



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

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NEWS RELEASE

FOR RELEASE

May 14, 2018

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

The City's receipts totaled \$4,078,642 for the year ended June 30, 2017. The receipts included \$366,605 of property tax, \$248,807 of tax increment financing, \$366,882 of charges for service, \$242,856 of operating grants, contributions and restricted interest, \$2,304,816 of capital grants, contributions and restricted interest, \$76,139 of local option sales tax, \$4,030 of unrestricted interest on investments, \$375,000 of note proceeds and \$93,507 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$3,735,613, and included \$2,561,672 for capital projects, \$268,723 for debt service and \$153,960 for general government. Also, disbursements for business type activities totaled \$274,980.

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/1721-0192-B00F>.

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CITY OF MCGREGOR

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

JUNE 30, 2017

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City of McGregor

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Harold Brooks	Mayor	Jan 2018
Joe Muehlbauer	Mayor Pro tem	Jan 2020
Rogeta Halvorson	Council Member	Nov 2017
Charlie Carroll	Council Member	Jan 2018
Janet Hallberg	Council Member	Jan 2018
Jason Echard	Council Member	Jan 2020
Lynette L. Sander	City Administrator/Clerk	Indefinite
Mike Schuster	Attorney	Indefinite

City of McGregor



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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 McGregor, 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 Adverse Opinion on the Aggregately Discretely Presented Component Units

The financial statements do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity which include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of McGregor as of June 30, 2017, or the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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 are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2016.

Modified Opinions

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 McGregor as of June 30, 2017, and the respective changes in 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 McGregor's basic financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, 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” paragraphs 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 May 2, 2018 on our consideration of the City of McGregor’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 McGregor’s internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

May 2, 2018

City of McGregor

Basic Financial Statements

City of McGregor

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
Functions/Programs:				
Governmental activities:				
Public safety	\$ 142,924	2,973	24,226	-
Public works	87,260	13,777	108,129	-
Health and social services	6,599	-	-	-
Culture and recreation	149,023	3,297	71,776	-
Community and economic development	90,472	1,232	12,325	-
General government	153,960	22,683	-	-
Debt service	268,723	-	26,400	-
Capital projects	2,561,672	2,200	-	2,304,816
Total governmental activities	3,460,633	46,162	242,856	2,304,816
Business type activities:				
Sewer	162,948	156,020	-	-
Storm water	29,345	75,863	-	-
Garbage	75,760	84,279	-	-
Docks commission	6,927	4,558	-	-
Total business type activities	274,980	320,720	-	-
Total	\$ 3,735,613	366,882	242,856	2,304,816
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purposes				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Note proceeds				
Sale of personal property				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Updegraff trust				
Expendable:				
Streets				
Urban renewal purposes				
Fire truck				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(115,725)	-	(115,725)
34,646	-	34,646
(6,599)	-	(6,599)
(73,950)	-	(73,950)
(76,915)	-	(76,915)
(131,277)	-	(131,277)
(242,323)	-	(242,323)
(254,656)	-	(254,656)
<u>(866,799)</u>	<u>-</u>	<u>(866,799)</u>
-	(6,928)	(6,928)
-	46,518	46,518
-	8,519	8,519
<u>-</u>	<u>(2,369)</u>	<u>(2,369)</u>
<u>-</u>	<u>45,740</u>	<u>45,740</u>
<u>(866,799)</u>	<u>45,740</u>	<u>(821,059)</u>
317,978	-	317,978
48,627	-	48,627
248,807	-	248,807
76,139	-	76,139
18,078	-	18,078
2,000	-	2,000
12,270	-	12,270
3,740	290	4,030
375,000	-	375,000
33,925	-	33,925
27,234	-	27,234
20,554	(20,554)	-
<u>1,184,352</u>	<u>(20,264)</u>	<u>1,164,088</u>
317,553	25,476	343,029
<u>1,272,138</u>	<u>217,230</u>	<u>1,489,368</u>
<u>\$ 1,589,691</u>	<u>242,706</u>	<u>1,832,397</u>
\$ 242,633	-	242,633
109,171	-	109,171
126,359	-	126,359
24,293	-	24,293
86,869	59,500	146,369
459,397	-	459,397
145,074	-	145,074
395,895	183,206	579,101
<u>\$ 1,589,691</u>	<u>242,706</u>	<u>1,832,397</u>

City of McGregor

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

As of and for the year ended June 30, 2017

		Special Revenue	
		Urban Renewal	
	General	Tax Increment	
Receipts:			
Property tax	\$ 251,079	-	
Tax increment financing	-	248,807	
Other city tax	18,078	-	
Licenses and permits	15,244	-	
Use of money and property	15,503	-	
Intergovernmental	95,093	437	
Charges for service	13,375	-	
Miscellaneous	54,279	-	
Total receipts	462,651	249,244	
Disbursements:			
Operating:			
Public safety	117,471	-	
Public works	33,176	-	
Health and social services	6,599	-	
Culture and recreation	134,485	-	
Community and economic development	48,617	10,253	
General government	140,750	-	
Debt service	-	-	
Capital projects	-	-	
Total disbursements	481,098	10,253	
Excess (deficiency) of receipts over under disbursements	(18,447)	238,991	
Other financing sources (uses):			
Note proceeds	-	-	
Sale of equipment	-	-	
Transfers in	44,000	-	
Transfers out	(11,449)	(248,753)	
Total other financing sources (uses)	32,551	(248,753)	
Change in cash balances	14,104	(9,762)	
Cash balances beginning of year	406,084	136,121	
Cash balances end of year	\$ 420,188	126,359	
Cash Basis Fund Balances			
Nonspendable - Updegraff Trust	\$ -	-	
Restricted for:			
Streets	-	-	
Urban renewal purposes	-	126,359	
Fire truck	24,293	-	
Debt service	-	-	
Capital projects	-	-	
Other purposes	-	-	
Assigned for:			
Parks	14,923	-	
Library	41,550	-	
Historic preservation	3,125	-	
Opera house	897	-	
Unassigned	335,400	-	
Total cash basis fund balances	\$ 420,188	126,359	

See notes to financial statements.

Debt Service	Capital Projects	Updegraff Trust	Nonmajor	Total
48,627	-	-	66,899	366,605
-	-	-	-	248,807
-	-	-	76,139	94,217
-	-	-	-	15,244
-	46	62	-	15,611
27,671	2,304,816	-	110,352	2,538,369
-	2,200	-	-	15,575
-	-	-	-	54,279
76,298	2,307,062	62	253,390	3,348,707
-	-	-	25,453	142,924
-	-	-	54,084	87,260
-	-	-	-	6,599
-	-	-	14,538	149,023
-	-	-	31,602	90,472
-	-	-	13,210	153,960
268,723	-	-	-	268,723
-	2,561,672	-	-	2,561,672
268,723	2,561,672	-	138,887	3,460,633
(192,425)	(254,610)	62	114,503	(111,926)
-	375,000	-	-	375,000
-	33,925	-	-	33,925
192,432	40,326	-	18,998	295,756
-	-	-	(15,000)	(275,202)
192,432	449,251	-	3,998	429,479
7	194,641	62	118,501	317,553
86,862	264,756	242,571	135,744	1,272,138
86,869	459,397	242,633	254,245	1,589,691
-	-	242,633	-	242,633
-	-	-	109,171	109,171
-	-	-	-	126,359
-	-	-	-	24,293
86,869	-	-	-	86,869
-	459,397	-	-	459,397
-	-	-	145,074	145,074
-	-	-	-	14,923
-	-	-	-	41,550
-	-	-	-	3,125
-	-	-	-	897
-	-	-	-	335,400
86,869	459,397	242,633	254,245	1,589,691

Exhibit C

City of McGregor

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

As of and for the year ended June 30, 2017

	Enterprise		
	Sewer	Nonmajor	Total
Operating receipts:			
Charges for service	\$ 156,020	164,700	320,720
Operating disbursements:			
Business type activities	89,765	112,032	201,797
Excess of operating receipts over operating disbursements	66,255	52,668	118,923
Non-operating receipts (disbursements):			
Interest on investments	290	-	290
Debt service	(53,788)	-	(53,788)
Capital projects	(19,395)	-	(19,395)
Net non-operating receipts (disbursements)	(72,893)	-	(72,893)
Excess (deficiency) of receipts over (under) disbursements	(6,638)	52,668	46,030
Transfers In	4,694	11,053	15,747
Transfers out	-	(36,301)	(36,301)
Total transfers	4,694	(25,248)	(20,554)
Change in cash balances	(1,944)	27,420	25,476
Cash balances beginning of year	101,529	115,701	217,230
Cash balances end of year	\$ 99,585	143,121	242,706
Cash Basis Fund Balances			
Restricted for debt service	59,500	-	59,500
Unrestricted	40,085	143,121	183,206
Total cash basis fund balances	\$ 99,585	143,121	242,706

See notes to financial statements.

City of McGregor

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of McGregor is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1857 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 sewer, storm water and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of McGregor 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.

Excluded Component Units

These financial statements present the City of McGregor (the primary government). The financial statements do not include financial data for the McGregor Municipal Utility and the McGregor Hook and Ladder, legally separate entities which should be reported as discretely presented component units.

Jointly Governed Organizations/Joint Venture

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E-911 Service Board, and Mar-Mac Unified Law Enforcement District. As described in Note 13, The City's participation in the Mar-Mac Unified Law Enforcement District meets the criteria of a joint venture since there is an ongoing financial responsibility for the City.

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 revenues, 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.

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

The Permanent, Updegraff Trust Fund is utilized to account for interest earned and fees associated with money held within the Updegraff Trust Fund.

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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 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 Supplementary Information. During the year ended June 30, 2017, disbursements in the public works, health and social services, culture and recreation, and capital projects functions exceeded the amounts budgeted prior to the budget amendment.

(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) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds/Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 167,500	16,281	45,000	7,658	212,500	23,939
2019	127,500	13,751	45,000	6,847	172,500	20,598
2020	132,500	11,315	45,000	6,038	177,500	17,353
2021	132,500	8,609	50,000	5,025	182,500	13,634
2022	132,500	5,903	50,000	3,900	182,500	9,803
2023-2024	132,500	2,951	100,000	3,900	232,500	6,851
Total	\$ 825,000	58,810	335,000	33,368	1,160,000	92,178

On May 1, 2013, the City issued \$1,175,000 of general obligation corporate purpose and refunding bonds to provide funds to pay the costs of constructing improvements to the sanitary sewer and water systems, to pay the costs of construction and installation for river-front improvements and to refund the outstanding balance of the City’s 2008 general obligation corporate purpose bonds. The bonds bear interest at rates ranging from 1.00% to 1.85% per annum and mature on June 1, 2023. During the fiscal year 2017, the City paid principal of \$185,000 and interest of \$8,580 on the bonds. The outstanding principal balance at June 30, 2017 was \$450,000.

On June 15, 2017, the City issued a \$375,000 general obligation corporate purpose note to provide funds to pay the costs of constructing street, sidewalk, sanitary sewer, water system, storm water drainage, and box culvert improvements. The note bears an interest rate of 2.65% per annum and matures on June 1, 2023. During the fiscal year 2017, no principal or interest payments were paid on the note. The outstanding principal balance at June 30, 2017 was \$375,000.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$550,000 of sewer revenue bonds issued in August 2012. Proceeds from the bonds provided financing for the construction of improvements to the sanitary sewer system and to currently refund the outstanding balance of the City's 2003 sewer revenue note. The bonds are payable solely from sewer customer net receipts and are payable through 2024. Annual principal and interest payments on the bonds required 80% of net receipts. The total principal and interest remaining to be paid on the bonds is \$368,368. For the current year, principal and interest paid and total customer net receipts were \$53,288 and \$66,255, respectively.

The resolutions providing for the issuance of the revenue bonds includes the following provisions:

- (a) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.
- (b) A sewer reserve account of \$55,000 shall be established and maintained. This account is restricted for paying the principal and interest on the bonds if the sinking account balance insufficient.
- (c) All funds remaining in the Sewer Fund after making the required transfers shall be placed in a sewer revenue surplus account. As long as the sinking and reserve accounts have the full amount required to be deposited, the balance in the surplus account may be made available to the City as the City Council may direct.
- (d) User rates shall be established at a level which produces and maintains net receipts at a level not less than 125% of the amount of principal and interest on the bonds falling due in the same year.

The City's net revenues for the year ended June 30, 2017 were less than the required 125% of note principal and interest falling during the year.

(4) General Obligation Anticipation Project Note

On October 1, 2015, the City issued a \$200,000 general obligation corporate purpose loan agreement anticipation project note to fund the cost of constructing street, sidewalk, storm sewer, sanitary sewer, and water system improvements. The note bears an interest rate of 2.35% per annum and matures on October 1, 2017. During the fiscal year 2017, the City paid principal of \$48,825 and interest of \$2,350 on the note. The outstanding principal balance at June 30, 2017 was \$51,175.

(5) Lease-Purchase Agreement

On July 13, 2016, the City entered into an agreement to lease a caterpillar wheel loader at total cost of \$108,250, including interest at 2.75% per annum. The following is a schedule of the future minimum lease payments, including interest and the present value of net minimum lease payments under the agreement in effect at June 30, 2017:

Year Ending June 30,	Caterpillar Wheel Loader
2018	\$ 23,468
2019	23,468
2020	23,468
2021	23,468
	93,872
Less amount representing interest	(6,114)
Total	\$ 87,758

During the year ended June 30, 2017, the City made a payment of \$23,469 on the capital lease.

(6) 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.

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.

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%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$18,629.

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 \$181,991 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 0.0028918%, which was a decrease of 0.0001062% 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 \$21,585, \$52,884 and \$24,693, 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 geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	\$ 294,437	181,991	87,085

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.

(7) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 4 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a month to month basis. The most recent active member monthly premium for the City and plan members is \$1,970 for single coverage. For the year ended June 30, 2017, the City contributed \$23,879 to the plan and plan members eligible for benefits had no contributions as the plan is 100% funded by the City.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time 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 and compensatory time payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,000
Compensatory time	4,000
Total	<u>\$ 10,000</u>

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

(9) Development Agreements

The City has entered into various rebate agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings by the developers. The rebate payments are subject to annual appropriation by the City Council.

The total to be paid by the City under the agreements is not to exceed \$390,000. The total amount rebated during the year ended June 30, 2017 was \$10,253. The City has rebated a total of \$184,820 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2017 was \$205,180.

(10) 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: Urban Renewal Tax Increment	\$ 44,000
Special Revenue: Local Option Sales Tax	Special Revenue: Urban Renewal Tax Increment	18,998
Debt Service	General	1,000
	Special Revenue: Urban Renewal Tax Increment	168,932
	Road Use Tax	15,000
	Enterprise: Garbage	7,500
		<u>192,432</u>
Capital Projects	General	5,755
	Special Revenue: Urban Renewal Tax Increment	5,770
	Enterprise: Storm Water	28,801
		<u>40,326</u>
Enterprise: Sewer	General	4,694
Storm Water	Special Revenue: Urban Renewal Tax Increment	11,053
Total		<u>\$ 311,503</u>

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

(11) Related Party Transactions

The City had business transactions between the City and city officials totaling \$3,488 during the year ended June 30, 2017.

(12) 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.

(13) Participation in Joint Venture

The City is a participant in the Mar-Mac Unified Law Enforcement District, a joint venture, to provide and administer law enforcement and police protection services for the cities of Marquette and McGregor. The District is governed by a five member commission, two of which are appointed by each respective city and one of which is appointed by the Board of Directors of McGregor Hook and Ladder Company No. 1.

Per the agreement, the city councils of both cities are to annually appropriate funds equal to a defined percentage of the District's budget. During fiscal year 2017, the City of McGregor appropriated and paid to the District 47% of the District's budget, or \$109,524. Upon dissolution of the District, any funds remaining after satisfying District obligations are to be divided equally between the cities.

The Mar-Mac Unified Law Enforcement District issues a publicly available stand-alone financial report which is available to the public by mail at PO Box 69, Marquette, Iowa 52158-0069.

(14) Commitments

The City entered into contracts for the Ash Street pavement rehabilitation and the 4th Street culvert projects. As of June 30, 2017, no payments have been made on the contracts leaving a balance of \$402,260 remaining to be paid as work progresses.

(15) 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.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$3,806 of property tax under the urban renewal and economic development projects.

(16) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements and tax abatements of other entities which impact the City.

(17) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

Other Information

City of McGregor
 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

	Cash Basis		(Unaudited)
	Governmental Funds Actual	Proprietary Funds Actual	McGregor Municipal Utility Actual
Receipts:			
Property tax	\$ 366,605	-	-
Tax increment financing	248,807	-	-
Other city tax	94,217	-	-
Licenses and permits	15,244	-	-
Use of money and property	15,611	290	-
Intergovernmental	2,538,369	-	-
Charges for service	15,575	320,720	1,034,051
Miscellaneous	54,279	-	-
Total receipts	3,348,707	321,010	1,034,051
Disbursements:			
Public safety	142,924	-	-
Public works	87,260	-	-
Health and social services	6,599	-	-
Culture and recreation	149,023	-	-
Community and economic development	90,472	-	-
General government	153,960	-	-
Debt service	268,723	-	-
Capital projects	2,561,672	-	-
Business type activities	-	274,980	858,322
Total disbursements	3,460,633	274,980	858,322
Excess (deficiency) of receipts over (under) disbursements	(111,926)	46,030	175,729
Other financing sources, net	429,479	(20,554)	-
Excess of receipts and other financing sources over disbursements and other financing uses	317,553	25,476	175,729
Balances beginning of year	1,272,138	217,230	327,723
Balances end of year	\$ 1,589,691	242,706	503,452

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
366,605	367,238	367,238	(633)
248,807	251,278	251,278	(2,471)
94,217	92,261	92,261	1,956
15,244	4,625	4,625	10,619
15,901	23,075	15,125	776
2,538,369	1,988,864	2,359,380	178,989
1,370,346	1,350,578	1,363,480	6,866
54,279	46,200	90,200	(35,921)
4,703,768	4,124,119	4,543,587	160,181
142,924	142,646	143,646	722
87,260	155,495	158,895	71,635
6,599	5,200	7,700	1,101
149,023	123,090	165,490	16,467
90,472	81,773	130,273	39,801
153,960	150,699	174,699	20,739
268,723	296,430	319,898	51,175
2,561,672	2,008,000	2,733,000	171,328
1,133,302	1,262,157	1,275,362	142,060
4,593,935	4,225,490	5,108,963	515,028
109,833	(101,371)	(565,376)	675,209
408,925	210,000	510,000	(101,075)
518,758	108,629	(55,376)	574,134
1,817,091	1,463,715	1,463,715	353,376
2,335,849	1,572,344	1,408,339	927,510

City of McGregor

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, City had one budget amendment which increased budgeted disbursements by \$883,473. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation and the capital projects functions prior to the budget amendment.

City of McGregor

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

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

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.0028918%	0.0029980%	0.0030740%
City's proportionate share of the net pension liability	\$ 182	148	122
City's covered-employee payroll	\$ 208	205	201
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.50%	72.20%	60.70%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

City of McGregor

Schedule of City Contributions

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

Other Information

	2017	2016	2015	2014
Statutorily required contribution	\$ 19	19	18	18
Contributions in relation to the statutorily required contribution	(19)	(19)	(18)	(18)
Contribution deficiency (excess)	-	-	-	-
City's covered-employee payroll	\$ 209	208	205	201
Contributions as a percentage of covered-employee payroll	9.09%	9.13%	8.78%	8.96%

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
18	12	10	8	9	7
(18)	(12)	(10)	(8)	(9)	(7)
-	-	-	-	-	-
202	152	150	128	145	123
8.91%	7.89%	6.67%	6.25%	6.21%	5.69%

City of McGregor

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

Schedule 1

City of McGregor

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

As of and for the year ended June 30, 2017

	Special Revenue			Total
	Road Use Tax	Employee Benefits	Local Option Sales Tax	
Receipts:				
Property tax	\$ -	66,899	-	66,899
Other city tax	-	-	76,139	76,139
Intergovernmental	108,129	2,223	-	110,352
Total receipts	108,129	69,122	76,139	253,390
Disbursements:				
Operating:				
Public safety	-	25,453	-	25,453
Public works	44,634	6,950	2,500	54,084
Cultures and recreation	-	14,538	-	14,538
Communitiy and economic development	-	-	31,602	31,602
General government	-	13,210	-	13,210
Total disbursements	44,634	60,151	34,102	138,887
Excess of receipts over disbursements	63,495	8,971	42,037	114,503
Other financing sources (uses):				
Transfers in	-	-	18,998	18,998
Transfers out	(15,000)	-	-	(15,000)
Total other financing sources (uses)	(15,000)	-	18,998	3,998
Change in cash balances	48,495	8,971	61,035	118,501
Cash balances beginning of year	60,676	4,049	71,019	135,744
Cash balances end of year	\$ 109,171	13,020	132,054	254,245
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ 109,171	-	-	109,171
Other purposes	-	13,020	132,054	145,074
Total cash basis fund balances	\$ 109,171	13,020	132,054	254,245

See accompanying independent auditor's report.

City of McGregor

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

As of and for the year ended June 30, 2017

	Enterprise			Total
	Storm Water	Garbage	Docks Commission	
Operating receipts:				
Charges for service	\$ 75,863	84,279	4,558	164,700
Operating disbursements:				
Business type activities	29,345	75,760	6,927	112,032
Excess (deficiency) of operating receipts over (under) operating disbursements	46,518	8,519	(2,369)	52,668
Transfers in	11,053	-	-	11,053
Transfers out	(28,801)	(7,500)	-	(36,301)
Total transfers	(17,748)	(7,500)	-	(25,248)
Change in cash balances	28,770	1,019	(2,369)	27,420
Cash balances beginning of year	44,248	65,103	6,350	115,701
Cash balances end of year	\$ 73,018	66,122	3,981	143,121
Cash Basis Fund Balances				
Unrestricted	\$ 73,018	66,122	3,981	143,121

See notes to financial statements.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Corporate purpose and refunding bonds, series 2013A	May 1, 2013	1.20-1.85%	\$ 1,175,000
Corporate purpose note	Jun 15, 2017	2.65	375,000
Total			
Revenue bond:			
Sewer revenue improvement and refunding, series 2012A	Aug 1, 2012	1.80-2.60%	\$ 550,000
General obligation loan agreement anticipation project note	Oct 1, 2015	2.35%	\$ 200,000
Lease-purchase agreement:			
Caterpillar wheel loader	Jul 13, 2016	2.75%	\$ 108,250
See accompanying independent auditor's report.			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
635,000	-	185,000	450,000	8,580
-	375,000	-	375,000	-
\$ 635,000	375,000	185,000	825,000	8,580
\$ 380,000	-	45,000	335,000	8,288
\$ 100,000	-	48,825	51,175	2,350
\$ -	108,250	20,492	87,758	2,977

City of McGregor
 Bond and Note Maturities
 June 30, 2017

Year Ending June 30,	General Obligation Bonds/Notes					Total
	Corporate Purpose and Refunding Bond		Corporate Purpose Note			
	Issued May 1, 2013		Issued Jun 15, 2017			
	Interest		Interest			
	Rates	Amount	Rates	Amount		
2018	1.20%	\$ 105,000	2.65%	\$ 62,500	167,500	
2019	1.20	65,000	2.65	62,500	127,500	
2020	1.50	70,000	2.65	62,500	132,500	
2021	1.50	70,000	2.65	62,500	132,500	
2022	1.85	70,000	2.65	62,500	132,500	
2023	1.85	70,000	2.65	62,500	132,500	
2024		-		-	-	
Total		<u>\$ 450,000</u>		<u>\$ 375,000</u>	<u>825,000</u>	

See accompany independent auditor's report.

Revenue Bonds		
Sewer Revenue Improvement and Refunding		
Issued Aug 1, 2012		
Interest		
Rates		Amount
1.80%	\$	45,000
1.80		45,000
2.25		45,000
2.25		50,000
2.60		50,000
2.60		50,000
2.60		50,000
	\$	<u>335,000</u>

Schedule 5

City of McGregor

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Indirect:			
U.S. Department of Homeland Security:			
Iowa Department of Homeland Security and Emergency Management:			
Hazard Mitigation Grant:	97.039	HMGP-DR-1763-0156-01	\$ 1,856,357
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRMI-008	287,515
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Brownfields Assessment and Cleanup Cooperative	66.818	17-7540-39	<u>4,478</u>
Total			<u>\$ 2,148,350</u>

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of McGregor under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of McGregor, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of McGregor.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

See accompanying independent auditor's report.



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

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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 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 McGregor, 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 May 2, 2018. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed modified opinions on the governmental activities, business type activities, major funds and the aggregate remaining fund information since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2016. We expressed an adverse opinion on the aggregate discretely presented component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of McGregor'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 McGregor's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of McGregor's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified 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 McGregor's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-17 to be a material weakness.

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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-17 and II-C-17 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McGregor'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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 McGregor's Responses to the Findings

The City of McGregor's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of McGregor'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 McGregor 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

May 2, 2018



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STATE OF IOWA

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

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of McGregor, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of McGregor's major federal program for the year ended June 30, 2017. The City of McGregor's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of McGregor's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of McGregor's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the City of McGregor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-17, we consider to be a material weakness.

The City of McGregor's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of McGregor's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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


MARY MOSIMAN, CPA
Auditor of State

May 2, 2018

City of McGregor

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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

- (a) Modified opinions were issued on the governmental activities, business type activities, major funds and aggregate remaining funds financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves to the distribution by fund of the total fund balance at July 1, 2016. We expressed an adverse opinion on the aggregate discretely presented component units.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major program was CFDA Number 97.039 – Hazard Mitigation Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of McGregor did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-17 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 individual in the City has control over each of the following areas for which no compensating controls exist:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Computer system – performing all general accounting functions and controlling all data input and output.
- (8) Compensated absences – maintaining records and balances.

For the McGregor Docks Commission, one individual has control over the following areas:

- (1) Receipts – collecting, depositing and recording.
- (2) Disbursements – check writing, check signing, reconciling and recording.

For the McGregor Park Board, one individual has control over the following areas:

- (1) Receipts – collecting, depositing and recording.
- (2) Disbursements – check writing, check signing, reconciling and recording.

City of McGregor

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Cause – The City, the McGregor Docks Commission and McGregor Park Board 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 Dock Commission's and the Park Board'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 Docks Commission and the Park Board should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Responses –

City – The City has made some adjustments to these procedures and the City Council has become more involved in the City's finances. The City is still working on updating written policies and procedures.

Docks Commission – Complete segregation of duties is nearly impossible with limited staff. The City will bring the Docks Commission in house in fiscal year 2018.

Park Board – Complete segregation of duties is nearly impossible with limited staff. The City will bring the Parks Board in house in fiscal year 2018.

Conclusion – Response accepted.

II-B-17 Credit Cards

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 or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The City has a credit card for use by employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Cause – Adoption of a formal policy to regulate the use of credit cards has not been prioritized by the City Council.

Effect – Lack of written policies and procedures to regulate the use of credit cards could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

City of McGregor

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – The City approved a credit card policy in November 2017.

Conclusion – Response accepted.

II-C-17 Park Board Gift Cards

Criteria – Internal controls over safeguarding assets constitute a process, effected by the City’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 or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The Park Board purchased discount gift cards from a convenience store and subsequently sold the cards at the face value as a fundraiser. Adequate records were not maintained to account for the gift card sales, deposits and unsold gift cards.

Cause – Policies and procedures have not been established to require proper records and accounting for gift card sales, deposits and unsold gift cards.

Effect – Lack of policies and procedures requiring proper accounting for gift card sales deposits and unsold gift cards could result in unauthorized use of or misappropriation of the cards.

Recommendation – The Park Board should establish procedures to require an independent person reconcile gift card sales, deposits and unsold gift cards.

Response – The program has been discontinued at this time. If the program is used in the future as a fundraiser, the City will establish procedures for reconciling gift cards sales.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of McGregor

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 97.039: Hazard Mitigation Grant

Federal Award Year: 2017

Prior Year Finding Number: N/A

U.S. Department of Homeland Security

**Passed through Iowa Department of Homeland Security and Emergency
Management**

III-A-17 Segregation of Duties – The City did not properly segregate custody, record-
(2017-001) keeping and reconciling functions for receipts and disbursements related to
federal programs. See item II-A-17.

City of McGregor

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-17 Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works, health and social services, culture and recreation and the capital projects functions prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will approve budget amendments before exceeding any previously budgeted amounts in any of the functions.

Conclusion – Response accepted.

IV-B-17 Questionable Disbursements – 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.

IV-C-17 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-17 Business Transactions – Business transactions between the City and city officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Janet Hallberg, City Council Member, Employee at Kwik Trip	Fuel, supplies	\$ 3,488

In the opinion of the City Attorney, the transactions with the City Council Member do not represent a conflict of interest. The opinion states in accordance with Chapter 362.5(3)(k), the transactions do not benefit the Council Member.

IV-E-17 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.

IV-F-17 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-17 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.

City of McGregor

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

IV-H-17 Revenue Bonds – Section 8 of the sewer revenue bond agreement requires sewer rates be established which are sufficient to leave a balance of net revenues equal to at least 125% of the principal and interest on all of the bonds due in the fiscal year. During the year ended June 30, 2017, the City was not in compliance with the net receipt requirement of the sewer revenue bond resolution.

Recommendation – The City should ensure rates are established at a level which produce net receipts of 125% of the annual principal and interest payments on the bonds.

Response – The City has been in contact with the bond issuer to discuss the net revenue comment. Although the amount of the shortfall in 2017 budget year was small, operating costs are expected to continue to rise so action should be taken to increase the revenue to ensure bond resolution compliance. The City will approve a new rate increase ordinance that will include an immediate adjustment to the base and usage rate with an annual percentage increase in subsequent years to ensure the net revenue requirement is met.

Conclusion – Response accepted.

IV-I-17 Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

City of McGregor

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Joseph B. Sparks, Senior Auditor
Kelly L. Hilton, Senior Auditor
McKenzie M. Anderson, Assistant Auditor
Justin D. Jones, 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