484
Drainage assessments	12,464,102
Due from other governments	1,075,145
Inventories	741,611
Prepaid insurance	141,226
Capital assets, net of accumulated depreciation/amortization	41,035,161
Total assets	78,350,735
Deferred Outflows of Resources	
Pension related deferred outflows	891,126
OPEB related deferred outflows	13,117
Total deferred outflows of resources	904,243
Liabilities	
Accounts payable	472,709
Accrued interest payable	611,982
Salaries and benefits payable	66,641
Due to other governments	82,597
Unearned revenues	863,001
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	1,770,000
Drainage warrants	8,240,094
Compensated absences	178,977
Total OPEB liability	3,042
Portion due or payable after one year:	
General obligation bonds	2,780,000
Drainage warrants	3,897,116
Compensated absences	100,983
Net pension liability	3,052,523
Total OPEB liability	215,614
Total liabilities	22,335,279
Deferred Inflows of Resources	
Unavailable property tax revenue	6,893,000
Unavailable tax increment financing revenue	817,000
Pension related deferred inflows	162,103
OPEB related deferred inflows	14,141
Total deferred inflows of resources	7,886,244
Net Position	
Net investment in capital assets	36,485,161
Restricted for:	
Supplemental levy purposes	528,831
Mental health purposes	382,328
Rural services purposes	926,401
Secondary roads purposes	8,139,025
Drainage district purposes	758,565
Debt service	482,312
Closure and postclosure care	7,788
Other purposes	323,933
Unrestricted	999,111
Total net position	\$ 49,033,455

See notes to financial statements.

Palo Alto County

Statement of Activities

Year ended June 30, 2021

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 2,046,147	285,819	8,061	-	(1,752,267)
Physical health and social services	318,171	83,856	63,269	-	(171,046)
Mental health	169,984	-	-	-	(169,984)
County environment and education	1,457,476	321,935	153,171	5,322	(977,048)
Roads and transportation	7,030,653	117,087	4,382,812	1,880,674	(650,080)
Governmental services to residents	507,454	230,872	-	-	(276,582)
Administration	1,560,083	12,014	-	-	(1,548,069)
Non-program	5,279,376	5,814,371	494,667	-	1,029,662
Interest on long-term debt	536,282	-	-	-	(536,282)
Total	\$ 18,905,626	6,865,954	5,101,980	1,885,996	(5,051,696)
General Revenues:					
Property and other county tax levied for:					
General purposes					6,028,735
Debt service					1,190,204
Tax increment financing					861,306
Penalty and interest on property tax					38,911
State tax credits					447,386
Local option sales tax					456,751
Gaming tax					131,486
Unrestricted investment earnings					305,791
Gain on disposal of capital assets					7,246
Miscellaneous					234,581
Total general revenues					9,702,397
Change in net position					4,650,701
Net position beginning of year					44,382,754
Net position end of year					\$ 49,033,455

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2021

	Special			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash, cash equivalents and pooled investments	\$ 4,460,264	386,176	971,469	7,169,810
Receivables:				
Property tax:				
Delinquent	2,377	71	1,326	-
Succeeding year	3,417,000	101,000	2,165,000	-
Succeeding year tax increment financing	-	-	-	-
Interest and penalty on property tax	15,580	-	-	-
Accounts	30,240	-	13,081	39,090
Accrued interest	401,484	-	-	-
Drainage assessments	-	-	-	-
Due from other funds	47	-	-	5,292
Due from other governments	34,916	-	39,306	461,080
Inventories	-	-	-	741,611
Prepaid insurance	26,542	-	493	18,534
Total assets	\$ 8,388,450	487,247	3,190,675	8,435,417
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	\$ 85,323	-	21,302	57,152
Salaries and benefits payable	-	-	9,467	57,174
Due to other funds	4,012	-	1,280	47
Due to other governments	25,819	-	47,221	9,557
Unearned revenues	863,001	-	-	-
Total liabilities	978,155	-	79,270	123,930
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	3,417,000	101,000	2,165,000	-
Succeeding year tax increment financing	-	-	-	-
Other	17,955	71	1,326	34,544
Total deferred inflows of resources	3,434,955	101,071	2,166,326	34,544
Fund balances:				
Nonspendable:				
Inventories	-	-	-	741,611
Prepaid insurance	26,542	-	493	18,534
Restricted for:				
Supplemental levy purposes	540,497	-	-	-
Mental health purposes	-	386,176	-	-
Rural services purposes	-	-	944,586	-
Secondary roads purposes	-	-	-	7,516,798
Conservation land acquisition/capital improvements	191,293	-	-	-
Debt service	-	-	-	-
Closure and postclosure care	-	-	-	-
Drainage warrants	-	-	-	-
Other purposes	28,108	-	-	-
Assigned:				
County buildings repair	25,000	-	-	-
Unassigned	3,163,900	-	-	-
Total fund balances	3,975,340	386,176	945,079	8,276,943
Total liabilities, deferred inflows of resources and fund balances	\$ 8,388,450	487,247	3,190,675	8,435,417

See notes to financial statements.

Revenue				
Drainage Districts	Tax Increment Financing	Debt Service	Nonmajor	Total
693,864	-	488,541	109,711	14,279,835
-	-	801	-	4,575
-	-	1,210,000	-	6,893,000
-	817,000	-	-	817,000
-	-	-	-	15,580
-	-	-	2,295	84,706
-	-	-	-	401,484
12,464,102	-	-	-	12,464,102
-	-	-	-	5,339
539,529	-	-	314	1,075,145
-	-	-	-	741,611
-	-	-	-	45,569
13,697,495	817,000	1,699,342	112,320	36,827,946
196,767	-	-	-	360,544
-	-	-	-	66,641
-	-	-	-	5,339
-	-	-	-	82,597
-	-	-	-	863,001
196,767	-	-	-	1,378,122
-	-	1,210,000	-	6,893,000
-	817,000	-	-	817,000
13,003,632	-	797	-	13,058,325
13,003,632	817,000	1,210,797	-	20,768,325
-	-	-	-	741,611
-	-	-	-	45,569
-	-	-	-	540,497
-	-	-	-	386,176
-	-	-	-	944,586
-	-	-	-	7,516,798
-	-	-	-	191,293
-	-	488,545	-	488,545
-	-	-	7,788	7,788
497,096	-	-	-	497,096
-	-	-	104,532	132,640
-	-	-	-	25,000
-	-	-	-	3,163,900
497,096	-	488,545	112,320	14,681,499
13,697,495	817,000	1,699,342	112,320	36,827,946

Palo Alto County

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

June 30, 2021

Total governmental fund balances (page 21) \$ 14,681,499

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 capital assets is \$65,197,273 and the accumulated depreciation /amortization is \$24,162,112. 41,035,161

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. 13,058,325

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. 380,802

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	\$ 904,243	
Deferred inflows of resources	<u>(176,244)</u>	727,999

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. (20,850,331)

Net position of governmental activities (page 18) \$ 49,033,455

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2021

		Special		
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 3,794,297	188,135	2,199,792	-
Tax increment financing	-	-	-	-
Local option sales tax	-	-	456,751	-
Interest and penalty on property tax	42,514	-	-	-
Intergovernmental	787,578	12,893	164,153	4,418,773
Licenses and permits	14,649	-	-	44,265
Charges for service	389,756	-	256,495	54,963
Use of money and property	321,704	-	-	9,634
Miscellaneous	109,210	-	12,360	26,121
Total revenues	5,459,708	201,028	3,089,551	4,553,756
Expenditures:				
Operating:				
Public safety and legal services	1,931,272	-	276,433	-
Physical health and social services	317,308	-	-	-
Mental health	-	163,760	-	-
County environment and education	772,242	-	776,560	-
Roads and transportation	-	-	265,401	4,892,512
Governmental services to residents	495,690	-	-	-
Administration	1,206,924	-	-	-
Non-program	-	-	84,044	-
Debt service	-	-	-	-
Capital projects	201,860	-	-	214,640
Total expenditures	4,925,296	163,760	1,402,438	5,107,152
Excess (deficiency) of revenues over (under) expenditures	534,412	37,268	1,687,113	(553,396)
Other financing sources (uses):				
Sale of capital assets	4,000	-	-	41,000
Transfers in	-	-	-	1,719,522
Transfers out	-	-	(1,719,522)	-
Drainage warrants issued	-	-	-	-
Total other financing sources (uses)	4,000	-	(1,719,522)	1,760,522
Change in fund balances	538,412	37,268	(32,409)	1,207,126
Fund balances beginning of year	3,436,928	348,908	977,488	7,069,817
Fund balances end of year	\$ 3,975,340	386,176	945,079	8,276,943

See notes to financial statements.

Revenue				
Drainage Districts	Tax Increment Financing	Debt Service	Nonmajor	Total
-	-	1,195,068	-	7,377,292
-	861,306	-	-	861,306
-	-	-	-	456,751
-	-	-	-	42,514
366,532	6,119	78,688	21,263	5,855,999
-	-	-	-	58,914
-	-	-	2,631	703,845
-	-	-	5	331,343
2,772,246	-	-	-	2,919,937
3,138,778	867,425	1,273,756	23,899	18,607,901
-	-	-	7,892	2,215,597
-	-	-	-	317,308
-	-	-	-	163,760
-	-	-	6,200	1,555,002
-	-	-	-	5,157,913
-	-	-	1,742	497,432
-	-	-	-	1,206,924
4,947,161	-	-	-	5,031,205
2,337,382	-	1,852,976	-	4,190,358
-	-	-	-	416,500
7,284,543	-	1,852,976	15,834	20,751,999
(4,145,765)	867,425	(579,220)	8,065	(2,144,098)
-	-	-	-	45,000
-	-	930,189	-	2,649,711
-	(930,189)	-	-	(2,649,711)
4,516,655	-	-	-	4,516,655
4,516,655	(930,189)	930,189	-	4,561,655
370,890	(62,764)	350,969	8,065	2,417,557
126,206	62,764	137,576	104,255	12,263,942
497,096	-	488,545	112,320	14,681,499

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, 2021

Change in fund balances - Total governmental funds (page 25) \$ 2,417,557

**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	\$ 1,290,034	
Capital assets contributed by the Iowa Department of Transportation	1,880,674	
Depreciation/amortization expense	<u>(2,720,417)</u>	450,291

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (37,754)

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	(26,867)	
Other	<u>2,908,842</u>	2,881,975

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	(4,516,657)	
Repaid	<u>3,821,717</u>	(694,940)

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. 395,585

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	(171)	
Pension expense	(514,317)	
OPEB expense	(29,578)	
Interest on long-term debt	<u>(167,641)</u>	(711,707)

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. (50,306)

Change in net position of governmental activities (page 19) \$ 4,650,701

See notes to financial statements.

Palo Alto County
Statement of Net Position
Proprietary Fund

June 30, 2021

	<u>Internal</u> <u>Service - Employee</u> <u>Group Health</u>
Current Assets	
Cash and cash equivalents	\$ 397,310
Prepaid insurance	<u>95,657</u>
Total current assets	492,967
Current Liabilities	
Accounts payable	<u>112,165</u>
Net Position	
Unrestricted	<u>\$ 380,802</u>

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2021

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 1,491,395
Reimbursements from employees and others		<u>21,332</u>
Total operating revenues		1,512,727
Operating expenses:		
Insurance premiums	\$ 1,292,148	
Medical claims	255,869	
Administrative fees	<u>15,016</u>	<u>1,563,033</u>
Operating loss		(50,306)
Net position beginning of year		<u>431,108</u>
Net position end of year		<u><u>\$ 380,802</u></u>

See notes to financial statements.

Palo Alto County
 Statement of Cash Flows
 Proprietary Fund
 Year ended June 30, 2021

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 1,491,395
Cash received from employees and others	21,332
Cash paid to suppliers for services	(1,441,424)
Net cash provided by operating activities	71,303
Cash and cash equivalents beginning of year	326,007
Cash and cash equivalents end of year	\$ 397,310
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (50,306)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Prepaid insurance	10,890
Accounts payable	110,719
Net cash provided by operating activities	\$ 71,303

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Net Position
Custodial Funds

June 30, 2021

Assets

Cash, cash equivalents and pooled investments:

County Treasurer \$ 3,774,431

Other County officials 41,114

Receivables:

Property tax:

Delinquent 11,233

Succeeding year 15,044,000

Accounts 11,426

Accrued interest 367

Special assessments 134,721

Due from other governments 60,149

Prepaid expenses 556**Total assets** 19,077,997**Liabilities**

Accounts payable 71,715

Due to other governments 685,294

Trusts payable 30,250

Compensated absences 12,414**Total liabilities** 799,673**Deferred Inflows of Resources**Unavailable property tax revenue 15,044,000**Net position**Restricted for individuals, organizations and
other governments \$ 3,234,324

See notes to financial statements.

Palo Alto County
Statement of Changes in Fiduciary Net Position
Custodial Funds

June 30, 2021

Additions:	
Property and other county tax	\$ 14,540,264
911 surcharge	39,282
State tax credits	1,167,936
Drivers license fees	45,873
Office fees and collections	375,761
Auto licenses, use tax and postage	3,918,986
Assessments	27,918
Trusts	213,193
Miscellaneous	<u>2,238,341</u>
Total additions	<u>22,567,554</u>
Deductions:	
Agency remittances:	
To other funds	281,402
To other governments	21,594,261
Trusts paid out	<u>217,349</u>
Total deductions	<u>22,093,012</u>
Change in net position	474,542
Net position beginning of year, as restated	<u>2,759,782</u>
Net position end of year	<u>\$ 3,234,324</u>

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2021

(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 ninety-two 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 Custodial 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.

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.

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 – Custodial 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 lease agreements 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/Net Position

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 and tax increment financing receivables represent 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 becomes 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, 2019 assessed property valuations; is for the tax accrual period July 1, 2020 through June 30, 2021 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2020.

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, 2021, 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 (except for intangible right-to-use lease assets, the measurement of which is discussed under “Leases” below) 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. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class. 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

Land and construction in progress are not depreciated. The other tangible and intangible property, plant, equipment, the right to use leased equipment and infrastructure 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, the unamortized portion of the net difference between projected and actual earnings on pension plan assets, unrecognized items not yet charged to pension and OPEB 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, 2021. 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 and outflows 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 measurable, 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 and unrecognized items not yet charged to pension and OPEB expense.

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, 2021 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, 2021 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue:		
Secondary Roads	General	\$ 4,012
	Special Revenue:	
	Rural Services	1,280
General Basic:	Special Revenue:	
	Secondary Roads	<u>47</u>
Total		<u>\$ 5,339</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, 2021 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 930,189
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	<u>1,719,522</u>
Total		<u>\$ 2,649,711</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, 2021 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	20,558	2,273,831	214,838	2,079,551
Total capital assets not being depreciated/amortized	1,656,538	2,273,831	214,838	3,715,531
Capital assets being depreciated/amortized:				
Buildings	2,283,224	85,538	-	2,368,762
Improvements other than buildings	93,399	-	-	93,399
Equipment and vehicles	9,601,157	736,205	218,739	10,118,623
Intangibles	331,255	75,134	-	406,389
Infrastructure, road network	46,958,646	214,838	-	47,173,484
Infrastructure, other	1,321,085	-	-	1,321,085
Total capital assets being depreciated/amortized	60,588,766	1,111,715	218,739	61,481,742
Less accumulated depreciation/amortization for:				
Buildings	1,087,155	63,599	-	1,150,754
Improvements other than buildings	68,659	3,504	-	72,163
Equipment and vehicles	6,166,066	426,025	180,985	6,411,106
Intangibles	296,495	21,450	-	317,945
Infrastructure, road network	13,696,635	2,150,628	-	15,847,263
Infrastructure, other	307,670	55,211	-	362,881
Total accumulated depreciation/amortization	21,622,680	2,720,417	180,985	24,162,112
Total capital assets being depreciated/amortized, net	38,966,086	(1,608,702)	37,754	37,319,630
Governmental activities capital assets, net	\$ 40,622,624	665,129	252,592	41,035,161

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 31,535
County environment and education	113,245
Roads and transportation	2,520,297
Governmental services to residents	4,640
Administration	50,700
Total depreciation/amortization expense - governmental activities	\$ 2,720,417

(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, 2021 is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ 25,819
Special Revenue:		
Rural Services	Services	47,221
Secondary Roads	Services	9,557
Total for governmental funds		<u>\$ 82,597</u>
Custodial:		
County Offices	Collections	\$ 29,663
Agricultural Extension Education		2,497
Schools		96,293
Community Colleges		8,919
Corporations		47,177
Townships		1,666
City Special Assessments		141,220
Auto License and Use Tax		306,906
Regional Mental Health		6,459
All other		44,494
Total for agency funds		<u>\$ 685,294</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2021 is as follows:

	General Obligation Bonds	Direct Borrowing Drainage Warrants	Compensated Absences	Net Pension Liability	Total OPEB Liability	Total
Balance beginning of year	\$ 6,295,000	9,697,270	279,789	2,377,286	193,954	18,843,299
Increases	-	4,516,655	253,642	675,237	43,470	5,489,004
Decreases	1,745,000	2,076,715	253,471	-	18,768	4,093,954
Balance end of year	<u>\$ 4,550,000</u>	<u>12,137,210</u>	<u>279,960</u>	<u>3,052,523</u>	<u>218,656</u>	<u>20,238,349</u>
Due within one year	<u>\$ 1,770,000</u>	<u>8,240,094</u>	<u>178,977</u>	<u>-</u>	<u>3,042</u>	<u>10,192,113</u>

General Obligation Bonds

A summary of the County's June 30, 2021 general obligation bond indebtedness is as follows:

Year Ending June 30,	Refunding Series 2012 Issued December 20, 2012				Urban Renewal Series 2013 Issued April 23, 2013			
	Interest Rates	Principal	Interest	Total	Interest Rates	Principal	Interest	Total
2022	1.45%	\$ 1,025,000	22,862	1,047,862	1.50%	\$ 625,000	20,313	645,313
2023	1.60	500,000	8,000	508,000	1.75	625,000	10,938	635,938
Total		<u>\$ 1,525,000</u>	<u>30,862</u>	<u>1,555,862</u>		<u>\$ 1,250,000</u>	<u>31,250</u>	<u>1,281,250</u>

Year Ending June 30,	General Obligation Urban Renewal Bonds Series 2014 Issued July 9, 2014				Total		
	Interest Rates	Principal	Interest	Total	Principal	Interest	Total
2022	2.05%	\$ 120,000	41,183	161,183	1,770,000	84,358	1,854,358
2023	2.25	665,000	38,723	703,723	1,790,000	57,661	1,847,661
2024	2.40	990,000	23,760	1,013,760	990,000	23,760	1,013,760
Total		<u>\$ 1,775,000</u>	<u>103,666</u>	<u>1,878,666</u>	<u>4,550,000</u>	<u>165,778</u>	<u>4,715,778</u>

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. During the year ended June 30, 2021, the County paid principal of \$950,000 and interest of \$35,212 on the bonds.

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. During the year ended June 30, 2021, the County paid principal of \$625,000 and interest of \$28,437 on the bonds.

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. During the year ended June 30, 2021, the County paid principal of \$170,000, and interest of \$44,327 on the bonds.

Drainage Warrants – Direct Borrowing

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 costs 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 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the County contributed 9.44% of covered payroll, for a total rate of 15.73%. The Sheriff, deputies and the County each contributed 9.26% of covered payroll, for a total rate of 18.52%. Protection occupation members contributed 6.41% of covered payroll and the County contributed 9.61% of covered payroll, for a total rate of 16.02%.

The County’s contributions to IPERS for the year ended June 30, 2021 were \$395,585.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the County reported a liability of \$3,052,523 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 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, 2020, the County’s proportion was 0.043454%, which was an increase of 0.002400% over its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the County recognized pension expense of \$514,317. At June 30, 2021, 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	\$ 9,027	78,387
Changes of assumptions	187,935	51,508
Net difference between projected and actual earnings on IPERS' investments	220,344	-
Changes in proportion and differences between County contributions and the County's proportionate share of contributions	78,235	32,208
County contributions subsequent to the measurement date	395,585	-
Total	<u>\$ 891,126</u>	<u>162,103</u>

\$395,585 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, 2022. 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
2022	\$ 35,124
2023	75,724
2024	82,947
2025	135,743
2026	3,900
Total	<u>\$ 333,438</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2020 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, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study date June 28, 2019.

Mortality rates used in the 2020 valuations were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	3.5	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	<u>100.0%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the 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.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
County's proportionate share of the net pension liability:	\$ 5,558,484	3,052,523	951,608

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, 2021.

(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, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees	<u>67</u>
Total	<u>68</u>

Total OPEB Liability – The County’s total OPEB liability of \$218,656 was measured as of June 30, 2021 and was determined by an actuarial valuation as of July 1, 2019. The total OPEB liability was rolled forward from the July 1, 2019 valuation date to the June 30, 2021 measurement date.

Actuarial Assumptions – The total OPEB liability in the July 1, 2019 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, 2021)	3.00% per annum.
Discount rate	2.37% compounded annually,
(effective June 30, 2021)	
Healthcare cost trend rate	6.00% per annum.
(effective June 30, 2021)	

Discount Rate – The discount rate used to measure the total OPEB liability was 2.37% 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 Public Plan 2010 tables. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year	\$ 193,954
Changes for the year:	
Service cost	24,650
Interest	5,402
Differences between expected and actual experiences	(15,726)
Changes in assumptions	13,418
Benefit payments	(3,042)
Net changes	<u>24,702</u>
Total OPEB liability end of year	<u>\$ 218,656</u>

Changes of assumptions reflect the amortization of deferred outflows and inflows.

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 (1.37%) or 1% higher (3.37%) than the current discount rate.

	1% Decrease (1.37%)	Discount Rate (2.37%)	1% Increase (3.37%)
Total OPEB liability	\$ 222,995	218,656	187,074

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	\$ 177,099	218,656	236,414

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2021, the County recognized OPEB expense of \$29,578. At June 30, 2021, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	(14,141)
Changes in assumptions	13,117	-
Total	<u>\$ 13,117</u>	<u>(14,141)</u>

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

Year ending June 30,	Amount
2022	\$ (115)
2023	(115)
2024	(115)
2025	(115)
Thereafter	(564)
	<u>\$ (1,024)</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 785 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, 2021 were \$79,648.

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 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, 2021, no liability has been recorded in the County's financial statements. As of June 30, 2021, 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 \$50,000, 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 two 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 \$1000/\$2500 and \$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, 2021 was \$1,491,395.

Amounts payable from the Employee Group Health Fund at June 30, 2021 total \$112,165, 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 \$380,802 at June 30, 2021 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	\$ 1,446
Incurred claims (including claims incurred but not reported at June 30, 2021)	255,869
Payment on claims during the fiscal year	<u>(145,150)</u>
Unpaid claims end of year	<u>\$ 112,165</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, 2021 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, 2021.

(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, 2021, as follows:

Revenues:		
Property and other county tax		\$ 188,135
Intergovernmental:		
State tax credits	\$ 12,859	
Other	34	12,893
Total revenues		<u>201,028</u>
Expenditures:		
Services to persons with:		
Mental illness		66,190
General administration:		
Direct administration		2,000
Distribution to regional fiscal agent		95,570
Total expenditures		<u>163,760</u>
Excess of expenditures over revenues		37,268
Fund balance beginning of year		<u>348,908</u>
Fund balance end of year		<u>\$ 386,176</u>

(14) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities, was implemented during fiscal year 2021. The new requirements change the definition of fiduciary activity and establish new financial reporting requirements for state and local governments which report fiduciary activity.

The restatement to retroactively report the change in net position is as follows:

	<u>Fiduciary Activities</u>
Net position June 30, 2020, as previously reported	\$ -
Change to implement GASBS No. 84	<u>2,759,782</u>
Net position July 1, 2020, as restated	<u>\$ 2,759,782</u>

(15) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of Palo Alto County remains uncertain.

To date, the outbreak has not created a material disruption to the operations of Palo Alto County. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to Palo Alto County.

(16) Subsequent Events

On December 14, 2021, the County Board of Supervisors awarded six construction contracts totaling \$6,910,616 for the Palo Alto County Public Safety Center Project.

In January 2022, the County issued Urban Renewal Tax Increment Revenue Bonds in a principal amount not to exceed \$2,000,000 for the payment of certain costs of the Public Safety Building Project.

In February 2022, the County Board of Supervisors approved the purchase of a Case backhoe and a John Deere 772 GP motor grader for \$96,360 and \$342,620, respectively.

On March 1, 2022, the County passed resolution No. 3-1-2022 to enter into a General Obligation Urban Renewal Loan Agreement in the future and to issue general obligation bonds in a principal amount not to exceed \$4,800,000 for the purpose of paying the costs of undertaking the Palo Alto County road and bridge improvement projects and an urban renewal program in the Palo Alto County Industrial Park Urban Renewal Area.

(17) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

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, 2021

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 8,723,301	-	8,723,301
Interest and penalty on property tax	43,741	-	43,741
Intergovernmental	6,575,997	366,532	6,209,465
Licenses and permits	62,980	-	62,980
Charges for service	699,886	-	699,886
Use of money and property	269,628	-	269,628
Miscellaneous	3,166,860	2,772,246	394,614
Total receipts	19,542,393	3,138,778	16,403,615
Disbursements:			
Public safety and legal services	2,210,921	-	2,210,921
Physical health and social services	302,801	-	302,801
Mental health	163,760	-	163,760
County environment and education	1,520,008	-	1,520,008
Roads and transportation	5,339,376	-	5,339,376
Governmental services to residents	495,704	-	495,704
Administration	1,283,796	-	1,283,796
Non-program	4,878,018	4,878,018	-
Debt service	4,190,358	2,337,382	1,852,976
Capital projects	363,351	-	363,351
Total disbursements	20,748,093	7,215,400	13,532,693
Excess (deficiency) of receipts over (under) disbursements	(1,205,700)	(4,076,622)	2,870,922
Other financing sources, net	4,516,655	4,516,655	-
Change in balances	3,310,955	440,033	2,870,922
Balance beginning of year	10,968,880	253,831	10,715,049
Balance end of year	\$ 14,279,835	693,864	13,585,971

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
8,600,679	8,600,679	122,622
12,000	12,000	31,741
4,367,062	4,459,611	1,749,854
26,350	31,850	31,130
668,862	677,311	22,575
94,217	94,217	175,411
293,101	453,101	(58,487)
14,062,271	14,328,769	2,074,846
2,345,618	2,375,998	165,077
523,969	532,418	229,617
288,100	299,006	135,246
1,717,384	1,789,109	269,101
6,099,454	7,109,454	1,770,078
515,461	548,386	52,682
1,369,475	1,412,720	128,924
-	-	-
2,327,755	2,327,755	474,779
388,000	523,000	159,649
15,575,216	16,917,846	3,385,153
(1,512,945)	(2,589,077)	5,459,999
-	-	-
(1,512,945)	(2,589,077)	5,459,999
7,706,925	7,706,925	3,008,124
6,193,980	5,117,848	8,468,123

Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2021

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 19,542,393	(934,492)	18,607,901
Expenditures	20,748,093	3,906	20,751,999
Net	(1,205,700)	(938,398)	(2,144,098)
Other financing sources, net	4,516,655	45,000	4,561,655
Beginning fund balances	10,968,880	1,295,062	12,263,942
Ending fund balances	\$ 14,279,835	401,664	14,681,499

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2021

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 Custodial 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 and the Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$1,342,630. 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, 2021, disbursements did not exceed the amounts budgeted.

Palo Alto County

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

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

Required Supplementary Information

	2021	2020	2019	2018
County's proportion of the net pension liability	0.043454%	0.041054%	0.042128%	0.042969%
County's proportionate share of the net pension liability	\$ 3,053	2,377	2,666	2,862
County's covered payroll	\$ 4,063	3,891	3,856	3,652
County's proportionate share of the net pension liability as a percentage of its covered payroll	75.14%	61.09%	69.14%	78.37%
IPERS' net position as a percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%

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

See accompanying independent auditor's report.

2017	2016	2015
0.044052%	0.044874%	0.042869%
2,772	2,217	1,700
3,598	3,615	3,558
77.04%	61.30%	47.78%
81.82%	85.19%	87.61%

Palo Alto County

Schedule of County Contributions

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

Required Supplementary Information

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 396	385	370	348
Contributions in relation to the statutorily required contribution	<u>(396)</u>	<u>(385)</u>	<u>(370)</u>	<u>(348)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
County's covered payroll	\$ 4,198	4,063	3,891	3,856
Contributions as a percentage of covered payroll	9.43%	9.48%	9.52%	9.02%

See accompanying independent auditor's report.

2017	2016	2015	2014	2013	2012
331	327	329	324	313	290
(331)	(327)	(329)	(324)	(313)	(290)
-	-	-	-	-	-
3,652	3,598	3,615	3,558	3,506	3,446
9.06%	9.09%	9.10%	9.12%	8.92%	8.40%

Palo Alto County

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

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

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

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- 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.

Palo Alto County

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

For the Last Four Years
Required Supplementary Information

	2021	2020	2019	2018
Service cost	\$ 24,650	22,143	18,004	16,840
Interest cost	5,402	6,473	6,222	8,400
Difference between expected and actual experiences	(15,726)	(16,444)	(13,277)	(12,177)
Changes in assumptions	13,418	14,254	6,517	-
Benefit payments	(3,042)	(2,199)	(42,806)	(52,630)
Net change in total OPEB liability	24,702	24,227	(25,340)	(39,567)
Total OPEB liability beginning of year	193,954	169,727	195,067	234,634
Total OPEB liability end of year	\$ 218,656	193,954	169,727	195,067
Covered-employee payroll	\$ 4,298,239	4,186,432	4,016,510	3,607,750
Total OPEB liability as a percentage of covered-employee payroll	5.1%	4.6%	4.2%	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, 2021	2.37%
Year ended June 30, 2020	3.15%
Year ended June 30, 2019	3.15%
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, 2021

	Special		
	Sheriff Investigation	Sheriff Forfeit	Resource Enhancement and Protection
Assets			
Cash, cash equivalents and pooled investments	\$ 3	2,268	46,347
Accounts receivable	-	-	-
Due from other governments	-	-	-
Total assets	\$ 3	2,268	46,347
Liabilities and Fund Balances			
Liabilities:			
None	\$ -	-	-
Fund balances:			
Restricted for:			
Closure and postclosure care	-	-	-
Other purposes	3	2,268	46,347
Total fund balance	3	2,268	46,347
Total liabilities and fund balances	\$ 3	2,268	46,347

See accompanying independent auditor's report.

<u>Revenue</u>				
County Recorder's Records Management	Sheriff Reserve	Closure/ Postclosure	County Attorney Collections	Total
10,588	6,170	7,788	36,547	109,711
170	2,125	-	-	2,295
-	-	-	314	314
<u>10,758</u>	<u>8,295</u>	<u>7,788</u>	<u>36,861</u>	<u>112,320</u>
-	-	-	-	-
-	-	7,788	-	7,788
<u>10,758</u>	<u>8,295</u>	-	<u>36,861</u>	<u>104,532</u>
<u>10,758</u>	<u>8,295</u>	<u>7,788</u>	<u>36,861</u>	<u>112,320</u>
<u>10,758</u>	<u>8,295</u>	<u>7,788</u>	<u>36,861</u>	<u>112,320</u>

Palo Alto County

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

Year ended June 30, 2021

	Special		
	Sheriff Investigation	Sheriff Forfeit	Resource Enhancement and Protection
Revenues:			
Intergovernmental	\$ -	-	9,517
Charges for service	-	-	-
Use of money and property	-	-	4
Total revenues	-	-	9,521
Expenditures:			
Operating:			
Public safety and legal services	-	1,000	-
County environment and education	-	-	6,200
Government services to residents	-	-	-
Total expenditures	-	1,000	6,200
Change in fund balances	-	(1,000)	3,321
Fund balances beginning of year	3	3,268	43,026
Fund balances end of year	\$ 3	2,268	46,347

See accompanying independent auditor's report.

Revenue					
County Recorder's Records Management	Sheriff Reserve	Closure/ Postclosure	County Attorney Collections	Total	
-	8,061	-	3,685	21,263	
2,631	-	-	-	2,631	
1	-	-	-	5	
2,632	8,061	-	3,685	23,899	
-	6,452	-	440	7,892	
-	-	-	-	6,200	
1,742	-	-	-	1,742	
1,742	6,452	-	440	15,834	
890	1,609	-	3,245	8,065	
9,868	6,686	7,788	33,616	104,255	
10,758	8,295	7,788	36,861	112,320	

Palo Alto County
Combining Schedule of Fiduciary Net Position
Custodial Funds

June 30, 2021

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ -	2,497	229,738	96,293
Other County officials	41,114	-	-	-
Receivables:				
Property tax:				
Delinquent	-	128	186	6,535
Succeeding year	-	232,000	266,000	9,115,000
Accounts	2,936	-	-	-
Accrued interest	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Prepaid expenses	-	-	-	-
Total assets	44,050	234,625	495,924	9,217,828
Liabilities				
Liabilities:				
Accounts payable	-	-	-	-
Due to other governments	29,663	2,497	-	96,293
Trusts payable	14,387	-	-	-
Compensated absences	-	-	8,535	-
Total liabilities	44,050	2,497	8,535	96,293
Deferred Inflows of Resources				
Unavailable revenues	-	232,000	266,000	9,115,000
Net Position				
Restricted for individuals, organizations and other governments	\$ -	128	221,389	6,535

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Regional Mental Health	Other	Total
8,919	47,177	1,666	6,499	306,906	2,140,939	933,797	3,774,431
-	-	-	-	-	-	-	41,114
568	2,544	30	-	-	-	1,242	11,233
823,000	2,880,000	159,000	-	-	-	1,569,000	15,044,000
-	-	-	-	-	550	7,940	11,426
-	-	-	-	-	361	6	367
-	-	-	134,721	-	-	0	134,721
-	-	-	-	-	-	60,149	60,149
-	-	-	-	-	-	556	556
832,487	2,929,721	160,696	141,220	306,906	2,141,850	2,572,690	19,077,997
-	-	-	-	-	70,522	1,193	71,715
8,919	47,177	1,666	141,220	306,906	6,459	44,494	685,294
-	-	-	-	-	-	15,863	30,250
-	-	-	-	-	-	3,879	12,414
8,919	47,177	1,666	141,220	306,906	76,981	65,429	799,673
823,000	2,880,000	159,000	-	-	-	1,569,000	15,044,000
568	2,544	30	-	-	2,064,869	938,261	3,234,324

Palo Alto County

Combining Schedule of Changes in Fiduciary Net Position
Custodial Funds

Year ended June 30, 2021

	County Offices	Agricultural Extension Education	County Assessor	Schools
Additions:				
Property and other county tax	\$ -	228,284	267,018	8,909,781
911 surcharge	-	-	-	-
State tax credits	-	15,670	18,329	611,098
Drivers license fees	-	-	-	-
Office fees and collections	375,761	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	147,325	-	-	-
Miscellaneous	-	42	1,058	1,462
Total additions	523,086	243,996	286,405	9,522,341
Deductions:				
Agency remittances:				
To other funds	150,930	-	-	-
To other governments	220,675	245,894	284,142	9,594,881
Trusts paid out	151,481	-	-	-
Total deductions	523,086	245,894	284,142	9,594,881
Changes in net position	-	(1,898)	2,263	(72,540)
Net position beginning of year, as restated	-	2,026	219,126	79,075
Net position end of year	\$ -	128	221,389	6,535

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	City Special Assessments	Auto License and Use Tax	Regional Mental Health	Other	Total
824,046	2,582,467	165,227	-	-	-	1,563,441	14,540,264
-	-	-	-	-	-	39,282	39,282
56,103	352,675	8,719	-	-	-	105,342	1,167,936
-	-	-	-	-	-	45,873	45,873
-	-	-	-	-	-	-	375,761
-	-	-	-	3,918,986	-	-	3,918,986
-	18,481	-	9,270	-	-	167	27,918
-	-	-	-	-	-	65,868	213,193
150	-	66	-	-	1,992,608	242,955	2,238,341
880,299	2,953,623	174,012	9,270	3,918,986	1,992,608	2,062,928	22,567,554
-	-	-	-	130,472	-	-	281,402
886,975	2,987,529	174,853	9,270	3,788,514	1,489,979	1,911,549	21,594,261
-	-	-	-	-	-	65,868	217,349
886,975	2,987,529	174,853	9,270	3,918,986	1,489,979	1,977,417	22,093,012
(6,676)	(33,906)	(841)	-	-	502,629	85,511	474,542
7,244	36,450	871	-	-	1,562,240	852,750	2,759,782
568	2,544	30	-	-	2,064,869	938,261	3,234,324

Palo Alto County

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

For the Last Ten Years

	2021	2020	2019	2018
Revenues:				
Property and other county tax	\$ 7,377,292	7,201,701	7,113,340	7,029,363
Tax increment financing	861,306	913,440	937,777	861,311
Local option sales tax	456,751	651,377	403,820	363,448
Interest and penalty on property tax	42,514	12,654	28,029	27,092
Intergovernmental	5,855,999	5,055,126	4,997,499	4,411,684
Licenses and permits	58,914	89,566	18,960	18,848
Charges for service	703,845	681,353	735,826	713,771
Use of money and property	331,343	344,344	244,770	183,565
Miscellaneous	2,919,937	1,500,125	1,615,317	1,585,853
Total	\$ 18,607,901	16,449,686	16,095,338	15,194,935
Expenditures:				
Operating:				
Public safety and legal services	\$ 2,215,597	2,167,023	2,113,773	2,067,658
Physical health and social services	317,308	348,098	366,331	356,980
Mental health	163,760	141,779	90,470	193,000
County environment and education	1,555,002	1,474,089	1,678,712	1,519,636
Roads and transportation	5,157,913	5,024,775	4,384,260	4,278,394
Governmental services to residents	497,432	482,135	454,876	483,003
Administration	1,206,924	1,225,819	1,275,964	1,181,676
Non-program	5,031,205	3,823,662	4,045,063	1,703,084
Debt service	4,190,358	3,852,520	2,667,287	3,250,017
Capital projects	416,500	351,543	6,224,388	445,463
Total	\$ 20,751,999	18,891,443	23,301,124	15,478,911

See accompanying independent auditor's report.

2017	2016	2015	2014	2013	2012
6,368,829	6,491,723	6,107,119	6,145,690	6,167,506	6,176,465
864,015	718,106	327,473	310,002	300,004	302,974
352,235	432,521	465,145	433,932	361,974	363,359
24,219	27,218	26,172	25,497	23,143	32,834
4,933,819	4,816,292	4,466,781	3,912,315	5,753,093	4,236,506
19,475	22,379	15,448	14,701	14,578	11,544
695,083	655,020	613,017	675,118	747,829	649,422
143,044	110,037	109,598	105,959	76,332	132,469
1,470,104	1,670,155	2,508,166	1,198,791	746,189	1,285,823
14,870,823	14,943,451	14,638,919	12,822,005	14,190,648	13,191,396
1,862,649	1,765,900	1,758,102	1,715,696	1,677,580	1,615,221
347,152	333,962	315,938	345,250	325,218	330,422
193,262	442,343	518,741	441,820	498,060	1,287,366
1,423,697	1,493,651	1,280,216	1,340,012	1,367,347	1,441,657
3,811,770	3,593,743	4,076,273	4,351,228	3,923,103	3,759,031
432,689	431,905	402,691	424,021	404,747	388,793
1,111,525	1,170,815	1,179,145	1,127,496	1,156,543	1,139,244
1,647,478	623,771	1,796,929	924,130	5,730,306	1,132,729
2,561,232	3,274,586	10,040,124	2,768,798	1,824,566	2,213,254
2,930,884	1,861,379	5,260,226	1,751,867	2,608,192	3,588,863
16,322,338	14,992,055	26,628,385	15,190,318	19,515,662	16,896,580

Palo Alto County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2021

Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
SNAP Cluster:			
State Administrative Matching Grants for the			
Supplemental Nutrition Assistance Program			
	10.561		7,043
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	20-OT-012	4,000
U.S. Department of the Interior:			
Iowa Department of Natural Resources:			
North American Wetlands Conservation Fund			
	15.623	F18AP00291	4,100
U.S. Department of Transportation:			
Iowa Department of Transportation			
Highway Planning and Construction Cluster:			
Highway Planning and Construction			
	20.205	IA-20-01-74	243,059
Iowa Department of Public Safety:			
National Priority Safety Programs			
	20.616	20-402-MOPT Task 62-80-00	444
National Priority Safety Programs			
	20.616	21-402-MOPT Task 71-70-00	3,865
			<u>4,309</u>
U.S. Department of the Treasury:			
Iowa Department of Revenue:			
Coronavirus Relief Fund			
			168,450
U.S. Election Assistance Commission:			
Iowa Secretary of State:			
COVID-19 - 2018 HAVA Election Security Grants			
	90.404		14,200
U. S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Immunization Cooperative Agreements			
Well-Integrated Screening and Evaluation for			
Women Across the Nation (Wisewoman)			
	93.268	5881I470	10,307
Well-Integrated Screening and Evaluation for			
Women Across the Nation (Wisewoman)			
	93.436	5880NB19WW	900
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Title IV-E Prevention Program			
	93.472		361
Foster Care Title IV-E			
	93.658		1,847
Adoption Assistance			
	93.659		905
Social Services Block Grant			
	93.667		1,683
Children's Health Insurance Program			
	93.767		150
CCDF Cluster:			
Child Care Mandatory and Matching Funds of			
the Child Care and Development Fund			
	93.596		1,541
Medicaid Cluster:			
Medical Assistance Program			
	93.778		6,117
U. S. Department of Homeland Security:			
Iowa Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance (Presidentially			
Declared Disasters)			
	97.036	FEMA 4386 DRIA	210,635
Disaster Grants - Public Assistance (Presidentially			
Declared Disasters)			
	97.036	FEMA 4421 DRIA	425,633 *
Disaster Grants - Public Assistance (Presidentially			
Declared Disasters)			
	97.036	FEMA 4483 DRIA	4,468
			<u>640,736</u>
Total			<u>\$ 1,109,708</u>

* - \$185,922 was incurred in fiscal year 2020

Palo Alto County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Palo Alto County under programs of the federal Revigovernment for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Palo Alto County, it is not intended to and does not present the financial position, changes in financial position or cash flows of Palo Alto County.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – Palo Alto County has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



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

To the 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, 2021, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 22, 2022.

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 as a basis for designing 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 and Questioned Costs, we identified certain deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

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 and Questioned Costs as items II-A-21 and II-B-21 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 and Questioned Costs as item II-C-21 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 financial statements. 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 and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2021 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.

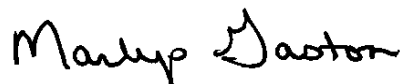
Palo Alto County's Responses to the Findings

Palo Alto County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.



Marlys K. Gaston, CPA
Chief Deputy Auditor of State

March 22, 2022



**OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Officials of Palo Alto County:

Report on Compliance for Each Major Federal Program

We have audited Palo Alto County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2021. Palo Alto County'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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Palo Alto County'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 the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Palo Alto County's compliance with those requirements and performing such other procedures 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 Palo Alto County's compliance.

Opinion on the Major Federal Program

In our opinion, Palo Alto County 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, 2021.

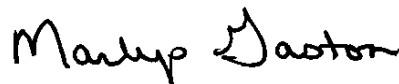
Report on Internal Control Over Compliance

The management of Palo Alto County 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 Palo Alto County'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 the Uniform Guidance, 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 Palo Alto County'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 first paragraph of this section 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 that 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Marlys K. Gaston, CPA
Chief Deputy Auditor of State

March 22, 2022

Palo Alto County
Schedule of Findings and Questioned Costs
Year ended June 30, 2021

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

- (a) Unmodified opinions were issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.
- (b) A significant deficiency and 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 are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was Assistance Listing Number 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Palo Alto County did not qualify as a low-risk auditee.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-21 Segregation of Duties
(2021-001)

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 Sheriff and County Treasurer

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.

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.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

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 all duties the best we can.

County Treasurer – We will continue to alternate balancing motor vehicle and taxes weekly and look for ways to segregate the duties of the mail opener.

Conclusions – Responses accepted.

II-B-21 Financial Reporting
(2021-002)

Criteria – A deficiency in internal control over financial reporting exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the County's financial statements.

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

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

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

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

Response – Policies and procedures will be put into place to verify all receivables and capital assets are properly recorded in the County's financial statements.

Conclusion – Response accepted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

II-C-21
(2021-003) 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, 2021 book balance did not reconcile to the June 30, 2020 bank balance. The book balance was lower than the bank by \$2,111.

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.

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

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

Response – We have had our software company design a new report that mimics the report the Auditor has asked us to prepare. It has the bank to book reconciliations figures for the Auditor to be able to review. We have, for a few years, been unable to reconcile our books to have a zero variance. We have discussed this situation with the State Auditor every time they have been here, and it has not been able to be figured out why. We have discussed with our software company this issue and we are implementing a new way of keeping track of our commissary (inmate) accounts within our software program that we anticipate will take care of this problem.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weakness in internal control over the major program were noted.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-21 Certified Budget – Disbursements during the year ended June 30, 2021 did not exceed the amounts budgeted.
- IV-B-21 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.
- IV-C-21 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- IV-D-21 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Nick Jackson, son of Deputy Sheriff	Lawn services	\$ 2,500
Rouse Tire and Repair, owner is spouse of County employee	Miscellaneous repairs	6,457

The transactions with Nick Jackson do not appear to represent conflicts of interest in accordance with Chapter 331.342(2)(j) of the Code of Iowa, since the total transactions with each individual were less than \$6,000 during the fiscal year.

The transactions with Rouse Tire and Repair may represent a conflict of interest as defined in Chapter 331.342(2)(j) of the Code of Iowa since the total transactions exceeded \$6,000 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 legal counsel to determine the disposition of this matter. All claims are reviewed by the Board of Supervisors for Rouse Tire and Repair.

Conclusion – Response accepted.

- IV-E-21 Restricted Donor Activity – No transactions were noted between the County, County officials, or County employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- IV-F-21 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 periodically to ensure the coverage is adequate for current operations.
- IV-G-21 Board Minutes – No transactions were found which we believe should have been approved in the Board minutes but were not.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

- IV-H-21 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.
- IV-I-21 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).
- IV-J-21 Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management by December 1 and no exceptions were noted.
- IV-K-21 Donations to Private Non-profit Entities – During the year ended June 30, 2021, Palo Alto County donated \$18,000 from the General Fund to various private non-profit entities.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private nonprofit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “...no public money or property shall be appropriated for local or private purposes, unless such appropriations, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.”

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly.” The Opinions further state, “Even if the function of a private non-profit corporation fits within the scope of activities generally recognized as serving a public purpose a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

“Political subdivisions and municipalities, including cities, counties, schools, and townships are municipal - governmental - entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

Recommendation – We are not aware of any statutory authority for the County to donate public funds to private non-profit organizations. The County should immediately cease making such donations in the future.

Palo Alto County

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Response – The County will prepare service agreements with non-profit organizations that clearly state the purpose of how the contribution is providing service to the citizens of the County.

Conclusion – Response acknowledged. The service agreements should be in writing and should be clear as to the terms and conditions of each party, including how much the County will pay, the consideration the County is receiving in return, how the public will benefit from the payment, and a requirement for the non-profit entity to provide an accounting for the use of the funds to the County on a regular basis.

Palo Alto County

Staff

This audit was performed by:

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