



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

April 2, 2018

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

The City's receipts totaled \$2,911,792 for the year ended June 30, 2017. The receipts included \$355,589 of property tax, \$18,397 of tax increment financing, \$1,699,049 of charges for service, \$274,280 of operating grants, contributions and restricted interest, \$367,000 of capital grants, contributions and restricted interest, \$115,709 of local option sales tax, \$11,568 of unrestricted interest on investments and \$70,200 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$2,990,789, and included \$781,926 for public works, \$192,096 for public safety and \$182,507 for general government. Also, disbursements for business type activities totaled \$1,533,734.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1721-0663-B00F>.

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**CITY OF PRIMGHAR**

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

**JUNE 30, 2017**

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**City of Primghar**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kurt Edwards	Mayor	Jan 2020
Glen Schueller	Mayor Pro tem	Jan 2018
Jack Black	Council Member	Jan 2018
Brooke Stevens	Council Member	Jan 2018
Doug Harms	Council Member	Jan 2020
Kevin Smith	Council Member	Jan 2020
Marlene Anderson	City Clerk/Treasurer	(Terminated Apr 2017)
Wendy Ewoldt (Appointed Jun 2017)	City Clerk/Treasurer	Indefinite
Kim Rons	Deputy Clerk	Indefinite
Bruce Green	Attorney	Indefinite

**City of Primghar**



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

### Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2016.

### Modified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2016, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Primghar as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

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

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Primghar's basic financial statements. The supplementary information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.


The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2016 as discussed in the "Basis for Modified Opinions" paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 28 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2018 on our consideration of the City of Primghar'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 City'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 the City of Primghar's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

March 26, 2018

**City of Primghar**

## **Basic Financial Statements**

City of Primghar

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 192,096	57,318	36,140	-
Public works	781,926	52,329	112,847	367,000
Health and social services	56,162	-	25,537	-
Culture and recreation	126,049	23,260	46,598	-
Community and economic development	23,232	1,757	3,155	-
General government	182,507	5,140	17,060	-
Debt service	95,083	-	-	-
Total governmental activities	1,457,055	139,804	241,337	367,000
Business type activities:				
Water	204,611	170,390	2,704	-
Sewer	170,079	162,615	2,446	-
Electric	801,283	926,940	9,486	-
Primghar Golf and Country Club	287,111	239,965	18,307	-
Other	70,650	59,335	-	-
Total business type activities	1,533,734	1,559,245	32,943	-
Total	\$ 2,990,789	1,699,049	274,280	367,000
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Debt service				
Reserve				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(98,638)	-	(98,638)
(249,750)	-	(249,750)
(30,625)	-	(30,625)
(56,191)	-	(56,191)
(18,320)	-	(18,320)
(160,307)	-	(160,307)
(95,083)	-	(95,083)
(708,914)	-	(708,914)
-	(31,517)	(31,517)
-	(5,018)	(5,018)
-	135,143	135,143
-	(28,839)	(28,839)
-	(11,315)	(11,315)
-	58,454	58,454
(708,914)	58,454	(650,460)
253,287	-	253,287
102,302	-	102,302
18,397	-	18,397
115,709	-	115,709
8,561	-	8,561
11,568	-	11,568
40,660	20,979	61,639
550,484	20,979	571,463
(158,430)	79,433	(78,997)
1,118,194	2,029,610	3,147,804
\$ 959,764	2,109,043	3,068,807
\$ 37,649	-	37,649
189,802	-	189,802
279,488	64,095	343,583
-	14,395	14,395
367,397	-	367,397
85,428	2,030,553	2,115,981
\$ 959,764	2,109,043	3,068,807

City of Primghar

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

As of and for the year ended June 30, 2017

	General	Special	
		Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 194,839	-	-
Tax increment financing	-	-	18,397
Other city tax	-	-	-
Licenses and permits	3,917	-	-
Use of money and property	29,699	-	2,934
Intergovernmental	56,643	528,644	-
Charges for service	82,653	-	-
Miscellaneous	69,071	1,763	-
Total receipts	436,822	530,407	21,331
Disbursements:			
Operating:			
Public safety	186,475	-	-
Public works	3,667	400,743	-
Health and social services	3,420	-	-
Culture and recreation	116,263	-	-
Community and economic development	875	-	15,782
General government	150,251	-	-
Debt service	-	-	-
Total disbursements	460,951	400,743	15,782
Excess (deficiency) of receipts over (under) disbursements	(24,129)	129,664	5,549
Other financing sources (uses):			
Transfers in	85,341	-	459,748
Transfers out	-	(25,341)	-
Total other financing sources (uses)	85,341	(25,341)	459,748
Change in cash balances	61,212	104,323	465,297
Cash balances beginning of year	664,798	85,479	(185,809)
Cash balances end of year	\$ 726,010	189,802	279,488
<b>Cash Basis Fund Balances</b>			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Streets	-	189,802	-
Debt service	-	-	279,488
Other purposes	41,410	-	-
Assigned for:			
Telecommunication	442,922	-	-
Public library	101,298	-	-
Unassigned	140,380	-	-
Total cash basis fund balances	\$ 726,010	189,802	279,488

See notes to financial statements.

<u>Revenue</u>			
Wright			
Express	Capital		
Trust Fund	Projects	Nonmajor	Total
-	-	160,750	355,589
-	-	-	18,397
-	-	115,709	115,709
-	-	-	3,917
25,538	-	1,479	59,650
-	-	3,814	589,101
-	-	-	82,653
-	-	2,775	73,609
25,538	-	284,527	1,298,625
-	-	5,621	192,096
-	377,516	-	781,926
-	-	52,742	56,162
-	-	9,786	126,049
-	-	6,575	23,232
-	-	32,256	182,507
-	-	95,083	95,083
-	377,516	202,063	1,457,055
25,538	(377,516)	82,464	(158,430)
-	30,254	-	575,343
-	(459,748)	(90,254)	(575,343)
-	(429,494)	(90,254)	-
25,538	(807,010)	(7,790)	(158,430)
129,225	215,715	208,786	1,118,194
154,763	(591,295)	200,996	959,764
-	-	37,649	37,649
-	-	-	189,802
-	-	-	279,488
154,763	-	171,224	367,397
-	-	-	442,922
-	-	-	101,298
-	(591,295)	(7,877)	(458,792)
154,763	(591,295)	200,996	959,764

City of Primghar

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

As of and for the year ended June 30, 2017

	Water	Sewer	Electric
Operating receipts:			
Charges for service	\$ 135,243	162,615	910,470
Miscellaneous	35,147	-	16,470
Total operating receipts	<u>170,390</u>	<u>162,615</u>	<u>926,940</u>
Operating disbursements:			
Business type activities	<u>204,611</u>	<u>113,978</u>	<u>660,298</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(34,221)</u>	<u>48,637</u>	<u>266,642</u>
Non-operating receipts (disbursements):			
Interest on investments	2,704	2,446	9,486
Land rent	-	-	-
Debt service	-	(56,101)	(140,985)
Net non-operating receipts (disbursements)	<u>2,704</u>	<u>(53,655)</u>	<u>(131,499)</u>
Change in cash balances	(31,517)	(5,018)	135,143
Cash balances beginning of year	<u>149,351</u>	<u>184,730</u>	<u>1,674,657</u>
Cash balances end of year	<u>\$ 117,834</u>	<u>179,712</u>	<u>1,809,800</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	-	64,095
Reserve	-	-	14,395
Unrestricted	<u>117,834</u>	<u>179,712</u>	<u>1,731,310</u>
Total cash basis fund balances	<u>\$ 117,834</u>	<u>179,712</u>	<u>1,809,800</u>

See notes to financial statements.



Primghar Golf and Country Club	Nonmajor	Total
101,281	59,185	1,368,794
156,991	150	208,758
258,272	59,335	1,577,552
287,111	70,650	1,336,648
(28,839)	(11,315)	240,904
-	-	14,636
20,979	-	20,979
-	-	(197,086)
20,979	-	(161,471)
(7,860)	(11,315)	79,433
50,280	(29,408)	2,029,610
42,420	(40,723)	2,109,043
-	-	64,095
-	-	14,395
42,420	(40,723)	2,030,553
42,420	(40,723)	2,109,043

City of Primghar

Notes to Financial Statements

June 30, 2017

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

The City of Primghar is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: O'Brien County Assessor's Conference Board, O'Brien County Emergency Management Commission, O'Brien County Joint E-911 Service Board and the Community Cable Television Agency of O'Brien County.

B. Basis of Presentation

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

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

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The Wright Express Trust Fund is used to account for receipts and disbursements associated with donated land.

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

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

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

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electrical system.

The Enterprise, Primghar Golf and Country Club Fund accounts for the operation and maintenance of the City's golf course and country club.

C. Measurement Focus and Basis of Accounting

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

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

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

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

#### D. Governmental Cash Basis Fund Balances

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

Nonspendable – Amounts which cannot be spent 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 City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation and debt service functions.

### **(2) Cash and Pooled Investments**

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

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

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

**(3) Notes Payable**

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

Year Ending June 30,	General Obligation Capital Loan Notes		Sewer Revenue Capital Loan Notes		Electric Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 75,000	17,583	45,000	7,998	120,000	22,553	240,000	48,134
2019	75,000	16,683	46,000	7,211	125,000	18,953	246,000	42,847
2020	75,000	15,483	48,000	6,408	125,000	14,578	248,000	36,469
2021	80,000	14,283	49,000	5,565	130,000	10,203	259,000	30,051
2022	80,000	12,683	51,000	4,708	135,000	5,198	266,000	22,589
2023-2027	430,000	35,039	218,000	9,678	-	-	648,000	44,717
Total	\$ 815,000	111,754	457,000	41,568	635,000	71,485	1,907,000	224,807

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$613,000 and \$520,000 of sewer revenue capital loan notes issued in August 2003 and June 2006. Proceeds from the notes provided financing for the construction and improvements to the wastewater treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2026. The interest rates on both the issues are 1.75% per annum. The agreements also require the City to annually pay a .25% servicing fee on the outstanding principal balance. Annual principal and interest payments on the notes required more than 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$498,568. For the current year, principal and interest paid and total customer net receipts were \$54,849 and \$48,637, respectively.

The resolutions providing for the issuance of the sewer revenue notes included the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) User rates shall be established and charged to customers of the utility to produce and maintain net operating receipts at a level not less than 110% of the principal and interest coming due in the current year.

The City has not complied with the sewer revenue capital loan note provision which requires rates be sufficient to produce net revenues not less than 110% of the principal and interest requirements.

The City has pledged future electrical customer receipts, net of specified operating disbursements, to repay \$1,300,000 of electric revenue refunding capital loan notes issued in January 2011. Proceeds from the notes were used to refund previously issued notes. The notes are payable solely from electric customer net receipts and are payable through 2022. Annual principal and interest payments on the notes required approximately 53% of net receipts. The total principal and interest remaining to be paid on the notes is \$706,485. For the current year, principal and interest paid and total customer net receipts were \$140,485 and \$266,642, respectively.

The resolution providing for the issuance of the electric revenue refunding notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to separate electric revenue note sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 10% of the required sinking fund transfer shall be made to an electric reserve account within the Enterprise Funds until specific minimum balances has been accumulated in the accounts. This account is restricted for the purpose of paying for principal and interest if the balance in the sinking fund is insufficient.

At June 30, 2017, the City has not established the required sinking account.

**(4) Pension Plan**

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://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.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member’s monthly IPERS benefit includes:

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

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

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

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

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$34,553.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$297,868 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.004733%, which was an increase of 0.000825% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$37,186, \$52,805 and \$4,035 respectively.

There were no non-employer contributing entities to IPERS.



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

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

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

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

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

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

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City 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 of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 493,859	297,868	132,465

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](http://www.ipers.org).

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 9,900
Sick leave	11,700
Compensatory time	1,500
Total	<u>\$ 23,100</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

**(6) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 25,341
	Local Option Sales Tax	60,000
		<u>85,341</u>
Special Revenue:	Capital Projects	
Urban Renewal Tax Increment		<u>459,748</u>
Capital Projects	Debt Service	
		<u>30,254</u>
Total		<u>\$ 575,343</u>

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

**(7) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Deficit Balance**

The Debt Service and Capital Projects Funds had deficit balances of \$7,877 and \$591,295, respectively, at June 30, 2017. Also, the Enterprise, Lagoon and Landfill/Garbage Funds had deficit balances of \$23,478 and \$17,245, respectively, at June 30, 2017. The City is exploring alternatives to eliminate the deficit balances.

**City of Primghar**

## **Other Information**

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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts:</b>			
Property tax	\$ 355,589	-	355,589
Tax increment financing	18,397	-	18,397
Other city tax	115,709	-	115,709
Licenses and permits	3,917	-	3,917
Use of money and property	59,650	35,615	95,265
Intergovernmental	589,101	-	589,101
Charges for service	82,653	1,368,794	1,451,447
Special assessments	-	-	-
Miscellaneous	73,609	208,758	282,367
Total receipts	<u>1,298,625</u>	<u>1,613,167</u>	<u>2,911,792</u>
<b>Disbursements:</b>			
Public safety	192,096	-	192,096
Public works	781,926	-	781,926
Health and social services	56,162	-	56,162
Culture and recreation	126,049	-	126,049
Community and economic development	23,232	-	23,232
General government	182,507	-	182,507
Debt service	95,083	-	95,083
Capital projects	-	-	-
Business type activities	-	1,533,734	1,533,734
Total disbursements	<u>1,457,055</u>	<u>1,533,734</u>	<u>2,990,789</u>
Excess (deficiency) of receipts over (under) disbursements	(158,430)	79,433	(78,997)
Balances beginning of year	<u>1,118,194</u>	<u>2,029,610</u>	<u>3,147,804</u>
Balances end of year	<u>\$ 959,764</u>	<u>2,109,043</u>	<u>3,068,807</u>

See notes to financial statements.

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<u>Budgeted Amounts</u>		Final to
<u>Original</u>	<u>Final</u>	<u>Total</u>
		<u>Variance</u>
345,145	345,145	10,444
55,000	55,000	(36,603)
88,276	88,276	27,433
2,500	2,500	1,417
10,750	10,750	84,515
491,061	491,061	98,040
1,617,331	1,617,331	(165,884)
15,000	15,000	(15,000)
-	-	282,367
<u>2,625,063</u>	<u>2,625,063</u>	<u>286,729</u>
206,470	235,780	43,684
120,825	485,375	(296,551)
50,650	53,650	(2,512)
297,022	90,070	(35,979)
33,850	33,850	10,618
162,590	208,500	25,993
100,500	93,985	(1,098)
365,000	400,000	400,000
<u>1,316,158</u>	<u>1,591,010</u>	<u>57,276</u>
<u>2,653,065</u>	<u>3,192,220</u>	<u>201,431</u>
(28,002)	(567,157)	488,160
<u>3,098,931</u>	<u>3,046,065</u>	<u>101,739</u>
<u>3,070,929</u>	<u>2,478,908</u>	<u>589,899</u>

City of Primghar

Notes to Other Information – Budgetary Reporting

June 30, 2017

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$539,155. The budget amendments are reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the in the public works, general government and business type activities functions prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the public works, health and social services, culture and recreation and debt service functions.



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City of Primghar

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

Iowa Public Employees' Retirement System  
For the Current Year\*  
(In Thousands)

Other Information

	<u>2017</u>
City's proportion of the net pension liability	0.004733%
City's proportionate share of the net pension liability	\$ 298
City's covered-employee payroll	\$ 366
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	81.42%
IPERS' net position as a percentage of the total pension liability	81.82%

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

See accompanying independent auditor's report.

**City of Primghar**

City of Primghar  
 Schedule of City Contributions  
 Iowa Public Employees' Retirement System  
 For the Last Two Years  
 (In Thousands)

Other Information

	2017	2016
Statutorily required contribution	\$ 34,553	32,544
Contributions in relation to the statutorily required contribution	(34,553)	(32,544)
Contribution deficiency (excess)	\$ -	-
City's covered-employee payroll	\$ 365,741	366,254
Contributions as a percentage of covered-employee payroll	9.45%	8.89%

**Note:** GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10- year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

City of Primghar

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

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

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

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

**Supplementary Information**

City of Primghar

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

As of and for the year ended June 30, 2017

	Employee Benefits	Local Option Sales Tax	Economic Development Randolph Trust
Receipts:			
Property tax	\$ 58,448	-	-
Other city tax	-	115,709	-
Use of money and property	-	1,227	221
Intergovernmental	1,545	-	-
Miscellaneous	-	-	-
Total receipts	59,993	116,936	221
Disbursements:			
Operating:			
Public safety	5,621	-	-
Health and social services	-	52,742	-
Cultures and recreation	9,786	-	-
Community and economic development	-	-	6,575
General government	32,256	-	-
Debt service	-	-	-
Total disbursements	47,663	52,742	6,575
Excess (deficiency) of receipts over (under) disbursements	12,330	64,194	(6,354)
Other financing uses:			
Transfers out	-	(60,000)	-
Change in cash balances	12,330	4,194	(6,354)
Cash balances beginning of year	479	947	144,433
Cash balances end of year	\$ 12,809	5,141	138,079
<b>Cash Basis Fund Balances</b>			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Other purposes	12,809	5,141	138,079
Unassigned	-	-	-
Total cash basis fund balances	\$ 12,809	5,141	138,079

See accompanying independent auditor's report.

		Permanent		
Federal Emergency Management Agency	Debt Service	Cemetery Perpetual Care	Total	
-	102,302	-	160,750	
-	-	-	115,709	
-	-	31	1,479	
-	2,269	-	3,814	
-	-	2,775	2,775	
-	104,571	2,806	284,527	
-	-	-	5,621	
-	-	-	52,742	
-	-	-	9,786	
-	-	-	6,575	
-	-	-	32,256	
-	95,083	-	95,083	
-	95,083	-	202,063	
-	9,488	2,806	82,464	
-	(30,254)	-	(90,254)	
-	(20,766)	2,806	(7,790)	
15,195	12,889	34,843	208,786	
15,195	(7,877)	37,649	200,996	
-	-	37,649	37,649	
15,195	-	-	171,224	
-	(7,877)	-	(7,877)	
15,195	(7,877)	37,649	200,996	

**City of Primghar**



## City of Primghar

Schedule of Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2017

	Enterprise		
	Lagoon	Landfill/ Garbage	Total
Receipts:			
Charges for services	\$ -	59,185	59,185
Miscellaneous	-	150	150
Total receipts	-	59,335	59,335
Disbursements:			
Business type activities	-	70,650	70,650
Change in cash balances	-	(11,315)	(11,315)
Cash balances beginning of year	(23,478)	(5,930)	(29,408)
Cash balances end of year	<u>\$ (23,478)</u>	<u>(17,245)</u>	<u>(40,723)</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>\$ (23,478)</u>	<u>(17,245)</u>	<u>(40,723)</u>

See accompanying independent auditor's report.

City of Primghar  
 Schedule of Indebtedness  
 Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Street improvement	Jun 5, 2012	0.550-2.75%	\$ 1,180,000
Revenue capital loan notes:			
Sewer	Aug 5, 2003	1.75	* \$ 613,000
Sewer	Jun 8, 2006	1.75	* 520,000
Electric refunding	Jan 31, 2011	1.20-3.85	1,300,000
Total			

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

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
890,000	-	75,000	815,000	18,483
168,000	-	22,000	146,000	2,940
333,000	-	22,000	311,000	7,909
750,000	-	115,000	635,000	25,485
<u>\$ 1,251,000</u>	-	159,000	1,092,000	36,334

**City of Primghar**

## City of Primghar

## Note Maturities

Year ended June 30, 2017

Year Ending June 30,	General Obligation Note Street Improvement Issued Jun 5, 2012	
	Interest Rates	Amount
2018	1.20%	\$ 75,000
2019	1.60	75,000
2020	1.60	75,000
2021	2.00	80,000
2022	2.00	80,000
2023	2.30	80,000
2024	2.30	85,000
2025	2.75	85,000
2026	2.75	90,000
2027	2.75	90,000
Total		<u>\$ 815,000</u>

Year Ending June 30,	Revenue Notes							Total
	Sewer Revenue Capital Loan Notes Issued Aug 5, 2003		Sewer Revenue Capital Loan Notes Issued Jun 8, 2006		Electric Revenue Refunding Capital Loan Notes Issued Jan 31, 2011			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2018	1.75%	\$ 23,000	1.75%	\$ 22,000	3.00%	\$ 120,000	165,000	
2019	1.75	23,000	1.75	23,000	3.50	125,000	171,000	
2020	1.75	24,000	1.75	24,000	3.50	125,000	173,000	
2021	1.75	25,000	1.75	24,000	3.85	130,000	179,000	
2022	1.75	25,000	1.75	26,000	3.85	135,000	186,000	
2023	1.75	26,000	1.75	26,000	-	-	52,000	
2024	-	-	1.75	54,000	-	-	54,000	
2025	-	-	1.75	55,000	-	-	55,000	
2026	-	-	1.75	57,000	-	-	57,000	
Total		<u>\$ 146,000</u>		<u>\$ 311,000</u>		<u>\$ 635,000</u>	<u>1,092,000</u>	

See accompanying independent auditor's report.

**City of Primghar**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Primghar, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2018. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2016.

Internal Control Over Financial Reporting

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

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

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Primghar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters 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 City's operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


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

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

### Purpose of this Report

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

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

  
MARY MOSIMAN, CPA  
Auditor of State

March 26, 2018



City of Primghar

Schedule of Findings

Year ended June 30, 2017

**Findings Related to the Financial Statements:**

(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 City's financial statements.

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

- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – access to petty cash, collecting and recording.
- (3) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (4) Bank reconciliation – preparing and maintaining accounting records.
- (5) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (6) Utilities – opening mail, billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – preparing checks, distributing checks, recording vacation, compensatory time and sick leave time in the system.

For the Primghar Golf and Country Club account, one individual has control over receipts issuing, collecting, depositing and recording.

For the Primghar Public Library account, one individual has control over each of the following areas:

- (1) Receipts – depositing, posting and reconciling.
- (2) Disbursements – preparing, check writing, recording and reconciling.
- (3) Cash – depositing, reconciling and recording.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

Cause – The City, the Primghar Golf and Country Club and the Primghar Public Library have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's, the Primghar Golf and Country Club's and the Primghar Public Library'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 – The City, the Primghar Golf and Country Club and the Primghar Public Library should review control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Independent reviews of financial transactions reconciliations and reports should be documented by the signature or initials of the reviewer and the date of the review.

Responses –

City – We are under new administration as of June 2017. The City's accounting processes have drastically changed and all aspects of Primghar's financials and daily accounting activity are being reviewed.

Library – The Librarian and Treasurer both review the bills before board meetings where they are presented to the trustees for approval, payment and recorded in the minutes. Checks are co-signed by both chairman and treasurer.

All cash is received through the Library. The Librarian keeps track of cash received and turns it over to the Treasurer at the end of the month, along with numbered receipts. The Treasurer records the receipts and cash on a deposit slip and in the Quicken program.

The Library Board will follow the suggestion to have the signature/initials of the Chairperson/Co-chair on the transaction report and bank statement to indicate independent review in the future.

Golf and Country Club – Management of the Primghar Golf and Country Club is responsible for receiving payments (dues, memberships, food/drink sales), issuing receipts to customers, making the bank deposits and reconciling each day's transactions with the City Clerk. The City is looking at upgrading from a cash drawer to a point of sale system for security in reporting.

Conclusions –

City – Response accepted.

Library and Golf and Country Club – Responses acknowledged. The Departments should also consider using current personnel or personnel from other offices to provide additional control through independent reviews of transactions, reconciliations and reports.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent account balances and to reconcile utility collections to deposits.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – Daily reconciliations, known internally as Aged Trial Balances, are being maintained as of the date of this review.

Conclusion – Response acknowledged. Additionally, an independent review of the reconciliations should be performed and documented.

(C) Bank Reconciliation – City

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances.

Condition – The City does not reconcile book balances to bank and investment account balances monthly.

Cause – The accounting system includes a reconciliation report which is used as the bank reconciliation. However, this reconciliation report does not perform a true bank reconciliation which includes investment balances and outstanding items.

Effect – Lack of bank to book reconciliations can result in unrecorded transactions, undetected errors and the opportunity for unauthorized transactions.

Recommendation – The City should complete a bank reconciliation each month that documents City records agree with bank records. This reconciliation should be reviewed by an independent person.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

Response – Primghar’s numerous investments and money market accounts were not reconciled prior to April 2017 to the book balances. In addition, there were dozens of entries on record that showed as outstanding items but were found to be invalid/double entry/incorrect postings had were subsequently deleted/reversed. True monthly reconciliations to the operating checking account and quarterly reconciliations to investment accounts are currently being performed.

Conclusion – Response accepted.

(D) Receipts Reconciliation – Golf Course

Criteria – An effective internal control system provides for internal controls related to reconciling receipt records with bank deposits to ensure all receipts are properly deposited.

Condition – Receipt records are not reconciled to deposits.

Cause – Policies have not been established and procedures have not been implemented to reconcile receipt records to deposits.

Effect – Misstatement of collections may not be prevented or detected and corrected on a timely basis in the normal course of operations.

Recommendation – The Golf Course should reconcile receipt records with deposits to the bank.

Response – Scheduled monthly/quarterly reconciliations will be performed.

Conclusion – Response accepted.

(E) Receipts

Criteria – An effective internal control system provides for internal controls related to ensuring all receipts are properly accounted for and deposited.

Condition – An initial listing of receipts in the mail is not prepared and reviewed by an independent person. Pre-numbered receipts are not issued to customers.

Cause – Policies have not been established and procedures have not been implemented to require an initial receipts listing. A pre-numbered receipts book was maintained but customers were not issued a receipt and the receipt number was not recorded in the system.

Effect – Inadequate accounting records can result in unrecorded transactions, undetected errors and opportunity for misappropriations.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City should prepare an initial listing of receipts in the mail. An independent person should review this listing and ensure receipts were properly deposited. Pre-numbered receipts should be issued to customers and recorded in the system.

Response – The process of receipting payments has changed since the new City Clerk took office. Pre-numbered receipt books are being purchased and will be placed in service as soon as they arrive. Every payment received is documented by one individual (Clerk or Deputy), coded and recorded in the accounting software by the other individual (Clerk or Deputy), and reconciled to the bank statement monthly by the Clerk and Mayor.

Conclusion – Response accepted.

(F) Payroll Rates

Criteria – An effective internal control system provides for controls relating to payroll, including proper approval of pay rates.

Condition – Annual salary increases were approved based upon a percentage and the actual approved wages were not documented in the City Council minutes.

Cause – The City has not implemented procedures to ensure payroll is approved and documented at an actual wage rate.

Effect – Using a percentage rather than per hour rate may cause errors in the actual rate approved which could result in unauthorized, unapproved or incorrect increases in pay.

Recommendation – Salaries and wages of employees should be stated in the City Council minutes as payroll rates.

Response – Moving forward, all changes to payroll rates will be itemized in the Council minutes.

Conclusion – Response accepted.

(G) Disbursements

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error misappropriation. Such processes include establishing policies addressing proper supporting documentation.

Condition – Four transactions tested did not have supporting documentation.

Cause – The City has not implemented procedures to ensure proper supporting documentation is obtained for all disbursements.

Effect – Lack of supporting documentation could result in unauthorized or improper transactions and the opportunity for misappropriation.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

Response – Under new management, no disbursements are issued without proper documentation and approval.

Conclusion – Response accepted.

(H) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The City does not have a disaster recovery plan that covers items specific to the needs of the City for financial continuity.

Cause – Management has not required written disaster recovery policies addressing financial continuity.

Effect – Lack of a disaster recovery plan could result in the City's inability to function in the event of a disaster or continue business without interruption.

Recommendation – A written disaster recovery plan should be developed.

Response – With the assistance of our liability insurance carrier, Iowa Communities Assurance Pool, and the O'Brien County emergency Management Coordinator, we will be implementing a Disaster Recovery Plan in the near future.

Conclusion – Response accepted.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works, general government and business type activities functions prior to the budget amendment. Disbursements at year end exceeded the amount budgeted in the public works, health and social services, culture and recreation and debt services functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City of Primghar is currently under new (experienced) administration as of June 2017. We will be properly monitoring the budget on a monthly basis.

Conclusion – Response accepted.

- (2) Questionable Disbursement – No disbursements 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 disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Kurt Edwards, Mayor, Owner of Nicholson & Edwards	Diesel fuel and repairs	\$ 2,734
Kevin Smith, Council Member, Owner of Buck’s Lawn Care	Lawn spraying	53

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Buck’s Lawn Care do not appear to represent a conflict of interest since transactions were less than \$2,500 during the fiscal year.

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Nicholson & Edwards may represent a conflict of interest since the total transactions during the year were greater than \$2,500 and the transactions were not competitively bid.

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

City of Primghar

Schedule of Findings

Year ended June 30, 2017

Response – This transaction was for the purchase of bulk diesel for the Street Department. The City Superintendent is responsible for obtaining prices from Primghar’s three fuel suppliers and then select the best price; however, no documentation exists to support this. Moving forward, all price checks will be verified and documented appropriately, in accordance with Iowa Code.

Conclusion – Response acknowledged. Chapter 326.5(3)(d) of the Code of Iowa requires competitive bids in writing, publicly invited and opened. Future transactions with Nichol森 & Edwards should comply with the Code of Iowa.

(5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

(6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

Minutes of City Council meetings were not always signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – All minutes should be signed to authenticate the actions taken.

Response – All minutes are being signed by the Mayor (Pro-Tem) and City Clerk when they are officially approved by City Council.

Conclusion – Response accepted.

(7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

(8) Electric Revenue Notes – Except as follows, no instances of non-compliance with the electric revenue note requirements were noted.

The City has not established the required electric sinking account.

Recommendation – The City should establish the required account in accordance with the note agreement and ensure principal and interest payments are made from the account.

Response – A sinking account has been established as of the date of this review. Beginning in fiscal year 2019, the combined value of the annual principal, interest and fees will be transferred from the operating fund to the sinking account to properly cover the annual debt schedule and in accordance with the note agreement.

Conclusion – Response accepted.



City of Primghar

Schedule of Findings

Year ended June 30, 2017

- (9) Sewer Revenue Notes – The sewer revenue note resolutions require the City to establish, levy and collect rents and other charges for the products and services provided by its sewer system, which rents, rates and other charges shall be at least sufficient (A) to meet the operation and maintenance expenses of such sewer system and (B) to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue notes and any other obligations secured by a pledge of the net revenues falling due in the same year. The City’s fiscal year 2017 net operating receipts of \$51,083 is less than 110% of the required debt service payments of \$54,849.

Recommendation – The City should ensure the net receipts are not less than 110% of the amount of annual principal and interest, as required by the sewer note resolutions.

Response – The City of Primghar initiated a rate increase of approximately 5%, effective February 1, 2018, and plans to continue incremental increases over the next 1-2 years to bring the Sewer Fund into compliance with adopted sewer revenue note resolution.

Conclusion – Response accepted.

- (10) Financial Condition – The Debt Service, Capital Projects, Enterprise, Lagoon and Enterprise, Garbage Funds had deficit balances of \$7,877, \$591,295, \$23,478 and \$17,245, respectively, at June 30, 2017.

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

Response – The Debt Service and Capital Projects funds are subject to additional review of transactions for the fiscal years 2012 to 2017 to help eliminate the deficits. The Lagoon Fund’s negative balance occurred during the software conversion and will be eliminated with transfers from the Sewer Fund. The Garbage Fund deficit balance will be eliminated through a rate increase which was approved in November 2017.

Conclusion – Response accepted.

- (11) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor. We noted the following regarding the City’s TIF obligations, certifications to the County Auditor and the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) disbursements:

City of Primghar

Schedule of Findings

Year ended June 30, 2017

During the year ended June 30, 2017, the City paid \$1,451 for a construction loan payment directly from the TIF Fund. These costs have not been certified as TIF debt obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for the costs paid in current and prior years. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

Response – The City will reimburse the TIF Fund for the unapproved, undocumented disbursements.

Conclusion – Response accepted.

- (12) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was certified to the Iowa Department of Management on or before December 1 for the period ending June 30, 2016. The beginning cash balance and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary were overstated \$399,639 and \$419,337, respectively. The disbursements of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority summary were understated \$72,721.

The AURR reported an internal loan of \$459,748 for TIF Area #3 when no such loan was authorized by City Council.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City's records. The internal fund loan should be authorized by the City Council or decertified.

Response – Under new administration, the fiscal year 2017 Annual Urban Renewal Report (AURR) filed in December 2017 reflects actual and true fund balances for June 30, 2017. As reconciliations of prior year activity continues between the capital projects, debt service and TIF funds, research for approved internal loans and developer agreements will be performed.

Conclusion – Response accepted.

- (13) Tax Increment Financing – Low and Moderate Income (LMI) Set Aside – The City does not track LMI activity and does not reconcile set aside receipts to LMI disbursements.

Additionally, a payment of \$2,227 did not document how the requirements of LMI disbursements were met.

Recommendation – The City should track LMI receipts and reconcile with disbursements. Supporting documentation should be maintained to identify how the requirements of LMI were met.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

Response – The City is reconciling recent LMI activity, including receipts, disbursements, and investment accounts and will maintain accurate records of LMI transactions moving forward.

Conclusion – Response accepted.

- (14) Payment of General Obligation Notes – In June 2012, the City certified \$1,389,814 of principal and interest on the 2012 General Obligation notes as tax increment financing (TIF) debt. Although TIF increment taxes were collected during fiscal year 2017, the City did not transfer from the Special Revenue, Urban Renewal Tax Investment Fund to the Debt Service Fund for payment on the City's 2012 general obligation notes.

Recommendation – The City should transfer TIF increment tax funds from the Special Revenue, Urban Renewal Tax Investment Fund to the Debt Service Fund for current and past principal and interest payments which should have been paid with TIF receipts.

Response – The City of Primghar will transfer TIF increment tax funds from Special Revenue, Urban Renewal Tax Investment Fund to the Debt Service Fund.

Conclusion – Response accepted.

- (15) Separately Maintained Records – The City maintains separate bank accounts for the Primghar Library. These accounts and investments were not reflected in the City's accounting system or monthly fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa requires a City to keep accounts which show an accurate and detailed statement of all public funds collected received or expended for any City purpose. The financial activity of the separately maintained bank accounts and investments should be reflected in the City's monthly financial statements.

Response – The City of Primghar will take the necessary steps to have the Library financials moved to within the City's accounting as soon as reasonably possible (anticipated to begin at start of fiscal year 2019).

Conclusion – Response accepted.

- (16) Utility Rates – Utility rates entered into the utility billing system did not agree with the approved utility rates per the City Ordinances. Utility rates were increased by Ordinance but the Utility rates in the billing system were never updated. Customers were billed at a lower rate than what was approved by Ordinance. Additionally, the City was unable to provide a copy of all ordinances stating approved utility rates.

Recommendation – The City should ensure the utility billing system rates are updated after each change in rate by Ordinance. An independent person should review the rates entered into the system to ensure they are accurate and agree to the current Ordinance. The City should keep copies of all Ordinances passed.

Response – New administration discovered the utility billing error in October 2017 prior to this review and corrected it immediately.

Conclusion – Response accepted.

City of Primghar

Schedule of Findings

Year ended June 30, 2017

- (17) Local Option Sales Tax – In accordance with Local Option Sales Tax (LOST) ballot, 50% of LOST receipts shall be expended on any lawful purpose of the City. The other 50% of LOST receipts shall be used for the support of Baum Harmon Memorial Hospital, or to assist with the financing of other Primghar health care programs as determined by the Hospital Board of Trustees. Fifty percent of the fiscal year 2017 LOST receipts amounted to \$53,542. During the year, \$52,742 was paid to Baum Harmon Hospital out of the LOST fund, which was \$799 less than required. Also, \$60,000 was transferred from the LOST Fund to the General Fund which exceeds the 50% limit of \$53,542 by \$6,458.

Recommendation – The City should ensure that LOST receipts are used in accordance with the LOST ballot.

Response – We are under new administration since June 2017. Accurate documentation and management of LOST funds will be maintained.


Conclusion – Response accepted.

City of Primghar

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager  
Christian E. Cottingham, Senior Auditor  
Mitchell M. Kirby, Assistant Auditor  
Erin M. Wittrock, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State