



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Ernest Ruben
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FOR RELEASE

February 3, 2023

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

FINANCIAL HIGHLIGHTS:

The County's revenues totaled \$20,048,486 for the year ended June 30, 2022, a 14.9% decrease from the prior year. Expenses for County operations for the year ended June 30, 2022 totaled \$17,100,863, a 9.5% decrease from the prior year. The significant decrease in revenues is due to a decrease in contributions from the Iowa Department of Transportation for road infrastructure, a decrease in drainage district assessments and reimbursements and a decrease in FEMA revenues.

AUDIT FINDINGS:

Sand reported five findings related to the receipt and expenditure of taxpayer funds. They are found on pages 82 through 86 of this report. The findings address issues such as a lack of segregation of duties, material amounts of receivables, payables and capital assets not properly recorded in the County's financial statements, donations to private non-profit entities and a deficit balance in the Special Revenue Drainage District Fund. 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 [Audit Reports – Auditor of State](#).

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PALO ALTO COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2022

Palo Alto County



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January 25, 2023

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, 2022. 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", written in a cursive style.

Rob Sand
Auditor of State

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Palo Alto County

Officials

| <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 2028 |



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Independent Auditor's Report

To the Officials of Palo Alto County:

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

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, 2022 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of Palo Alto County, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 16 to the financial statements, Palo Alto County adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Palo Alto County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Palo Alto County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Palo Alto County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the County's Proportionate Share of the Net Pension Liability (Asset), 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 16 and 58 through 67 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

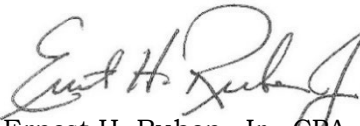
Supplementary Information

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, 2021 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such 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. The 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Schedules 1 through 5 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 January 25, 2023 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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

January 25, 2023

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, 2022. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2022 FINANCIAL HIGHLIGHTS

- The County implemented Governmental Accounting Standards Board Statement (GASBS) No. 87, Leases, during fiscal year 2022. The implementation of this standard revised certain asset and liability accounts related to leases, however had no effect on the beginning net position for governmental activities.
- Revenues of the County's governmental activities decreased 14.9%, or approximately \$3,508,000, from fiscal year 2021 to fiscal year 2022. Capital grants decreased approximately \$1,686,000, charges for service decreased approximately \$1,265,000, operating grants decreased approximately \$310,000, and property and other county tax decreased approximately \$227,000.
- Palo Alto County's governmental activities expenses decreased 9.5%, or approximately \$1,806,000, from fiscal year 2021. Non-program expenses decreased approximately \$1,979,000 and public safety and legal services decreased approximately \$316,000.
- The County's net position at June 30, 2022 increased 6.0%, or approximately \$2,948,000, over the June 30, 2021 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 asset 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.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

- 2) 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 \$49,033,000 to approximately \$51,981,000 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, | |
| | 2022 | 2021 |
| Current and other assets | \$ 44,682 | 37,316 |
| Capital assets and net pension asset | 42,522 | 41,035 |
| Total assets | 87,204 | 78,351 |
| Deferred outflows of resources | 653 | 904 |
| Long-term liabilities | 21,056 | 20,238 |
| Other liabilities | 3,696 | 2,097 |
| Total liabilities | 24,752 | 22,335 |
| Deferred inflows of resources | 11,124 | 7,886 |
| Net position: | | |
| Net investment in capital assets | 38,044 | 36,485 |
| Restricted | 12,391 | 11,549 |
| Unrestricted | 1,546 | 999 |
| Total net position | \$ 51,981 | 49,033 |

Net position of Palo Alto County’s governmental activities increased 6.0% (approximately \$52.0 million compared to approximately \$49.0 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 \$1,559,000, or 4.3%, primarily due to increases in road infrastructure, constructing a public safety building and repaying long-term debt related to capitalized assets.

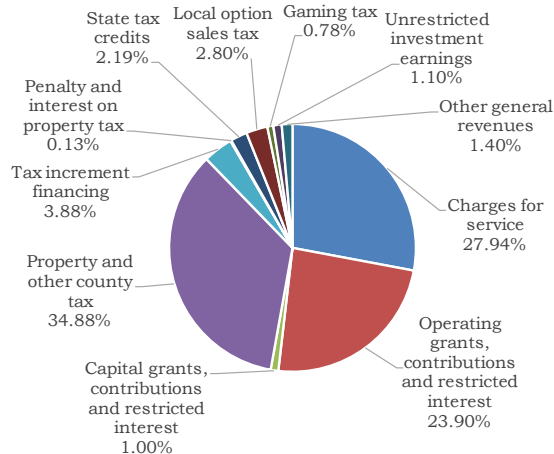
Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. This net position increased approximately \$842,000, or 7.3%, primarily due to an increase in amounts restricted for secondary roads and drainage district 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 \$999,000 at June 30, 2021 to approximately \$1,546,000 at June 30, 2022, or 54.8%. The change in the unrestricted net position is due in part to the net pension liability becoming a net pension asset having a positive impact on the unrestricted net position.

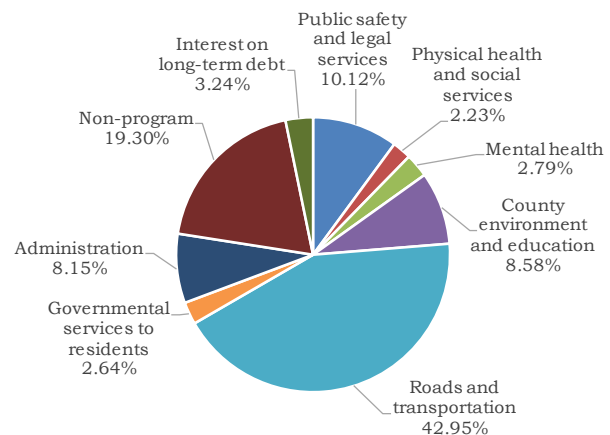
Changes in Net Position of Governmental Activities
(Expressed in Thousands)

| | Year ended June 30, | |
|---------------------------------------------------------|---------------------|------------------------|
| | 2022 | 2021 (Not Restated) |
| Revenues: | | |
| Program revenues: | | |
| Charges for service | \$ 5,601 | 6,866 |
| Operating grants, contributions and restricted interest | 4,792 | 5,102 |
| Capital grants, contributions and restricted interest | 200 | 1,886 |
| General revenues: | | |
| Property and other county tax | 6,992 | 7,219 |
| Tax increment financing | 777 | 861 |
| Penalty and interest on property tax | 27 | 39 |
| State tax credits | 440 | 447 |
| Local option sales tax | 562 | 457 |
| Gaming tax | 156 | 131 |
| Unrestricted investment earnings | 220 | 306 |
| Other general revenues | 281 | 242 |
| Total revenues | 20,048 | 23,556 |
| Program expenses: | | |
| Public safety and legal services | 1,730 | 2,046 |
| Physical health and social services | 381 | 318 |
| Mental health | 477 | 170 |
| County environment and education | 1,467 | 1,458 |
| Roads and transportation | 7,344 | 7,031 |
| Governmental services to residents | 452 | 508 |
| Administration | 1,395 | 1,560 |
| Non-program | 3,300 | 5,279 |
| Interest on long-term debt | 554 | 536 |
| Total expenses | 17,100 | 18,906 |
| Change in net position | 2,948 | 4,650 |
| Net position beginning of year | 49,033 | 44,383 |
| Net position end of year | \$ 51,981 | 49,033 |

Revenues by Source



Expenditures by Program



Palo Alto County's governmental activities net position increased approximately \$2,948,000 during the year. Revenues for governmental activities decreased approximately \$3,508,000 from the prior year. Capital grants, contributions and restricted interest decreased approximately \$1,686,000, or 89.4% due to a decrease in contributions of infrastructure from the Iowa Department of Transportation. Charges for service decreased \$1,265,000, or 18.4% due to a decrease in drainage assessments and reimbursements. Operating grants, contributions, and restricted interest decreased \$310,000, or 6.1% due to a decrease in federal grants and road use tax receipts.

The County decreased overall property tax rates for fiscal year 2022 by 4.86% and property tax revenue was budgeted to decrease approximately \$244,000 this year. Property and other county tax revenue decreased approximately \$227,000 in fiscal year 2022.

The cost of all governmental activities this year was approximately \$17.1 million compared to approximately \$18.9 million last year. However, as shown in the Statement of Activities on page 19, the amount taxpayers ultimately financed for these activities was approximately \$6.5 million because some of the cost was paid by those directly benefiting from the programs (approximately \$5,601,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$4,992,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased approximately \$3,261,000 in fiscal year 2022 from approximately \$13,854,000 to approximately \$10,594,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Palo Alto County completed the year, its governmental funds reported a combined fund balance of approximately \$21.8 million, an increase of approximately \$7.1 million over last year's total of approximately \$14.7 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 decreased approximately \$257,000 from the prior year to approximately \$3,719,000. General Fund revenues decreased approximately \$502,000 and expenditures increased approximately \$665,000. The decrease in revenues was primarily due to a decrease in property tax receipts for the general fund supplemental. The increase in expenditures was primarily due to an increase in capital projects funds used for building the county public safety building and garage/temporary communication center.
- The Special Revenue, Mental Health Fund balance decreased approximately \$386,000 from the prior year end. For the year, expenditures totaled approximately \$495,000, an increase of 202% over the prior year, primarily due to the elimination of this fund at June 30, 2022. The County was required by Senate File 619 to transfer the remaining fund balance to the Northwest Iowa Care Connections Region prior to June 30, 2022.
- Special Revenue, Rural Services Fund revenues increased approximately \$154,000, primarily due to higher local options sales tax revenues. Expenditures increased approximately \$69,000 over the prior year, primarily for increased insurance costs and solid waste and environmental expenses. The Rural Services Fund balance increased approximately \$7,000 to approximately \$952,000. Transfers to support the Special Revenue, Secondary Roads Fund increased approximately \$45,000.
- Special Revenue, Secondary Roads Fund revenues decreased approximately \$106,000, primarily due to a decrease in road use tax revenues and reimbursements for road repairs. Expenditures increased approximately \$457,000 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 approximately \$45,000. The Secondary Roads Fund ending fund balance increased approximately \$602,000, or 7.3%, during the year.

- Special Revenue, Drainage Districts Fund revenues increased approximately \$4,560,000 over the prior year due to increased drainage assessment revenues. Expenditures increased approximately \$3,639,000, due primarily to increased drainage projects in the current year compared to fiscal year 2021. Drainage warrants issued decreased approximately \$1,868,000. The Drainage District end of year fund balance decreased approximately \$575,000 from the prior year to a deficit of \$78,392.
- The Special Revenue, Tax Increment Financing Fund 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 Capital Projects Fund is a new fund in 2022. The County issued general obligation bonds during the year, and the net proceeds of \$10,520,392 were added to the fund. Expenditures of approximately \$2,294,000 were used to fund the construction of a public safety building and road and bridge improvement projects. The remaining fund balance at June 30, 2022 was approximately \$7,879,000.
- The Debt Service Fund balance decreased approximately \$217,000 to approximately \$271,000, a decrease of 44.5%. Revenues increased approximately \$19,000 over the prior year. Transfers from the Special Revenue, Tax Increment Financing Fund decreased \$113,174. The current year debt service payments for various general obligation bonds and refunding bonds was approximately \$2.3 million, an increase of approximately \$474,000 over the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Palo Alto County amended its budget three times. The amendments were made on October 5, 2021, April 26, 2022 and June 6, 2022 and resulted in an increase in budgeted receipts of \$1,805,071 and an increase in budgeted disbursements of \$6,015,593. The increase in budgeted receipts was related to an increase in federal grants and reimbursements. The majority of the increase in disbursements was related to capital projects and road projects.

The County's receipts were \$326,796 more than budgeted, a variance of 2.1%. The most significant variance resulted from the County receiving more local option sales tax receipts in fiscal year 2022 than anticipated.

Total disbursements were \$5,293,787 less than the amended budget. Actual disbursements for the roads and transportation and administration functions were \$2,235,375 and \$1,735,769, 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 administration service variance was due to estimating the budget on potential fiscal year disbursements resulting from American Rescue plan funding. The remaining variances are a result of budgeted disbursements not being expended by June 30, 2022.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2022, Palo Alto County had approximately \$43 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 \$1,481,000, or 3.6%, over last year.

| Capital Assets of Governmental Activities at Year End (Expressed in Thousands) | | |
|-----------------------------------------------------------------------------------|-----------|-------------------------|
| | June 30, | |
| | 2022 | 2021 (As Restated) * |
| Land | \$ 1,426 | 1,426 |
| Construction in progress | 4,806 | 2,080 |
| Buildings and improvements | 1,506 | 1,239 |
| Equipment and vehicles | 4,281 | 3,707 |
| Right-to-use leased equipment | 22 | 7 |
| Intangibles | 284 | 299 |
| Infrastructure | 30,198 | 32,284 |
| Total | \$ 42,523 | 41,042 |

This year's major additions included (in thousands):

| | |
|-----------------------------------------------------------------|----------|
| Infrastructure, including road network construction in progress | \$ 1,617 |
| Public safety center construction in progress | 1,234 |
| Sheriff garage | 341 |
| Communication consoles | 274 |
| Vehicles and other equipment | 777 |
| Total | \$ 4,243 |

* Beginning capital assets were restated to implement GASB Statement No. 87, Leases.

The County had depreciation/amortization expense of approximately \$2.8 million in fiscal year 2022 and total accumulated depreciation/amortization of approximately \$26.5 million at June 30, 2022. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2022, Palo Alto County had approximately \$21 million of outstanding long-term debt, which included \$12,725,000 of general obligation bonds and approximately \$7,842,000 of drainage warrants.

| Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands) | | |
|-------------------------------------------------------------------------------------|-----------|-----------------------|
| | June 30, | |
| | 2022 | 2021 (As Restated) |
| General obligation bonds | \$ 12,725 | 4,550 |
| Drainage warrants | 7,842 | 12,137 |
| Lease agreements | 23 | 7 |
| Total | \$ 20,590 | 16,694 |

Debt increased as a result of the County issuing \$10,425,000 in general obligation bonds in 2022. Drainage warrants decreased from the prior year due to the payment of outstanding warrants.

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 \$58.9 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 2023 budget, tax rates and fees for various County activities. One of those factors is the economy. Unemployment in the County now stands at 2.5% versus 3.5% a year ago. This compares with the State's unemployment rate of 2.7% and the national rate of 3.6% during June 2022.

These indicators were taken into account when adopting the budget for fiscal year 2023, which certified taxes as follows: (Amount certified includes utility replacement and property tax dollars.)

| | 2023 | 2022 | |
|---------------------|--------------|-----------|------------|
| | Dollars | Dollars | Percentage |
| | Certified | Certified | Change |
| General Fund | \$ 4,012,097 | 3,601,503 | 11.40% |
| Mental Health Fund | - | 106,632 | -100.00% |
| Rural Services Fund | 2,302,843 | 2,306,300 | -0.15% |
| Debt Service Fund | 1,293,588 | 1,272,699 | 1.64% |
| Total | \$ 7,608,528 | 7,287,134 | 4.41% |

No new services were added to the fiscal year 2023 budget. Levy rates (expressed in \$/\$1,000 of taxable valuation) to produce the above dollars for fiscal year 2023 are as follows:

| | 2023 | 2022 | Percentage |
|---------------------------|-------------|----------|------------|
| | | | Change |
| General basic levy | \$ 3.50000 | 3.50000 | 0.00% |
| General supplemental levy | 1.50511 | 0.99946 | 50.59% |
| Mental health levy | - | 0.13322 | -100.00% |
| Rural services basic levy | 3.95000 | 3.92770 | 0.57% |
| Debt service levy | 1.51336 | 1.51000 | 0.22% |
| Total | \$ 10.46847 | 10.07038 | 3.95% |

Budgeted disbursements are \$26,626,179, an increase of \$4,651,598, or 21.2%, over the final fiscal year 2022 budget. The majority of the disbursements budgeted are for roads and transportation as road improvements continue during fiscal year 2023 as well as capital projects. The Code of Iowa limits the general basic levy rate to \$3.50 per \$1,000 of taxable valuation, except for special circumstances. The general supplemental levy increased from \$0.99946 per \$1,000 of taxable valuation in fiscal year 2022 to \$1.50511 per \$1,000 of taxable valuation in fiscal year 2023. Palo Alto County decreased the mental health levy from \$0.13322 per \$1,000 of taxable valuation to zero per Senate File 619. The rural services basic levy increased from \$3.9277 per \$1,000 of taxable valuation to \$3.95 per \$1,000 of taxable valuation in fiscal year 2023. Additionally, the debt service levy rate for fiscal year 2023 increased from \$1.51 per \$1,000 of taxable valuation to \$1.51336 per \$1000 of taxable valuation.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Palo Alto County
Statement of Net Position
June 30, 2022

| | Governmental Activities |
|--------------------------------------------------------------|----------------------------|
| Assets | |
| Cash, cash equivalents and pooled investments | \$ 23,869,952 |
| Receivables: | |
| Property tax: | |
| Delinquent | 4,205 |
| Succeeding year | 7,110,000 |
| Succeeding year tax increment financing | 1,034,000 |
| Interest and penalty on property tax | 15,422 |
| Accounts | 34,976 |
| Accrued interest | 380,110 |
| Drainage assessments | 9,077,828 |
| Opioid settlement | 128,424 |
| Due from other governments | 1,350,976 |
| Inventories | 820,628 |
| Prepaid insurance | 148,852 |
| Capital assets, net of accumulated depreciation/amortization | 42,522,537 |
| Net pension asset | 706,447 |
| Total assets | 87,204,357 |
| Deferred Outflows of Resources | |
| Pension related deferred outflows | 611,394 |
| OPEB related deferred outflows | 41,701 |
| Total deferred outflows of resources | 653,095 |
| Liabilities | |
| Accounts payable | 1,472,900 |
| Accrued interest payable | 424,834 |
| Salaries and benefits payable | 83,989 |
| Due to other governments | 69,953 |
| Unearned revenues | 1,644,354 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| Lease agreements | 5,689 |
| General obligation bonds | 1,865,000 |
| Drainage warrants | 3,671,841 |
| Compensated absences | 149,443 |
| Total OPEB liability | 3,023 |
| Portion due or payable after one year: | |
| Lease agreements | 16,876 |
| General obligation bonds | 10,860,000 |
| Drainage warrants | 4,170,133 |
| Compensated absences | 95,700 |
| Total OPEB liability | 218,709 |
| Total liabilities | 24,752,444 |
| Deferred Inflows of Resources | |
| Unavailable property tax revenue | 7,110,000 |
| Unavailable tax increment financing revenue | 1,034,000 |
| Pension related deferred inflows | 2,917,504 |
| OPEB related deferred inflows | 62,426 |
| Total deferred inflows of resources | 11,123,930 |
| Net Position | |
| Net investment in capital assets | 38,044,290 |
| Restricted for: | |
| Supplemental levy purposes | 269,371 |
| Rural services purposes | 928,614 |
| Secondary roads purposes | 8,742,336 |
| Drainage district purposes | 1,683,612 |
| Debt service | 271,114 |
| Opioid abatements | 128,424 |
| Closure and postclosure care | 8,762 |
| Other purposes | 358,827 |
| Unrestricted | 1,545,728 |
| Total net position | \$ 51,981,078 |

See notes to financial statements.

Palo Alto County
Statement of Activities
Year ended June 30, 2022

| | 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 | \$ 1,729,888 | 356,482 | 1,615 | - | (1,371,791) |
| Physical health and social services | 381,327 | 65,634 | 166,979 | - | (148,714) |
| Mental health | 477,151 | - | - | - | (477,151) |
| County environment and education | 1,466,985 | 334,386 | 11,153 | - | (1,121,446) |
| Roads and transportation | 7,343,657 | 49,273 | 4,303,529 | 200,122 | (2,790,733) |
| Governmental services to residents | 452,148 | 253,255 | 10,000 | - | (188,893) |
| Administration | 1,394,828 | 13,497 | - | - | (1,381,331) |
| Non-program | 3,300,091 | 4,528,241 | 299,048 | - | 1,527,198 |
| Interest on long-term debt | 554,788 | - | - | - | (554,788) |
| Total | <u>\$ 17,100,863</u> | <u>5,600,768</u> | <u>4,792,324</u> | <u>200,122</u> | <u>(6,507,649)</u> |
| General Revenues: | | | | | |
| Property and other county tax levied for: | | | | | |
| General purposes | | | | | 5,777,932 |
| Debt service | | | | | 1,214,041 |
| Tax increment financing | | | | | 777,047 |
| Penalty and interest on property tax | | | | | 26,515 |
| State tax credits | | | | | 440,096 |
| Local option sales tax | | | | | 561,852 |
| Gaming tax | | | | | 156,587 |
| American Rescue Plan Act | | | | | 81,648 |
| Unrestricted investment earnings | | | | | 219,773 |
| Gain on disposal of capital assets | | | | | 91,185 |
| Miscellaneous | | | | | 108,596 |
| Total general revenues | | | | | <u>9,455,272</u> |
| Change in net position | | | | | 2,947,623 |
| Net position beginning of year | | | | | 49,033,455 |
| Net position end of year | | | | | <u>\$ 51,981,078</u> |

See notes to financial statements.

Palo Alto County
Balance Sheet
Governmental Funds

June 30, 2022

| | General | Rural Services | Secondary Roads | Special Drainage Districts |
|-------------------------------------------------------------------------------|---------------------|-------------------|--------------------|----------------------------------|
| Assets | | | | |
| Cash, cash equivalents and pooled investments | \$ 5,000,480 | 958,318 | 7,920,415 | 242,061 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 2,431 | 1,038 | - | - |
| Succeeding year | 3,761,000 | 2,133,000 | - | - |
| Succeeding year tax increment financing | - | - | - | - |
| Interest and penalty on property tax | 15,422 | - | - | - |
| Accounts | 10,311 | 15,332 | 9,333 | - |
| Accrued interest | 372,758 | - | 2,368 | - |
| Drainage assessments | - | - | - | 9,077,828 |
| Opioid settlement receivable | - | - | - | - |
| Due from other funds | 50 | - | 7,450 | - |
| Due from other governments | 10,606 | 46,702 | 454,566 | 838,570 |
| Inventories | - | - | 820,628 | - |
| Prepaid insurance | 32,530 | 525 | 21,655 | - |
| Total assets | \$ 9,205,588 | 3,154,915 | 9,236,415 | 10,158,459 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 28,432 | 27,631 | 270,805 | 320,453 |
| Salaries and benefits payable | - | 10,978 | 73,011 | - |
| Due to other funds | 5,809 | 1,641 | 50 | - |
| Due to other governments | 30,395 | 28,701 | 10,528 | - |
| Unearned revenues | 1,644,354 | - | - | - |
| Total liabilities | 1,708,990 | 68,951 | 354,394 | 320,453 |
| Deferred inflows of resources: | | | | |
| Unavailable revenues: | | | | |
| Succeeding year property tax | 3,761,000 | 2,133,000 | - | - |
| Succeeding year tax increment financing | - | - | - | - |
| Other | 17,045 | 1,037 | 3,097 | 9,916,398 |
| Total deferred inflows of resources | 3,778,045 | 2,134,037 | 3,097 | 9,916,398 |
| Fund balances (deficits): | | | | |
| Nonspendable: | | | | |
| Inventories | - | - | 820,628 | - |
| Prepaid insurance | 32,530 | 525 | 21,655 | - |
| Restricted for: | | | | |
| Supplemental levy purposes | 279,036 | - | - | - |
| Rural services purposes | - | 951,402 | - | - |
| Secondary roads purposes | - | - | 8,036,641 | - |
| Conservation land acquisition/capital improvements | 207,304 | - | - | - |
| Debt service | - | - | - | - |
| Closure and postclosure care | - | - | - | - |
| Capital projects | - | - | - | - |
| Opioid abatement | - | - | - | - |
| Other purposes | 41,016 | - | - | - |
| Assigned: | | | | |
| County buildings repair | 25,000 | - | - | - |
| Unassigned | 3,133,667 | - | - | (78,392) |
| Total fund balances (deficits) | 3,718,553 | 951,927 | 8,878,924 | (78,392) |
| Total liabilities, deferred inflows of resources and fund balances | \$ 9,205,588 | 3,154,915 | 9,236,415 | 10,158,459 |

See notes to financial statements.

| Revenue | | | | |
|-------------------------------|---------------------|-----------------|----------|------------|
| Tax Increment Financing | Capital Projects | Debt Service | Nonmajor | Total |
| - | 8,699,664 | 271,088 | 125,114 | 23,217,140 |
| - | - | 736 | - | 4,205 |
| - | - | 1,216,000 | - | 7,110,000 |
| 1,034,000 | - | - | - | 1,034,000 |
| - | - | - | - | 15,422 |
| - | - | - | - | 34,976 |
| - | 4,968.00 | - | 16 | 380,110 |
| - | - | - | - | 9,077,828 |
| - | - | - | 128,424 | 128,424 |
| - | - | - | - | 7,500 |
| - | - | - | 532 | 1,350,976 |
| - | - | - | - | 820,628 |
| - | - | - | - | 54,710 |
| 1,034,000 | 8,704,632 | 1,487,824 | 254,086 | 43,235,919 |
| - | 825,307 | - | - | 1,472,628 |
| - | - | - | - | 83,989 |
| - | - | - | - | 7,500 |
| - | 221 | - | 108 | 69,953 |
| - | - | - | - | 1,644,354 |
| - | 825,528 | - | 108 | 3,278,424 |
| - | - | 1,216,000 | - | 7,110,000 |
| 1,034,000 | - | - | - | 1,034,000 |
| - | - | 710 | 123,967 | 10,062,254 |
| 1,034,000 | - | 1,216,710 | 123,967 | 18,206,254 |
| - | - | - | - | 820,628 |
| - | - | - | - | 54,710 |
| - | - | - | - | 279,036 |
| - | - | - | - | 951,402 |
| - | - | - | - | 8,036,641 |
| - | - | - | - | 207,304 |
| - | - | 271,114 | - | 271,114 |
| - | - | - | 8,762 | 8,762 |
| - | 7,879,104 | - | - | 7,879,104 |
| - | - | - | 4,457 | 4,457 |
| - | - | - | 116,792 | 157,808 |
| - | - | - | - | 25,000 |
| - | - | - | - | 3,055,275 |
| - | 7,879,104 | 271,114 | 130,011 | 21,751,241 |
| 1,034,000 | 8,704,632 | 1,487,824 | 254,086 | 43,235,919 |

Palo Alto County

Palo Alto County

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

June 30, 2022

Total governmental fund balances (page 21) \$ 21,751,241

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 \$69,053,869 and the accumulated depreciation /amortization is \$26,531,332. 42,522,537

Other long-term assets are not available to pay current year expenditures, as follows:

| | | |
|-------------------------------|----------------|------------|
| Deferred inflows of resources | \$ 10,062,254 | |
| Net pension asset | <u>706,447</u> | 10,768,701 |

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. 746,682

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 | 653,095 | |
| Deferred inflows of resources | <u>(2,979,930)</u> | (2,326,835) |

Long-term liabilities, including lease agreements payable, 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. (21,481,248)

Net position of governmental activities (page 18) \$ 51,981,078

See notes to financial statements.

Palo Alto County

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

Year ended June 30, 2022

| | General | Mental Health | Rural Services | Special Secondary Roads |
|--------------------------------------------------------------|------------------|------------------|--------------------|-------------------------------|
| Revenues: | | | | |
| Property and other county tax | \$ 3,594,088 | 101,775 | 2,239,044 | - |
| Tax increment financing | - | - | - | - |
| Local option sales tax | - | - | 561,852 | - |
| Interest and penalty on property tax | 27,405 | - | - | - |
| Intergovernmental | 595,377 | 6,611 | 155,487 | 4,153,381 |
| Licenses and permits | 7,532 | - | - | 11,890 |
| Charges for service | 379,725 | - | 279,279 | 45,292 |
| Use of money and property | 231,895 | - | - | 13,588 |
| Miscellaneous | 121,476 | - | 7,710 | 178,365 |
| Total revenues | 4,957,498 | 108,386 | 3,243,372 | 4,402,516 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | 1,960,804 | - | 299,651 | - |
| Physical health and social services | 385,544 | - | - | - |
| Mental health | - | 494,562 | - | - |
| County environment and education | 654,366 | - | 838,578 | - |
| Roads and transportation | - | - | 263,434 | 5,431,533 |
| Governmental services to residents | 530,720 | - | - | - |
| Administration | 1,309,119 | - | 70,119 | - |
| Non-program | - | - | - | - |
| Debt service | - | - | - | - |
| Capital projects | 750,153 | - | - | 132,770 |
| Total expenditures | 5,590,706 | 494,562 | 1,471,782 | 5,564,303 |
| Excess (deficiency) of revenues over (under) expenditures | (633,208) | (386,176) | 1,771,590 | (1,161,787) |
| Other financing sources (uses): | | | | |
| Transfers in | 356,493 | - | - | 1,763,768 |
| Transfers out | - | - | (1,764,742) | - |
| General obligation bonds issued | - | - | - | - |
| Premium on bonds issued | - | - | - | - |
| Drainage warrants issued | - | - | - | - |
| Lease agreements | 19,928 | - | - | - |
| Total other financing sources (uses) | 376,421 | - | (1,764,742) | 1,763,768 |
| Change in fund balances | (256,787) | (386,176) | 6,848 | 601,981 |
| Fund balances beginning of year | 3,975,340 | 386,176 | 945,079 | 8,276,943 |
| Fund balances (deficits) end of year | \$ 3,718,553 | - | 951,927 | 8,878,924 |

See notes to financial statements.

| Revenue | | | | | | |
|-----------------------|-------------------------------|---------------------|-----------------|----------|-------------|--|
| Drainage Districts | Tax Increment Financing | Capital Projects | Debt Service | Nonmajor | Total | |
| - | - | - | 1,214,128 | - | 7,149,035 | |
| - | 777,047 | - | - | - | 777,047 | |
| - | - | - | - | - | 561,852 | |
| - | - | - | - | - | 27,405 | |
| 281,443 | 39,968 | - | 78,550 | 13,527 | 5,324,344 | |
| - | - | - | - | - | 19,422 | |
| - | - | - | - | 2,365 | 706,661 | |
| - | - | 9,536 | - | 36 | 255,055 | |
| 7,417,501 | - | - | - | 4,457 | 7,729,509 | |
| 7,698,944 | 817,015 | 9,536 | 1,292,678 | 20,385 | 22,550,330 | |
| - | - | - | - | 3,668 | 2,264,123 | |
| - | - | - | - | - | 385,544 | |
| - | - | - | - | - | 494,562 | |
| - | - | - | - | - | 1,492,944 | |
| - | - | - | - | - | 5,694,967 | |
| - | - | - | - | - | 530,720 | |
| - | - | - | - | - | 1,379,238 | |
| 3,218,992 | - | - | - | - | 3,218,992 | |
| 7,704,476 | - | - | 2,327,124 | - | 10,031,600 | |
| - | - | 2,294,331 | - | - | 3,177,254 | |
| 10,923,468 | - | 2,294,331 | 2,327,124 | 3,668 | 28,669,944 | |
| (3,224,524) | 817,015 | (2,284,795) | (1,034,446) | 16,717 | (6,119,614) | |
| - | - | - | 817,015 | 974 | 2,938,250 | |
| - | (817,015) | (356,493) | - | - | (2,938,250) | |
| - | - | 10,425,000 | - | - | 10,425,000 | |
| - | - | 95,392 | - | - | 95,392 | |
| 2,649,036 | - | - | - | - | 2,649,036 | |
| - | - | - | - | - | 19,928 | |
| 2,649,036 | (817,015) | 10,163,899 | 817,015 | 974 | 13,189,356 | |
| (575,488) | - | 7,879,104 | (217,431) | 17,691 | 7,069,742 | |
| 497,096 | - | - | 488,545 | 112,320 | 14,681,499 | |
| (78,392) | - | 7,879,104 | 271,114 | 130,011 | 21,751,241 | |

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, 2022

Change in fund balances - Total governmental funds (page 25) \$ 7,069,742

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

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

| | | |
|---------------------------------------------------------------------|--------------------|-----------|
| Expenditures for capital assets | \$ 3,954,611 | |
| Capital assets contributed by the Iowa Department of Transportation | 190,586 | |
| Right-to-use leased capital assets | 19,928 | |
| Depreciation/amortization expense | <u>(2,776,174)</u> | 1,388,951 |

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. 91,185

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 | (475) | |
| Other | <u>(2,995,596)</u> | (2,996,071) |

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 Issuances exceeded repayments, as follows:

| | | |
|--------|------------------|-------------|
| Issued | (13,093,964) | |
| Repaid | <u>9,198,875</u> | (3,895,089) |

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. 402,346

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 | 34,817 | |
| Pension expense (reduction) | 321,490 | |
| OPEB expense | (22,776) | |
| Interest on long-term debt | <u>187,148</u> | 520,679 |

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. 365,880

Change in net position of governmental activities (page 19) \$ 2,947,623

See notes to financial statements.

Palo Alto County
Statement of Net Position
Proprietary Fund

June 30, 2022

| | <u>Internal Service - Employee Group Health</u> |
|-----------------------------|---------------------------------------------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 652,812 |
| Prepaid insurance | <u>94,142</u> |
| Total current assets | 746,954 |
| Current Liabilities | |
| Accounts payable | <u>272</u> |
| Net Position | |
| Unrestricted | <u>\$ 746,682</u> |

See notes to financial statements.

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

Year ended June 30, 2022

| | | <u>Internal Service - Employee Group Health</u> |
|------------------------------------------|---------------|---------------------------------------------------------|
| Operating revenues: | | |
| Reimbursements from operating funds | | \$ 1,513,961 |
| Reimbursements from employees and others | | <u>21,199</u> |
| Total operating revenues | | 1,535,160 |
| Operating expenses: | | |
| Insurance premiums | \$ 1,146,396 | |
| Medical claims | 6,757 | |
| Administrative fees | <u>16,127</u> | <u>1,169,280</u> |
| Net income | | 365,880 |
| Net position beginning of year | | <u>380,802</u> |
| Net position end of year | | <u>\$ 746,682</u> |

See notes to financial statements.

Palo Alto County
 Statement of Cash Flows
 Proprietary Fund
 Year ended June 30, 2022

| | Internal Service - Employee Group Health |
|-----------------------------------------------------------------------------------------|------------------------------------------------|
| Cash flows from operating activities: | |
| Cash received from operating fund reimbursements | \$ 1,513,960 |
| Cash received from employees and others | 21,199 |
| Cash paid to suppliers for services | (1,279,657) |
| Net cash provided by operating activities | 255,502 |
| Cash and cash equivalents beginning of year | 397,310 |
| Cash and cash equivalents end of year | \$ 652,812 |
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating income | \$ 365,880 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Change in assets and liabilities: | |
| Prepaid insurance | 1,515 |
| Accounts payable | (111,893) |
| Net cash provided by operating activities | \$ 255,502 |

See notes to financial statements.

Palo Alto County
Statement of Fiduciary Net Position
Custodial Funds

June 30, 2022

Assets

| | |
|------------------------------------------------|-------------------|
| Cash, cash equivalents and pooled investments: | |
| County Treasurer | \$ 3,463,596 |
| Other County officials | 84,228 |
| Receivables: | |
| Property tax: | |
| Delinquent | 11,093 |
| Succeeding year | 15,005,000 |
| Accounts | 20,008 |
| Accrued interest | 974 |
| Special assessments | 107,652 |
| Due from other governments | 56,854 |
| Prepaid expenses | 742 |
| | <u>18,750,147</u> |

Total assets**Liabilities**

| | |
|--------------------------|----------------|
| Accounts payable | 100,999 |
| Due to other governments | 620,248 |
| Trusts payable | 40,749 |
| Compensated absences | 12,680 |
| | <u>774,676</u> |

Total liabilities**Deferred Inflows of Resources**

| | |
|----------------------------------|-------------------|
| Unavailable property tax revenue | <u>15,005,000</u> |
|----------------------------------|-------------------|

Net position

| | |
|--------------------------------------------------------------------|---------------------|
| Restricted for individuals, organizations and other governments | <u>\$ 2,970,471</u> |
|--------------------------------------------------------------------|---------------------|

See notes to financial statements.

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

June 30, 2022

| | |
|------------------------------------|---------------------|
| Additions: | |
| Property and other county tax | \$ 14,936,026 |
| 911 surcharge | 34,862 |
| State tax credits | 1,149,784 |
| Drivers license fees | 41,265 |
| Office fees and collections | 448,549 |
| Auto licenses, use tax and postage | 3,659,467 |
| Assessments | 29,687 |
| Trusts | 275,344 |
| Miscellaneous | <u>2,934,153</u> |
| Total additions | <u>23,509,137</u> |
| Deductions: | |
| Agency remittances: | |
| To other funds | 282,052 |
| To other governments | 23,212,533 |
| Trusts paid out | <u>278,405</u> |
| Total deductions | <u>23,772,990</u> |
| Change in net position | (263,853) |
| Net position beginning of year | <u>3,234,324</u> |
| Net position end of year | <u>\$ 2,970,471</u> |

See notes to financial statements.

Palo Alto County

Notes to Financial Statements

June 30, 2022

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

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, 2020 assessed property valuations; is for the tax accrual period July 1, 2021 through June 30, 2022 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2021.

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, 2022, 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.

| <u>Asset Class</u> | <u>Amount</u> |
|----------------------------------|---------------|
| Infrastructure | \$ 75,000 |
| Intangibles | 75,000 |
| Land, buildings and improvements | 50,000 |
| Equipment and vehicles | 10,000 |
| Right-to-use leased assets | 5,000 |

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:

| <u>Asset Class</u> | <u>Estimated Useful lives (In Years)</u> |
|----------------------------|--------------------------------------------------|
| Buildings and improvements | 25 - 50 |
| Infrastructure | 10 - 65 |
| Intangibles | 5 - 20 |
| Equipment and vehicles | 3 - 20 |
| Right-to-use leased assets | 2 - 20 |

Leases – County as Lessee: Palo Alto County is the lessee for a noncancellable lease of equipment. The County has recognized a lease liability and an intangible right-to-use lease asset in the government-wide financial statements. The County recognized lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the County initially measures the lease liability at the present value of payment expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payment made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how Palo Alto County determines the discount rate it uses to discount the expected lease payments to present value, lease term and lease payments.

Palo Alto County uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the County generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and a purchase option price that the County is reasonably certain to exercise.

The County monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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 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.

Unearned Revenue – 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. Unearned revenue in the government-wide and governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the County has not made a qualifying expenditure. Unearned revenue consists of unspent American Rescue Plan Act proceeds.

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, 2022. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, 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 asset, 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 asset attributable to the governmental activities will be recognized primarily by the General Fund and the Special Revenue, 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, 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, unrecognized items not yet charged to pension and OPEB expense, the unamortized portion of the net difference between projected and actual earnings on pension plan assets and deferred amounts related to leases.

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. During the year ended June 30, 2022, disbursements did not exceed the amounts budgeted.

(2) Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2022 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, 2022 is as follows:

| Receivable Fund | Payable Fund | Amount |
|------------------|------------------|----------|
| Special Revenue: | | |
| Secondary Roads | General | \$ 5,809 |
| | Special Revenue: | |
| | Rural Services | 1,641 |
| | | 7,450 |
| General Basic: | Special Revenue: | |
| | Secondary Roads | 50 |
| Total | | \$ 7,500 |

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, 2022 is as follows:

| Transfer to | Transfer from | Amount |
|----------------------------|-------------------------|--------------|
| General Fund | Capital Projects | \$ 356,493 |
| Debt Service | Special Revenue: | |
| | Tax Increment Financing | 817,015 |
| Special Revenue: | Special Revenue: | |
| Secondary Roads | Rural Services | 1,763,768 |
| Closure/Post Closure Trust | | 974 |
| Total | | \$ 2,938,250 |

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, 2022 was as follows:

| | Restated 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 | 2,079,551 | 2,851,295 | 124,895 | 4,805,951 |
| Total capital assets not being depreciated/amortized | 3,715,531 | 2,851,295 | 124,895 | 6,441,931 |
| Capital assets being depreciated/amortized: | | | | |
| Buildings | 2,368,762 | 340,747 | - | 2,709,509 |
| Improvements other than buildings | 93,399 | - | - | 93,399 |
| Equipment and vehicles | 10,118,623 | 1,050,780 | 413,394 | 10,756,009 |
| Right-to-use leased equipment | 7,240 | 19,928 | - | 27,168 |
| Intangibles | 406,389 | - | - | 406,389 |
| Infrastructure, road network | 47,173,484 | 124,895 | - | 47,298,379 |
| Infrastructure, other | 1,321,085 | - | - | 1,321,085 |
| Total capital assets being depreciated/amortized | 61,488,982 | 1,536,350 | 413,394 | 62,611,938 |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings | 1,150,754 | 70,414 | - | 1,221,168 |
| Improvements other than buildings | 72,163 | 3,504 | - | 75,667 |
| Equipment and vehicles | 6,411,106 | 471,493 | 406,954 | 6,475,645 |
| Right-to-use leased assets | - | 4,873 | - | 4,873 |
| Intangibles | 317,945 | 14,455 | - | 332,400 |
| Infrastructure, road network | 15,847,263 | 2,156,224 | - | 18,003,487 |
| Infrastructure, other | 362,881 | 55,211 | - | 418,092 |
| Total accumulated depreciation/amortization | 24,162,112 | 2,776,174 | 406,954 | 26,531,332 |
| Total capital assets being depreciated/amortized, net | 41,042,401 | (1,239,824) | 6,440 | 36,080,606 |
| Governmental activities capital assets, net | \$ 41,042,401 | 1,611,471 | 131,335 | 42,522,537 |

Depreciation/amortization expense was charged to the following functions:

| | |
|-------------------------------------------------------------------|---------------------|
| Governmental activities: | |
| Public safety and legal services | \$ 48,385 |
| County environment and education | 120,754 |
| Roads and transportation | 2,546,945 |
| Governmental services to residents | 6,080 |
| Administration | 54,010 |
| Total depreciation/amortization expense - governmental activities | <u>\$ 2,776,174</u> |

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2022 is as follows:

| Fund | Description | Amount |
|----------------------------------|-------------|-------------------|
| General | Services | \$ 30,395 |
| Special Revenue: | | |
| Rural Services | Services | 28,701 |
| Secondary Roads | Services | 10,528 |
| Sheriff Reserve | Services | 108 |
| Capital Projects | Services | 221 |
| Total for governmental funds | | <u>\$ 69,953</u> |
| Custodial: | | |
| County Offices | Collections | \$ 54,890 |
| Agricultural Extension Education | | 2,059 |
| Schools | | 80,552 |
| Community Colleges | | 7,238 |
| Corporations | | 18,604 |
| Townships | | 1,494 |
| City Special Assessments | | 110,692 |
| Auto License and Use Tax | | 282,424 |
| Regional Mental Health | | 7,877 |
| All other | | 54,418 |
| Total for agency funds | | <u>\$ 620,248</u> |

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2022 is as follows:

| | Lease Agreements | General Obligation Bonds | Direct Borrowing Drainage Warrants | Compensated Absences | Net Pension Liability | Total OPEB Liability | Total |
|----------------------------------------|------------------|--------------------------|------------------------------------|----------------------|-----------------------|----------------------|-------------------|
| Balance beginning of year, as restated | \$ 7,240 | 4,550,000 | 12,137,210 | 279,960 | 3,052,523 | 218,656 | 20,245,589 |
| Increases | 19,928 | 10,425,000 | 2,649,036 | 213,685 | - | 29,028 | 13,336,677 |
| Decreases | 4,603 | 2,250,000 | 6,944,272 | 248,502 | 3,758,970 | 25,952 | 13,232,299 |
| Balance end of year | <u>\$ 22,565</u> | <u>12,725,000</u> | <u>7,841,974</u> | <u>245,143</u> | <u>(706,447)</u> | <u>221,732</u> | <u>20,349,967</u> |
| Due within one year | <u>\$ 5,689</u> | <u>1,865,000</u> | <u>3,671,841</u> | <u>149,443</u> | <u>-</u> | <u>3,023</u> | <u>5,689,307</u> |

Lease Agreements

On October 1, 2021, the County entered into a lease agreement for a postage machine in the Treasurer’s Office. An initial lease liability was recorded in the amount of \$19,928. The agreement requires monthly payments of \$360 over 60 months with an initial payment made October 1, 2021 with an implicit interest rate of 3.25% and final payment due September 1, 2026.

On May 5, 2020, the County entered into a lease agreement for a copy machine in the County Attorney’s Office. An initial lease liability was recorded in the amount of \$7,240. The agreement requires monthly payments of \$166 over 60 months with an initial payment made May 31, 2020 with an implicit interest rate of 2.75% and the final payment due April 30, 2025.

Future principal and interest lease payments as of June 30, 2022 are as follows:

| Year Ending June 30, | Copier - County Attorney | | | Postage - Treasurer's Office | | | Total | | |
|----------------------------|--------------------------|------------|--------------|------------------------------|--------------|---------------|------------------|--------------|---------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2023 | \$ 1,866 | 126 | 1,992 | \$ 3,823 | 500 | 4,323 | \$ 5,689 | 626 | 6,315 |
| 2024 | 1,918 | 74 | 1,992 | 3,949 | 374 | 4,323 | 5,867 | 448 | 6,315 |
| 2025 | 1,640 | 21 | 1,661 | 4,080 | 244 | 4,324 | 5,720 | 265 | 5,985 |
| 2026 | - | - | - | 4,214 | 110 | 4,324 | 4,214 | 110 | 4,324 |
| 2027 | - | - | - | 1,075 | 6 | 1,081 | 1,075 | 6 | 1,081 |
| | <u>\$ 5,424</u> | <u>221</u> | <u>5,645</u> | <u>\$ 17,141</u> | <u>1,234</u> | <u>18,375</u> | <u>\$ 22,565</u> | <u>1,455</u> | <u>24,020</u> |

General Obligation Bonds

A summary of the County's June 30, 2022 general obligation bond indebtedness is as follows:

| Year Ending June 30, | Refunding Series 2012 Issued Dec 20, 2012 | | | | Urban Renewal Series 2013 Issued Apr 23, 2013 | | | |
|----------------------------|-------------------------------------------------------------------------------|---------------------|---------------|------------------|-------------------------------------------------------------------------------|---------------------|-------------------|-------------------|
| | Interest Rates | Principal | Interest | Total | Interest Rates | Principal | Interest | Total |
| 2023 | 1.60% | \$ 500,000 | 8,000 | 508,000 | 1.75% | \$ 625,000 | 10,938 | 635,938 |
| Year Ending June 30, | General Obligation Urban Renewal Bonds Series 2014 Issued Jul 9, 2014 | | | | General Obligation County Purpose Bonds Series 2022A Issued May 5, 2022 | | | |
| | Interest Rates | Principal | Interest | Total | Interest Rates | Principal | Interest | Total |
| 2023 | 2.25% | \$ 665,000 | 27,203 | 692,203 | 3.00% | \$ - | 319,985 | 319,985 |
| 2024 | 2.40 | 510,000 | 12,240 | 522,240 | 3.00 | - | 398,431 | 398,431 |
| 2025 | - | - | - | - | 3.00 | 270,000 | 298,431 | 568,431 |
| 2026 | - | - | - | - | 3.00 | 280,000 | 290,331 | 570,331 |
| 2027 | - | - | - | - | 3.00 | 285,000 | 281,931 | 566,931 |
| 2028-2032 | - | - | - | - | 3.00 | 1,955,000 | 1,272,556 | 3,227,556 |
| 2033-2037 | - | - | - | - | 3.00 | 3,705,000 | 857,956 | 4,562,956 |
| 2038-2041 | - | - | - | - | 3.00-3.125 | 3,380,000 | 265,200 | 3,645,200 |
| Total | | <u>\$ 1,175,000</u> | <u>39,443</u> | <u>1,214,443</u> | | <u>\$ 9,875,000</u> | <u>3,984,821</u> | <u>13,859,821</u> |
| Year Ending June 30, | General Obligation County Purpose Bonds Series 2022B Issued May 5, 2022 | | | | Total | | | |
| | Interest Rates | Principal | Interest | Total | Principal | Interest | Total | |
| 2023 | 2.75% | \$ 75,000 | 17,011 | 92,011 | \$ 1,865,000 | 383,137 | 2,248,137 | |
| 2024 | 2.90 | 475,000 | 13,775 | 488,775 | 985,000 | 424,446 | 1,409,446 | |
| 2025 | - | - | - | - | 270,000 | 298,431 | 568,431 | |
| 2026 | - | - | - | - | 280,000 | 290,331 | 570,331 | |
| 2027 | - | - | - | - | 285,000 | 281,931 | 566,931 | |
| 2028-2032 | - | - | - | - | 1,955,000 | 1,272,556 | 3,227,556 | |
| 2033-2037 | - | - | - | - | 3,705,000 | 857,956 | 4,562,956 | |
| 2038-2041 | - | - | - | - | 3,380,000 | 265,200 | 3,645,200 | |
| Total | | <u>\$ 550,000</u> | <u>30,786</u> | <u>580,786</u> | <u>\$ 12,725,000</u> | <u>4,073,988</u> | <u>16,798,988</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, 2022, the County paid principal of \$1,025,000 and interest of \$22,862 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, 2022, the County paid principal of \$625,000 and interest of \$20,313 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, 2022, the County paid principal of \$120,000, as well as an additional principal payment of \$480,000 and interest of \$33,949 on the bonds.

On May 5, 2022, the County issued \$9,875,000 of general obligation county purpose bonds. A portion of these bonds (\$4,250,000) were issued for an essential county purpose of paying the cost of undertaking the Palo Alto County road and bridge improvement projects and a portion of these bonds (\$5,625,000) were issued in accordance with the March 2, 2021 special election for a general county purpose for the constructing, furnishing, and equipping a County public safety building and jail. The interest rates on these bonds range from 3.00% to 3.125% per annum. No payments were made during the year ended June 30, 2022.

On May 5, 2022, the County issued \$550,000 of taxable general obligation essential county purpose bonds. The bonds were issued for the purpose of paying the cost of undertaking the Palo Alto County road and bridge improvement projects. The interest rates on these bonds range from 2.25% to 2.40% per annum. No payments were made during the year ended June 30, 2022.

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 2022, 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 9.01% of covered payroll, for a total rate of 18.02%. Protection occupation members contributed 6.21% of covered payroll and the County contributed 9.31% of covered payroll, for a total rate of 15.52%.

The County's contributions to IPERS for the year ended June 30, 2022 were \$402,346.

Net Pension Asset, Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2022, the County had an asset of \$706,447 for its proportionate share of the overall plan net pension asset. The overall plan net pension asset was measured as of June 30, 2021. The total plan pension liability used in its calculation of the overall plan net pension asset was determined by an actuarial valuation as of that date. The County's proportion of the overall plan net pension asset was based on the County's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, the County's proportion of the overall plan net pension asset was 0.204633%, which was an increase of 0.161179% over its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the County recognized pension expense (reduction) of \$(321,490). At June 30, 2022, 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 | \$ 98,426 | 49,939 |
| Changes of assumptions | 47,312 | 28,672 |
| Net difference between projected and actual earnings on IPERS' investments | - | 2,828,173 |
| Changes in proportion and differences between County contributions and the County's proportionate share of contributions | 63,310 | 10,720 |
| County contributions subsequent to the measurement date | 402,346 | - |
| Total | <u>\$ 611,394</u> | <u>2,917,504</u> |

\$402,346 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 (asset) in the year ending June 30, 2023. 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 |
|-------------------------|-----------------------|
| 2023 | \$ (678,110) |
| 2024 | (671,047) |
| 2025 | (618,244) |
| 2026 | (750,159) |
| 2027 | 9,104 |
| Total | <u>\$ (2,708,456)</u> |

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension asset in the June 30, 2021 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, 2021 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study date June 28, 2018.

Mortality rates used in the 2021 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:

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|------------------|----------------------------------------|
| Domestic equity | 22.0% | 4.43% |
| International equity | 17.5 | 6.01 |
| Global smart beta equity | 6.0 | 5.10 |
| Core plus fixed income | 26.0 | 0.29 |
| Public credit | 4.0 | 2.08 |
| Cash | 1.0 | (0.25) |
| Private equity | 13.0 | 9.51 |
| Private real assets | 7.5 | 4.63 |
| Private credit | 3.0 | 2.87 |
| Total | <u>100.0%</u> | |

Discount Rate – The discount rate used to measure the total pension asset 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 asset.

Sensitivity of the County's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate – The following presents the County's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the County's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|------------------------------------------------------------|---------------------------|-----------------------------|---------------------------|
| County's proportionate share of the net pension liability: | \$ 1,906,792 | (706,447) | (2,895,830) |

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, 2022.

(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, 2022, the following employees were covered by the benefit terms:

| | |
|--------------------------------------------------------------------------|-----------|
| Inactive employees or beneficiaries currently receiving benefit payments | 1 |
| Active employees | <u>66</u> |
| Total | <u>67</u> |

Total OPEB Liability – The County's total OPEB liability of \$221,732 was measured as of June 30, 2022 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the July 1, 2021 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, 2022) | 3.00% per annum. |
| Discount rate (effective June 30, 2022) | 2.37% compounded annually, |
| Healthcare cost trend rate (effective June 30, 2022) | 6.00% per annum. |

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 | \$ 218,656 |
| Changes for the year: | |
| Service cost | 23,572 |
| Interest | 5,456 |
| Differences between expected and actual experiences | 46,137 |
| Changes in assumptions | (69,066) |
| Benefit payments | <u>(3,023)</u> |
| Net changes | <u>3,076</u> |
| Total OPEB liability end of year | <u>\$ 221,732</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.

| | <u>1% Decrease (1.37%)</u> | <u>Discount Rate (2.37%)</u> | <u>1% Increase (3.37%)</u> |
|----------------------|------------------------------------|--------------------------------------|------------------------------------|
| Total OPEB liability | \$ 242,388 | 221,732 | 203,068 |

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.

| | <u>1% Decrease (5.00%)</u> | <u>Healthcare Cost Trend Rate (6.00%)</u> | <u>1% Increase (7.00%)</u> |
|----------------------|------------------------------------|-------------------------------------------------------|------------------------------------|
| Total OPEB liability | \$ 215,105 | 221,732 | 255,141 |

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2022, the County recognized OPEB expense of \$22,776. At June 30, 2022, 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 | \$ 41,701 | - |
| Changes in assumptions | - | (62,426) |
| Total | <u>\$ 41,701</u> | <u>(62,426)</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 |
|-------------------------|--------------------|
| 2023 | \$ (2,205) |
| 2024 | (2,205) |
| 2025 | (2,205) |
| 2026 | (2,205) |
| Thereafter | <u>(11,905)</u> |
| | <u>\$ (20,725)</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 794 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, employment practices liability, public officials liability and police professional liability. 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, 2022 were \$97,628.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, employment practices, police professional and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the County's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2022, no liability has been recorded in the County's financial statements. As of June 30, 2022, 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, 2022 was \$1,513,961.

Amounts payable from the Employee Group Health Fund at June 30, 2022 total \$272, 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 \$746,682 at June 30, 2022 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 | \$ 112,165 |
| Incurred claims (including claims incurred but not reported at June 30, 2022) | 6,757 |
| Payment on claims during the fiscal year | <u>(118,650)</u> |
| Unpaid claims end of year | <u>\$ 272</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, 2022 have been estimated at \$8,762. A balance of \$8,762 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, 2022.

(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, 2022, as follows:

| | | |
|---------------------------------------|----------|----------------|
| Revenues: | | |
| Property and other county tax | | \$ 101,775 |
| Intergovernmental: | | |
| State tax credits | \$ 6,588 | |
| Other | 23 | <u>6,611</u> |
| Total revenues | | <u>108,386</u> |
| Expenditures: | | |
| Services to persons with: | | |
| Mental illness | | 135,113 |
| General administration: | | |
| Distribution to regional fiscal agent | | <u>359,449</u> |
| Total expenditures | | <u>494,562</u> |
| Excess of expenditures over revenues | | (386,176) |
| Fund balance beginning of year | | <u>386,176</u> |
| Fund balance end of year | | <u>\$ -</u> |

(14) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Tax Abatements of Other Entities

Property tax revenues of the County were reduced by the following amounts for the year ended June 30, 2022 under agreements entered into by the following entity:

| Entity | Tax Abatement Program | Amount of Tax Abated |
|--------------------|-------------------------------------------------|-------------------------|
| City of Emmetsburg | Urban renewal and economic development projects | \$ 9,206 |
| City of West Bend | Urban renewal and economic development projects | <u>1,620</u> |
| | | <u>\$ 10,826</u> |

(15) Deficit Fund Balance

The Special Revenue, Drainage Districts Fund had a deficit unassigned fund balances of \$78,392 at June 30, 2020. The deficit balance will be eliminated through the collection of future drainage assessments.

(16) Accounting Change

Governmental Accounting Standards Board Statement No. 87, Leases was implemented during fiscal year 2022. The new requirements require the reporting of certain lease assets and liabilities which were previously not reported. The result of these changes had no effect on the beginning net position.

| | Capital Assets | Long-term Liabilities Lease Agreements |
|----------------------------------------------------|----------------------|-------------------------------------------------|
| Net position June 30, 2021, as previously reported | \$ 41,035,161 | - |
| Change to implement GASBS No. 87 | 7,240 | 7,240 |
| Net position July 1, 2021, as restated | <u>\$ 41,042,401</u> | <u>7,240</u> |

(17) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 96, Subscription-Based Information Technology Arrangements. This statement will be implemented for the fiscal year ending June 30, 2023. The revised requirements of this statement will require reporting of the right to use another party's information technology software alone or in combination with tangible capital assets that are not currently reported.

(18) Subsequent Events

In October 2022 and December 2022, the County Board of Supervisors approved the purchase of four dump trucks for \$300,069 and 2 dump trucks and a tractor for \$390,464, respectively.

In November 2022, the County Board of Supervisors approved a fuel contract with Ruthven Corp Oil for \$856,615.

(19) Opioid Litigation Settlement

The State of Iowa along with other states settled claims that certain prescription drug companies and pharmaceutical distributors engaged in misleading and fraudulent conduct in the marketing and sale of opioids and failed to monitor for, detect and prevent diversion of the drugs. The County also settled the same claims and related claims. Due to its settlement of these claims, the County will receive payments from the Defendant companies over the next seventeen years. The County is required to use these funds for activities to remediate the opioid crisis and treat or mitigate opioid use disorder and related disorders through prevention, harm reduction, treatment, and recovery services.

Palo Alto County

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, 2022

| | Actual | Less Funds not Required to be Budgeted | Net |
|---------------------------------------------------------------|-------------------|-------------------------------------------------|-------------------|
| Receipts: | | | |
| Property and other county tax | \$ 8,482,576 | - | 8,482,576 |
| Interest and penalty on property tax | 26,671 | - | 26,671 |
| Intergovernmental | 6,124,704 | 281,443 | 5,843,261 |
| Licenses and permits | 44,168 | - | 44,168 |
| Charges for service | 695,379 | - | 695,379 |
| Use of money and property | 276,680 | - | 276,680 |
| Miscellaneous | 7,736,925 | 7,417,501 | 319,424 |
| Total receipts | 23,387,103 | 7,698,944 | 15,688,159 |
| Disbursements: | | | |
| Public safety and legal services | 2,237,754 | - | 2,237,754 |
| Physical health and social services | 376,758 | - | 376,758 |
| Mental health | 494,562 | - | 494,562 |
| County environment and education | 1,509,974 | - | 1,509,974 |
| Roads and transportation | 5,545,130 | - | 5,545,130 |
| Governmental services to residents | 532,631 | - | 532,631 |
| Administration | 1,389,312 | - | 1,389,312 |
| Non-program | 3,095,307 | 3,095,307 | - |
| Debt service | 10,031,600 | 7,704,476 | 2,327,124 |
| Capital projects | 2,267,549 | - | 2,267,549 |
| Total disbursements | 27,480,577 | 10,799,783 | 16,680,794 |
| Excess (deficiency) of receipts over (under) disbursements | (4,093,474) | (3,100,839) | (992,635) |
| Other financing sources, net | 13,030,779 | 2,649,036 | 10,381,743 |
| Change in balances | 8,937,305 | (451,803) | 9,389,108 |
| Balance beginning of year | 14,279,835 | 693,864 | 13,585,971 |
| Balance end of year | \$ 23,217,140 | 242,061 | 22,975,079 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|--------------------|-------------------|-------------------|
| Original | Final | Net |
| | | Variance |
| 8,311,543 | 8,311,543 | 171,033 |
| 10,000 | 10,000 | 16,671 |
| 4,281,145 | 6,030,490 | (187,229) |
| 19,200 | 19,200 | 24,968 |
| 656,487 | 656,487 | 38,892 |
| 119,127 | 119,127 | 157,553 |
| 158,790 | 214,516 | 104,908 |
| <u>13,556,292</u> | <u>15,361,363</u> | <u>326,796</u> |
| 2,488,677 | 2,499,980 | 262,226 |
| 410,062 | 460,062 | 83,304 |
| 368,783 | 502,872 | 8,310 |
| 1,617,588 | 1,675,557 | 165,583 |
| 6,703,314 | 7,780,505 | 2,235,375 |
| 535,874 | 570,874 | 38,243 |
| 1,363,328 | 3,125,081 | 1,735,769 |
| - | - | - |
| 1,854,362 | 2,338,650 | 11,526 |
| 617,000 | 3,021,000 | 753,451 |
| <u>15,958,988</u> | <u>21,974,581</u> | <u>5,293,787</u> |
| (2,402,696) | (6,613,218) | 5,620,583 |
| - | 10,000,000 | 381,743 |
| <u>(2,402,696)</u> | <u>3,386,782</u> | <u>6,002,326</u> |
| 9,394,086 | 9,394,086 | 4,191,885 |
| <u>6,991,390</u> | <u>12,780,868</u> | <u>10,194,211</u> |

Palo Alto County

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2022

| | <u>Governmental Funds</u> | | |
|------------------------------|---------------------------|--------------------|-------------------|
| | <u>Cash</u> | <u>Accrual</u> | <u>Modified</u> |
| | <u>Basis</u> | <u>Adjustments</u> | <u>Accrual</u> |
| | | | <u>Basis</u> |
| Revenues | \$ 23,387,103 | (836,773) | 22,550,330 |
| Expenditures | 27,480,577 | 1,189,367 | 28,669,944 |
| Net | (4,093,474) | (2,026,140) | (6,119,614) |
| Other financing sources, net | 13,030,779 | 158,577 | 13,189,356 |
| Beginning fund balances | 14,279,835 | 401,664 | 14,681,499 |
| Ending fund balances | <u>\$ 23,217,140</u> | <u>(1,465,899)</u> | <u>21,751,241</u> |

See accompanying independent auditor's report.

Palo Alto County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2022

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, Capital Projects Fund 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, three budget amendments increased budgeted disbursements by \$6,015,593. 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, 2022, disbursements did not exceed the amounts budgeted.

Palo Alto County

Schedule of the County's Proportionate Share of the Net Pension Liability (Asset)

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

Required Supplementary Information

| | 2022 | 2021 | 2020 | 2019 |
|----------------------------------------------------------------------------------------------------------|--------------|-----------|-----------|-----------|
| County's proportion of the net pension liability/asset | 0.204633% ** | 0.043454% | 0.041054% | 0.042128% |
| County's proportionate share of the net pension liability (asset) | \$ (706) | 3,053 | 2,377 | 2,666 |
| County's covered payroll | \$ 4,198 | 4,063 | 3,891 | 3,856 |
| County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | -16.82% | 75.14% | 61.09% | 69.14% |
| IPERS' net position as a percentage of the total pension liability | 100.81% | 82.90% | 85.45% | 83.62% |

* 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.

** Overall plan net pension asset

See accompanying independent auditor's report.

| 2018 | 2017 | 2016 | 2015 |
|-----------|-----------|-----------|-----------|
| 0.042969% | 0.044052% | 0.044874% | 0.042869% |
| 2,862 | 2,772 | 2,217 | 1,700 |
| 3,652 | 3,598 | 3,615 | 3,558 |
| 78.37% | 77.04% | 61.30% | 47.78% |
| 82.21% | 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

| | 2022 | 2021 | 2020 | 2019 |
|-----------------------------------------------------------------------|----------|-------|-------|-------|
| Statutorily required contribution | \$ 402 | 396 | 385 | 370 |
| Contributions in relation to the statutorily required contribution | (402) | (396) | (385) | (370) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| County's covered payroll | \$ 4,290 | 4,198 | 4,063 | 3,891 |
| Contributions as a percentage of covered payroll | 9.37% | 9.43% | 9.48% | 9.52% |

See accompanying independent auditor's report.

| 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|-------|-------|-------|-------|-------|-------|
| 348 | 331 | 327 | 329 | 324 | 313 |
| (348) | (331) | (327) | (329) | (324) | (313) |
| - | - | - | - | - | - |
| 3,856 | 3,652 | 3,598 | 3,615 | 3,558 | 3,506 |
| 9.02% | 9.06% | 9.09% | 9.10% | 9.12% | 8.92% |

Palo Alto County

Notes to Required Supplementary Information – Pension Liability (Asset)

Year ended June 30, 2022

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 Five Years
Required Supplementary Information

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|------------------------------------------------------------------|--------------|-----------|-----------|-----------|-----------|
| Service cost | \$ 23,572 | 24,650 | 22,143 | 18,004 | 16,840 |
| Interest cost | 5,456 | 5,402 | 6,473 | 6,222 | 8,400 |
| Difference between expected and actual experiences | 46,137 | (15,726) | (16,444) | (13,277) | (12,177) |
| Changes in assumptions | (69,066) | 13,418 | 14,254 | 6,517 | - |
| Benefit payments | (3,023) | (3,042) | (2,199) | (42,806) | (52,630) |
| Net change in total OPEB liability | 3,076 | 24,702 | 24,227 | (25,340) | (39,567) |
| Total OPEB liability beginning of year | 218,656 | 193,954 | 169,727 | 195,067 | 234,634 |
| Total OPEB liability end of year | \$ 221,732 | 218,656 | 193,954 | 169,727 | 195,067 |
| Covered-employee payroll | \$ 4,369,814 | 4,298,239 | 4,186,432 | 4,016,510 | 3,607,750 |
| Total OPEB liability as a percentage of covered-employee payroll | 5.1% | 5.1% | 4.6% | 4.2% | 5.4% |

See accompanying independent auditor's report.

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

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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, 2022 | 2.37% |
| 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, 2022

| | Sheriff Investigation | Sheriff Forfeit | Resource Enhancement and Protection | Special County Recorder's Records Management |
|-------------------------------------------------------------------------------|--------------------------|--------------------|----------------------------------------------|----------------------------------------------------------|
| Assets | | | | |
| Cash, cash equivalents and pooled investments | \$ 3 | 2,268 | 55,490 | 13,126 |
| Opioid Settlement Receivable | | | | |
| Accrued interest | - | - | 14 | 2 |
| Due from other governments | - | - | - | - |
| Total assets | \$ 3 | 2,268 | 55,504 | 13,128 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Due to other governments | \$ - | - | - | - |
| Deferred inflows of resources: | | | | |
| Unavailable revenues: | | | | |
| Other | - | - | - | - |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Closure and postclosure care | - | - | - | - |
| Opioid Abatement | - | - | - | - |
| Other purposes | 3 | 2,268 | 55,504 | 13,128 |
| Total fund balance | 3 | 2,268 | 55,504 | 13,128 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 3 | 2,268 | 55,504 | 13,128 |

See accompanying independent auditor's report.

| Revenue | | | | |
|-----------------|----------------------|-----------------------------|-----------------------------------|----------------|
| Sheriff Reserve | Closure/ Postclosure | County Attorney Collections | Local Government Opioid Abatement | Total |
| 6,350 | 8,762 | 39,115 | - | 125,114 |
| | | | 128,424 | 128,424 |
| - | - | - | - | 16 |
| - | - | 532 | - | 532 |
| 6,350 | 8,762 | 39,647 | 128,424 | 254,086 |
| 108 | - | - | - | 108 |
| - | - | - | 123,967 | 123,967 |
| - | 8,762 | - | - | 8,762 |
| - | - | - | 4,457 | 4,457 |
| 6,242 | - | 39,647 | - | 116,792 |
| 6,242 | 8,762 | 39,647 | 4,457 | 130,011 |
| 6,350 | 8,762 | 39,647 | 128,424 | 254,086 |

Palo Alto County

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

Year ended June 30, 2022

| | Sheriff Investigation | Sheriff Forfeit | Resource Enhancement and Protection | Special County Recorder's Records Management |
|-----------------------------------------------------------|--------------------------|--------------------|----------------------------------------------|----------------------------------------------------------|
| Revenues: | | | | |
| Intergovernmental | \$ - | - | 9,126 | - |
| Charges for service | - | - | - | 2,365 |
| Use of money and property | - | - | 31 | 5 |
| Miscellaneous | - | - | - | - |
| Total revenues | - | - | 9,157 | 2,370 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | - | - | - | - |
| Total expenditures | - | - | - | - |
| Excess (deficiency) of revenues over (under) expenditures | - | - | 9,157 | 2,370 |
| Other financing sources: | | | | |
| Transfers in | - | - | - | - |
| Change in fund balances | - | - | 9,157 | 2,370 |
| Fund balances beginning of year | 3 | 2,268 | 46,347 | 10,758 |
| Fund balances end of year | \$ 3 | 2,268 | 55,504 | 13,128 |

See accompanying independent auditor's report.

| Revenue | | | | | |
|-----------------|----------------------|-----------------------------|-----------------------------------|--|---------|
| Sheriff Reserve | Closure/ Postclosure | County Attorney Collections | Local Government Opioid Abatement | | Total |
| 1,615 | - | 2,786 | - | | 13,527 |
| - | - | - | - | | 2,365 |
| - | - | - | - | | 36 |
| - | - | - | 4,457 | | 4,457 |
| 1,615 | - | 2,786 | 4,457 | | 20,385 |
| 3,668 | - | - | - | | 3,668 |
| 3,668 | - | - | - | | 3,668 |
| (2,053) | - | 2,786 | 4,457 | | 16,717 |
| - | 974 | - | - | | 974 |
| (2,053) | 974 | 2,786 | 4,457 | | 17,691 |
| 8,295 | 7,788 | 36,861 | - | | 112,320 |
| 6,242 | 8,762 | 39,647 | 4,457 | | 130,011 |

Palo Alto County
Combining Schedule of Fiduciary Net Position
Custodial Funds

June 30, 2022

| | County Offices | Agricultural Extension Education | County Assessor | Schools |
|--------------------------------------------------------------------|-------------------|----------------------------------------|--------------------|------------------|
| Assets | | | | |
| Cash, cash equivalents and pooled investments: | | | | |
| County Treasurer | \$ - | 2,059 | 204,582 | 80,552 |
| Other County officials | 84,228 | - | - | - |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | - | 148 | 170 | 6,087 |
| Succeeding year | - | 229,000 | 263,000 | 8,955,000 |
| Accounts | 1,026 | - | - | - |
| Accrued interest | - | - | - | - |
| Special assessments | - | - | - | - |
| Due from other governments | - | - | - | - |
| Prepaid expenses | - | - | - | - |
| Total assets | 85,254 | 231,207 | 467,752 | 9,041,639 |
| Liabilities | | | | |
| Liabilities: | | | | |
| Accounts payable | - | - | 860 | - |
| Due to other governments | 54,890 | 2,059 | - | 80,552 |
| Trusts payable | 30,364 | - | - | - |
| Compensated absences | - | - | 8,930 | - |
| Total liabilities | 85,254 | 2,059 | 9,790 | 80,552 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenues | - | 229,000 | 263,000 | 8,955,000 |
| Net Position | | | | |
| Restricted for individuals, organizations and other governments | \$ - | 148 | 194,962 | 6,087 |

See accompanying independent auditor's report.

| Community Colleges | Corporations | Townships | City Special Assessments | Auto License and Use Tax | Regional Mental Health | Other | Total |
|-----------------------|--------------|-----------|--------------------------------|-----------------------------------|------------------------------|-----------|------------|
| 7,238 | 18,604 | 1,494 | 3,040 | 282,424 | 2,113,919 | 749,684 | 3,463,596 |
| - | - | - | - | - | - | - | 84,228 |
| 540 | 2,979 | 63 | - | - | - | 1,106 | 11,093 |
| 848,000 | 2,940,000 | 218,000 | - | - | - | 1,552,000 | 15,005,000 |
| - | - | - | - | - | 7,845 | 11,137 | 20,008 |
| - | - | - | - | - | 764 | 210 | 974 |
| - | - | - | 107,652 | - | - | - | 107,652 |
| - | - | - | - | - | - | 56,854 | 56,854 |
| - | - | - | - | - | - | 742 | 742 |
| 855,778 | 2,961,583 | 219,557 | 110,692 | 282,424 | 2,122,528 | 2,371,733 | 18,750,147 |
| - | - | - | - | - | 94,917 | 5,222 | 100,999 |
| 7,238 | 18,604 | 1,494 | 110,692 | 282,424 | 7,877 | 54,418 | 620,248 |
| - | - | - | - | - | - | 10,385 | 40,749 |
| - | - | - | - | - | - | 3,750 | 12,680 |
| 7,238 | 18,604 | 1,494 | 110,692 | 282,424 | 102,794 | 73,775 | 774,676 |
| 848,000 | 2,940,000 | 218,000 | - | - | - | 1,552,000 | 15,005,000 |
| 540 | 2,979 | 63 | - | - | 2,019,734 | 745,958 | 2,970,471 |

Palo Alto County

Combining Schedule of Changes in Fiduciary Net Position
Custodial Funds

Year ended June 30, 2022

| | County Offices | Agricultural Extension Education | County Assessor | Schools |
|------------------------------------|-------------------|----------------------------------------|--------------------|------------------|
| Additions: | | | | |
| Property and other county tax | \$ - | 233,027 | 267,999 | 9,169,844 |
| 911 surcharge | - | - | - | - |
| State tax credits | - | 15,082 | 17,348 | 599,102 |
| Drivers license fees | - | - | - | - |
| Office fees and collections | 448,549 | - | - | - |
| Auto licenses, use tax and postage | - | - | - | - |
| Assessments | - | - | - | - |
| Trusts | 165,635 | - | - | - |
| Miscellaneous | - | 53 | 1,031 | 1,866 |
| Total additions | 614,184 | 248,162 | 286,378 | 9,770,812 |
| Deductions: | | | | |
| Agency remittances: | | | | |
| To other funds | 162,029 | - | - | - |
| To other governments | 283,459 | 248,142 | 312,805 | 9,771,260 |
| Trusts paid out | 168,696 | - | - | - |
| Total deductions | 614,184 | 248,142 | 312,805 | 9,771,260 |
| Changes in net position | - | 20 | (26,427) | (448) |
| Net position beginning of year | - | 128 | 221,389 | 6,535 |
| Net position end of year | \$ - | 148 | 194,962 | 6,087 |

See accompanying independent auditor's report.

| Community Colleges | Corporations | Townships | City Special Assessments | Auto License and Use Tax | Regional Mental Health | Other | Total |
|-----------------------|--------------|-----------|--------------------------------|-----------------------------------|------------------------------|-----------|------------|
| 827,499 | 2,678,928 | 161,563 | - | - | - | 1,597,166 | 14,936,026 |
| - | - | - | - | - | - | 34,862 | 34,862 |
| 53,510 | 355,531 | 7,434 | - | - | - | 101,777 | 1,149,784 |
| - | - | - | - | - | - | 41,265 | 41,265 |
| - | - | - | - | - | - | - | 448,549 |
| - | - | - | - | 3,659,467 | - | - | 3,659,467 |
| - | 5,353 | - | 23,568 | - | - | 766 | 29,687 |
| - | - | - | - | - | - | 109,709 | 275,344 |
| 187 | - | 86 | - | - | 2,654,014 | 276,916 | 2,934,153 |
| 881,196 | 3,039,812 | 169,083 | 23,568 | 3,659,467 | 2,654,014 | 2,162,461 | 23,509,137 |
| - | - | - | - | 120,023 | - | - | 282,052 |
| 881,224 | 3,039,377 | 169,050 | 23,568 | 3,539,444 | 2,699,149 | 2,245,055 | 23,212,533 |
| - | - | - | - | - | - | 109,709 | 278,405 |
| 881,224 | 3,039,377 | 169,050 | 23,568 | 3,659,467 | 2,699,149 | 2,354,764 | 23,772,990 |
| (28) | 435 | 33 | - | - | (45,135) | (192,303) | (263,853) |
| 568 | 2,544 | 30 | - | - | 2,064,869 | 938,261 | 3,234,324 |
| 540 | 2,979 | 63 | - | - | 2,019,734 | 745,958 | 2,970,471 |

Palo Alto County

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

For the Last Ten Years

| | 2022 | 2021 | 2020 | 2019 |
|--------------------------------------|----------------------|-------------------|-------------------|-------------------|
| Revenues: | | | | |
| Property and other county tax | \$ 7,149,035 | 7,377,292 | 7,201,701 | 7,113,340 |
| Tax increment financing | 777,047 | 861,306 | 913,440 | 937,777 |
| Local option sales tax | 561,852 | 456,751 | 651,377 | 403,820 |
| Interest and penalty on property tax | 27,405 | 42,514 | 12,654 | 28,029 |
| Intergovernmental | 5,324,344 | 5,855,999 | 5,055,126 | 4,997,499 |
| Licenses and permits | 19,422 | 58,914 | 89,566 | 18,960 |
| Charges for service | 706,661 | 703,845 | 681,353 | 735,826 |
| Use of money and property | 255,055 | 331,343 | 344,344 | 244,770 |
| Miscellaneous | 7,729,509 | 2,919,937 | 1,500,125 | 1,615,317 |
| Total | \$ 22,550,330 | 18,607,901 | 16,449,686 | 16,095,338 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | \$ 2,264,123 | 2,215,597 | 2,167,023 | 2,113,773 |
| Physical health and social services | 385,544 | 317,308 | 348,098 | 366,331 |
| Mental health | 494,562 | 163,760 | 141,779 | 90,470 |
| County environment and education | 1,492,944 | 1,555,002 | 1,474,089 | 1,678,712 |
| Roads and transportation | 5,694,967 | 5,157,913 | 5,024,775 | 4,384,260 |
| Governmental services to residents | 530,720 | 497,432 | 482,135 | 454,876 |
| Administration | 1,379,238 | 1,206,924 | 1,225,819 | 1,275,964 |
| Non-program | 3,218,992 | 5,031,205 | 3,823,662 | 4,045,063 |
| Debt service | 10,031,600 | 4,190,358 | 3,852,520 | 2,667,287 |
| Capital projects | 3,177,254 | 416,500 | 351,543 | 6,224,388 |
| Total | \$ 28,669,944 | 20,751,999 | 18,891,443 | 23,301,124 |

See accompanying independent auditor's report.

| 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------|------------|------------|------------|------------|------------|
| 7,029,363 | 6,368,829 | 6,491,723 | 6,107,119 | 6,145,690 | 6,167,506 |
| 861,311 | 864,015 | 718,106 | 327,473 | 310,002 | 300,004 |
| 363,448 | 352,235 | 432,521 | 465,145 | 433,932 | 361,974 |
| 27,092 | 24,219 | 27,218 | 26,172 | 25,497 | 23,143 |
| 4,411,684 | 4,933,819 | 4,816,292 | 4,466,781 | 3,912,315 | 5,753,093 |
| 18,848 | 19,475 | 22,379 | 15,448 | 14,701 | 14,578 |
| 713,771 | 695,083 | 655,020 | 613,017 | 675,118 | 747,829 |
| 183,565 | 143,044 | 110,037 | 109,598 | 105,959 | 76,332 |
| 1,585,853 | 1,470,104 | 1,670,155 | 2,508,166 | 1,198,791 | 746,189 |
| 15,194,935 | 14,870,823 | 14,943,451 | 14,638,919 | 12,822,005 | 14,190,648 |
| 2,067,658 | 1,862,649 | 1,765,900 | 1,758,102 | 1,715,696 | 1,677,580 |
| 356,980 | 347,152 | 333,962 | 315,938 | 345,250 | 325,218 |
| 193,000 | 193,262 | 442,343 | 518,741 | 441,820 | 498,060 |
| 1,519,636 | 1,423,697 | 1,493,651 | 1,280,216 | 1,340,012 | 1,367,347 |
| 4,278,394 | 3,811,770 | 3,593,743 | 4,076,273 | 4,351,228 | 3,923,103 |
| 483,003 | 432,689 | 431,905 | 402,691 | 424,021 | 404,747 |
| 1,181,676 | 1,111,525 | 1,170,815 | 1,179,145 | 1,127,496 | 1,156,543 |
| 1,703,084 | 1,647,478 | 623,771 | 1,796,929 | 924,130 | 5,730,306 |
| 3,250,017 | 2,561,232 | 3,274,586 | 10,040,124 | 2,768,798 | 1,824,566 |
| 445,463 | 2,930,884 | 1,861,379 | 5,260,226 | 1,751,867 | 2,608,192 |
| 15,478,911 | 16,322,338 | 14,992,055 | 26,628,385 | 15,190,318 | 19,515,662 |



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

To the Officials of Palo Alto County:

We have audited, in accordance with auditing standards generally accepted in the United States of America 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, 2022, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 25, 2023.

Report on 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 (internal control) as a basis for designing audit procedures that are 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.

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 that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as items (A) and (B) that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palo Alto County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Palo Alto County's operations for the year ended June 30, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Palo Alto 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Palo Alto County's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. Palo Alto County's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

January 25, 2023

Palo Alto County

Schedule of Findings

Year ended June 30, 2022

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the County’s financial statements.

Condition – Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

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

Year ended June 30, 2022

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 do our best to segregate duties in the office.

Conclusion – Response accepted.

(B) Financial Reporting

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

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

Cause – County policies do not require, and procedures have not been established to require independent review of year-end cut-off transactions 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, payables 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, payables and capital assets are properly recorded in the County's financial statements.

Conclusion – Response accepted.

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

Palo Alto County
 Schedule of Findings
 Year ended June 30, 2022

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2022 did not exceed the amounts budgeted.
- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--------------------------------------------------------------|----------------------------|--------|
| Thomas Schultes, relative of Sheriff | Parts and supplies | \$ 200 |
| Nick Jackson, son of Deputy Sheriff | Repair and welding | 313 |
| Rouse Tire and Repair, owner is spouse of County employee | Miscellaneous repairs | 7,471 |

The transactions with Thomas Schultes and 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.

- (5) 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.
- (6) 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.
- (7) 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

Year ended June 30, 2022

- (8) 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.
- (9) 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).
- (10) 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.
- (11) Donations to Private Non-profit Entities – During the year ended June 30, 2022, Palo Alto County donated \$11,750 from the General Fund to various private non-profit entities. The County has prepared service agreements with the non-profits receiving the money that requires expenditures to be tracked and reported to the County at its request however, the County has not requested the accounting of expenditures.

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.”

A service agreement with a nonprofit is generally not covered by these rules prohibiting donations, as long as it places obligations upon the non-profit for how the funds are spent, spells out the benefit to the public received, and provides for accountability in the event the nonprofit does not follow the agreement.

Recommendation – To ensure that the County is not violating the prohibition on donations, it should follow its service agreement and request an accounting of the dollars provided.

Palo Alto County

Schedule of Findings

Year ended June 30, 2022

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. The County will request and verify how the County funds are being spent to provide service to the citizens of the County.

Conclusion – Response accepted.

- (12) Financial Condition – The Special Revenue, Drainage Districts fund had a deficit fund balance of \$78,392 at June 20, 2022.

Recommendation – The County should investigate alternatives to eliminate and prevent future deficit fund balances.

Response – The Special Revenue, Drainage Districts Fund deficit will be eliminated from the collection of future assessments. The drainage deficit was a result of a large claim paid during the accrual period which was to have been paid by stamped warrants.

Conclusion – Response accepted.

Palo Alto County

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Deputy
Suzanne R. Dahlstrom, CPA, Manager
Stephen J. Hoffman, Senior Auditor II
Sarah J. Swisher, Senior Auditor II
Taylor A. Hepp, Staff Auditor
Kelsey R. Sauer, Staff Auditor
Stephen A. Baker, Assistant Auditor
Jared A. Marshall, Assistant Auditor