



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 23, 2006

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Primghar, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2005, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,857,502 for the year ended June 30, 2005. The receipts included \$312,851 in property tax, \$1,323,099 from charges for service, \$95,517 from operating grants, contributions and restricted interest, \$13,424 from capital grants, contributions and restricted interest, \$56,826 from local option sales tax, \$1,018,865 from general obligation capital loan note and sewer revenue capital loan note proceeds, \$26,744 from unrestricted interest on investments and \$10,176 from other general receipts.

Disbursements for the year totaled \$2,781,370, and included \$153,275 for culture and recreation, \$119,446 for debt service and \$109,975 for public safety. Also, disbursements for business type activities totaled \$2,116,624.

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

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CITY OF PRIMGHAR

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

JUNE 30, 2005

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City of Primghar

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Thompson	Mayor	Jan 2008
Daniel Wittrock	Mayor Pro tem	Jan 2008
Marvin Hoppe	Council Member	Jan 2006
Clara Black	Council Member	Jan 2006
Connie Ebel	Council Member	Jan 2006
Kurt Edwards	Council Member	Jan 2008
Lee Ann Lansink	Clerk/Treasurer	Indefinite
Bruce Green	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Primghar's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, 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 balance at July 1, 2004.

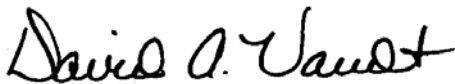
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present 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, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

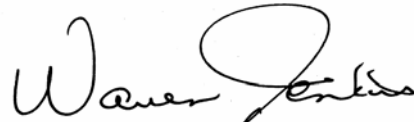
In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2006 on our consideration of the City of Primghar's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Primghar's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, 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, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Primghar provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2005 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by approximately \$5,000.
- The cash basis net assets for the City's business type activities increased by approximately \$71,000 due to electric rate increases and additional cable television revenues.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

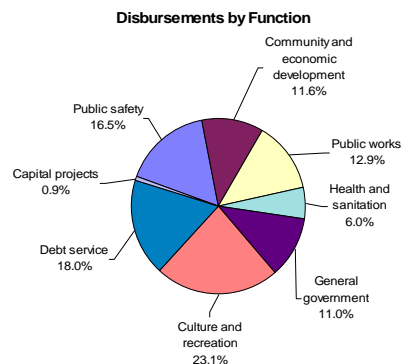
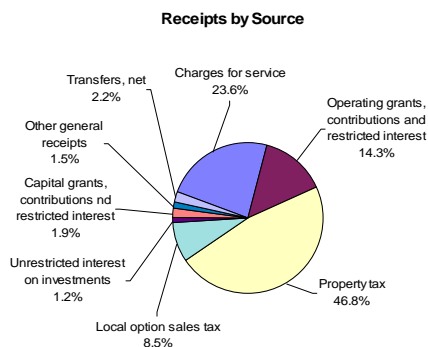
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the electric, telecommunications, water, sewer, garbage and meter deposits.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased moderately from a year ago, from \$173,832 to \$178,530. The analysis that follows focuses on the changes in cash balances of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$	158
Operating grants, contributions and restricted interest		96
Capital grants, contributions and restricted interest		13
General receipts:		
Property tax		313
Local option sales tax		57
Unrestricted interest on investments		8
Other general receipts		10
Transfers, net		15
Total receipts and transfers		<u>670</u>
Disbursements:		
Public safety		110
Public works		86
Health and social services		40
Culture and recreation		153
Community and economic development		77
General government		73
Debt service		120
Capital projects		6
Total disbursements		<u>665</u>
Increase in cash basis net assets		5
Cash basis net assets beginning of year		<u>174</u>
Cash basis net assets end of year		<u>\$ 179</u>



The cash basis net assets for the City's business type activities increased by \$71,434, primarily due to carried over electric project funds and a buildup of telecom fund net assets.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 152
Sewer	120
Electric	694
Garbage	64
TCA Telecom	122
Meter deposits	12
General receipts:	
Unrestricted interest on investments	19
Note proceeds	1,019
Total receipts	<u>2,202</u>
Disbursements and transfers:	
Water	141
Sewer	138
Electric	1,690
Garbage	63
TCA Telecom	77
Meter deposits	7
Transfers	15
Total disbursements and transfers	<u>2,131</u>
Increase in cash basis net assets	71
Cash basis net assets beginning of year	<u>1,015</u>
Cash basis net assets end of year	<u>\$ 1,086</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Primghar completed the year, its governmental funds reported a combined fund balance of \$178,530, an increase of approximately \$5,000 above last year's total of \$173,832. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$33,539 from the prior year to a deficit balance of \$82,256, due primarily to lost State funding (bank franchise tax and consolidated payments), increasing operational costs despite two rounds of budget cuts and the discontinued practice of interfund transfers from the electric and LOST funds.

- The Randolph Expendable Trust Fund cash balance increased \$8,280 to a balance of \$85,859.
- The Debt Service Fund cash balance increased \$707 to a balance of \$68,985.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Electric Fund cash balance increased by \$22,301 to \$831,928, due primarily to carried over electric project upgrade construction funding and electric residential and commercial rate increases.
- The TCA Telecom Fund cash balance increased by \$32,725 to \$175,601, due primarily to additional revenues received from the Community Cable Television Agency.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. An amendment was approved on December 13, 2004 and resulted in an increase in operating disbursements of \$1,229,150. Health and human services was increased \$1,300 due to increased costs for mosquito control, culture and recreation was increased by \$6,900 for library department, general government was increased \$15,000 for the city hall remodeling project and debt service was increased \$14,180 for a fire truck loan payment. The budget for the business type activities was amended by \$1,191,770 for the following reasons: \$22,000 for new pickup, \$3,670 for sewer SRF payment, \$30,000 for lagoon project engineering fees, \$35,000 for electric upgrade project debt service, \$420,000 for electric upgrade (conversion) construction costs and \$606,000 for payoff of electric upgrade short-term project note. Another amendment was approved on May 9, 2005 for a total of \$153,286. This included Knowlton road project, more city hall remodeling, final pool rehab costs, water plant repairs, light plant improvements, garbage fuel surcharge and recycling dumpster costs.

Even with these budget amendments, the City exceeded the budget in the public safety and general government functions.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$3,189,500 in long-term debt, compared to \$3,013,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2005	2,004
General obligation capital loan notes	\$ 368	465
Revenue capital loan notes	2,822	2,548
Total	<u>\$ 3,190</u>	<u>3,013</u>

Debt increased as a result of finalized electric upgrade project revenue note funding.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$367,500 is significantly below its constitutional debt limit of \$1,076,603.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's fiscal year 2005 assessed taxable property value increased approximately \$427,000 from the FY 2004 level. The City increased the levy rate by \$.01996 per \$1,000 of taxable valuation. Property tax, excluding tax increment financing, for FY05 was expected to increase by approximately \$4,500.

The City of Primghar's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities. The City's fiscal year 2006 assessed property value increased approximately \$189,000. The City increased the levy rate by \$.79672 per \$1,000 of taxable valuation. Property tax, excluding tax increment financing, are expected to increase approximately \$5,000.

The proposed FY 2006 budget includes total receipts of \$1,819,148 and disbursements of \$1,742,088. If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$77,000 by the close of FY 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. De Ann Lansink, Clerk/Treasurer, P.O. Box 39, 160, South Hayes, City of Primghar, Iowa 51245.

Basic Financial Statements

City of Primghar

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 109,975	39,093	13,064	-
Public works	86,081	2,247	74,083	-
Health and social services	40,379	447	-	-
Culture and recreation	153,275	93,221	8,370	-
Community and economic development	76,718	20,797	-	-
General government	72,821	2,200	-	-
Debt service	119,446	-	-	13,424
Capital projects	6,051	-	-	-
Total governmental activities	664,746	158,005	95,517	13,424
Business type activities:				
Water	141,385	152,129	-	-
Sewer	138,389	120,523	-	-
Electric	1,689,802	694,013	-	-
Garbage	62,763	64,436	-	-
TCA Telecom	77,373	121,663	-	-
Meter deposits	6,912	12,330	-	-
Total business type activities	2,116,624	1,165,094	-	-
Total	\$ 2,781,370	1,323,099	95,517	13,424

General Receipts:

Property tax levied for:
General purposes
Tax increment financing
Debt service
Local option sales tax
Unrestricted interest on investments
Electric revenue capital loan note proceeds (net of \$22,000 discount and accrued interest of \$2,130)
Sewer revenue capital loan note proceeds
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
Perpetual care
Streets
Debt service
Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(57,818)	-	(57,818)
(9,751)	-	(9,751)
(39,932)	-	(39,932)
(51,684)	-	(51,684)
(55,921)	-	(55,921)
(70,621)	-	(70,621)
(106,022)	-	(106,022)
(6,051)	-	(6,051)
(397,800)	-	(397,800)
-	10,744	10,744
-	(17,866)	(17,866)
-	(995,789)	(995,789)
-	1,673	1,673
-	44,290	44,290
-	5,418	5,418
-	(951,530)	(951,530)
(397,800)	(951,530)	(1,349,330)
126,320	-	126,320
80,274	-	80,274
106,257	-	106,257
56,826	-	56,826
7,945	18,799	26,744
-	1,005,130	1,005,130
-	13,735	13,735
10,176	-	10,176
14,700	(14,700)	-
402,498	1,022,964	1,425,462
4,698	71,434	76,132
173,832	1,014,862	1,188,694
\$ 178,530	1,086,296	1,264,826
\$ 30,256	-	30,256
42,053	-	42,053
68,985	464,071	533,056
119,753	-	119,753
(82,517)	622,225	539,708
\$ 178,530	1,086,296	1,264,826

City of Primghar

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

As of and for the year ended June 30, 2005

	General	Special Revenue Randolph Expendable Trust	Debt Service
Receipts:			
Property tax and other city tax	\$ 100,347	-	106,257
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Licenses and permits	3,439	-	-
Use of money and property	14,420	11,979	1,003
Intergovernmental	16,386	-	-
Charges for service	49,161	-	-
Miscellaneous	90,623	1,545	13,424
Total receipts	274,376	13,524	120,684
Disbursements:			
Operating:			
Public safety	109,975	-	-
Public works	3,920	-	-
Health and social services	3,048	-	-
Culture and recreation	153,275	-	-
Community and economic development	978	5,244	-
General government	72,821	-	-
Debt service	-	-	119,446
Capital projects	-	-	-
Total disbursements	344,017	5,244	119,446
Excess (deficiency) of receipts over (under) disbursements	(69,641)	8,280	1,238
Other financing sources (uses):			
Sale of capital assets	2,885	-	-
Operating transfers in	33,443	-	13,331
Operating transfers out	(226)	-	(13,862)
Total other financing sources (uses)	36,102	-	(531)
Net change in cash balances	(33,539)	8,280	707
Cash balances beginning of year	(48,717)	77,579	68,278
Cash balances end of year	\$ (82,256)	85,859	68,985
Cash Basis Fund Balances			
Reserved for perpetual care	\$ -	-	-
Unreserved, reported in:			
General fund	(82,256)	-	-
Special revenue funds	-	85,859	-
Debt service fund	-	-	68,985
Total cash basis fund balances	\$ (82,256)	85,859	68,985

See notes to financial statements.

Nonmajor	Total
21,936	228,540
80,274	80,274
56,826	56,826
-	3,439
9,540	36,942
74,083	90,469
-	49,161
616	106,208
<u>243,275</u>	<u>651,859</u>
-	109,975
82,161	86,081
37,331	40,379
-	153,275
70,496	76,718
-	72,821
-	119,446
6,051	6,051
<u>196,039</u>	<u>664,746</u>
<u>47,236</u>	<u>(12,887)</u>
-	2,885
43,604	90,378
(61,590)	(75,678)
<u>(17,986)</u>	<u>17,585</u>
29,250	4,698
<u>76,692</u>	<u>173,832</u>
<u>105,942</u>	<u>178,530</u>
30,256	30,256
-	(82,256)
75,686	161,545
-	68,985
<u>105,942</u>	<u>178,530</u>

City of Primghar

City of Primghar

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

As of and for the year ended June 30, 2005

	Enterprise Funds			
	Electric	Telecom	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 668,520	120,163	320,176	1,108,859
Miscellaneous	25,493	1,500	29,242	56,235
Total operating receipts	694,013	121,663	349,418	1,165,094
Operating disbursements:				
Business type activities	490,635	3,000	286,699	780,334
Excess of operating receipts over operating disbursements	203,378	118,663	62,719	384,760
Non-operating receipts (disbursements):				
Interest on investments	12,960	3,135	2,704	18,799
Electric revenue capital loan note proceeds	1,005,130	-	-	1,005,130
Sewer revenue capital loan note proceeds	-	-	13,735	13,735
Debt service	(734,868)	(74,373)	(43,689)	(852,930)
Capital projects	(464,299)	-	(19,061)	(483,360)
Total non-operating receipts (disbursements)	(181,077)	(71,238)	(46,311)	(298,626)
Excess of receipts over disbursements	22,301	47,425	16,408	86,134
Other financing uses:				
Operating transfers out	-	(14,700)	-	(14,700)
Net change in cash balances	22,301	32,725	16,408	71,434
Cash balances beginning of year	809,627	142,876	62,359	1,014,862
Cash balances end of year	\$ 831,928	175,601	78,767	1,086,296
Cash Basis Fund Balances				
Reserved for debt service	\$ 357,620	106,451	-	464,071
Unreserved	474,308	69,150	78,767	622,225
Total cash basis fund balances	\$ 831,928	175,601	78,767	1,086,296

See notes to financial statements.

City of Primghar

Notes to Financial Statements

June 30, 2005

(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, electric, telecommunications and garbage 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 and Joint Venture

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, Northwest Iowa Solid Waste Agency, O'Brien County Emergency Management Commission and the O'Brien County Joint E911 Service Board.

The City also participates in a joint venture, the Community Cable Television Agency of O'Brien County. The City of Primghar has an 18.8% interest in a joint venture with the Cities of Hartley, Paullina and Sanborn to provide cable television services. The cities participate in providing cable television services, which is under the general management of one representative of each City Council.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets 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 Statement of Activities and Net Assets presents the City’s nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets 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 funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 Randolph Expendable Trust Fund is used to account for rent receipts which are used to pay taxes, provide startup loans for new businesses and restore the balance in the fund. The fund was originally established to be used for economic development.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City’s general obligation long-term debt.

The City reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The TCA Telecom Fund accounts for the City's share of the profits of the Community Cable Television Agency and its uses.

C. Measurement Focus and Basis of Accounting

The City of Primghar 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 incurred, there are both restricted and unrestricted cash basis net assets 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety and general government functions.

(2) Cash

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Notes Payable

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

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2006	\$ 97,500	16,436	167,000	125,726	264,500
2007	85,000	12,105	151,000	120,163	236,000	132,268
2008	55,000	8,028	157,000	114,733	212,000	122,761
2009	30,000	4,126	167,000	108,718	197,000	112,844
2010	35,000	4,385	168,000	102,080	203,000	106,465
2011-2015	65,000	4,799	893,000	394,060	958,000	398,859
2016-2020	-	-	743,000	205,073	743,000	205,073
2021-2023	-	-	376,000	29,470	376,000	29,470
Total	\$ 367,500	49,879	2,822,000	1,200,023	3,189,500	1,249,902

Electric Revenue Capital Loan Notes, Series 2001 – These notes were issued February 1, 2001 to pay costs of replacing project notes previously issued to pay costs of improvements and extensions to the Electric Utility, including the construction of a fiber optic and coaxial cable communications system and the integration of the system with the existing cable communications system to serve the Electric Utility and a portion of the costs of a cooperative undertaking among the cities of Hartley, Paulina, Primghar and Sanborn pursuant to the provisions of Chapter 28E of the Code of Iowa, creating the Community Cable Television Agency of O’Brien County and providing for payment of the City’s pro rata share of the costs thereof. The notes bear interest at rates ranging from 4.70 to 5.60% per annum.

Sewer Revenue Capital Loan Notes, Series 2003 – On August 5, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for the issuance of \$613,000 of sewer revenue capital loan notes, with interest at 3.00% per annum. Subsequently, it was determined \$172,000 was not needed and was applied to the principal amount due. These notes were issued to pay costs of construction, reconstruction, extending, remodeling, improving, repairing and equipping the Sewer Utility. The agreement also required the City to annually pay a .25% servicing fee on the outstanding principal balance. The City will receive disbursements from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2005, the City had drawn the entire authorized amount of \$441,000. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes was charged by Wells Fargo Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the sewer revenue capital loan notes drawn by the City during the year ended June 30, 2003.

Telecommunications Revenue Capital Loan Notes, Series 2004 – These notes were issued April 1, 2004 to pay costs of replacing Project Notes previously issued to pay costs of improvements and extensions to the Telecommunications Utility and the integration of the system with the existing cable communications system and a portion of the costs of a cooperative undertaking among the cities of Hartley, Paulina, Primghar and Sanborn pursuant to the provisions of Chapter 28E of the Code of Iowa, creating the Community Cable Television Agency of O’Brien County and providing for payment of the City’s pro rata share of the costs thereof, and to evidence the obligations of the Issuer under a Loan Agreement dated March 23, 2004, in conformity with a Resolution of the City Council of the City duly passed and approved. The notes bear interest at rates ranging from 1.80% to 4.15% per annum.

Electric Revenue Capital Loan Notes, Series 2004 – These were issued September 30, 2004 to pay costs of improvements and extensions to the Electric Utility, including distribution and substation improvements, transformers and related work and costs of replacing Project Notes previously issued to pay costs of improvements and extensions to the Electric Utility. The notes bear interest at rates ranging from 2.20 to 5.50% per annum.

The revenue capital loan notes are payable from and secured by a pledge of the net revenues of the Telecommunications Utility, Sewer Utility and the Electric Utility. These notes are not payable in any manner by taxation and under no circumstances shall the City be in any manner liable by reason of the failure of said net earnings to be sufficient for the payment of the notes.

The resolutions providing for the issuance of the revenue capital loan notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activities and the note holders hold a lien on the future earnings of the funds.
- (b) All revenue shall be deposited in the respective Revenue Fund for Telecommunications, Sewer or Electric.
- (c) Money in each of the Revenue Funds shall first be disbursed into separate and special Operation and Maintenance Funds to pay current expenses. Each month 1/12th of the expenses payable on an annual basis to pay for current expenses shall be disbursed to the respective Operation and Maintenance Funds.
- (d) Revenue Note and Interest Sinking Funds for Telecommunications, Sewer and Electric are established. The required amount to be deposited in the respective Revenue Note and Interest Sinking Fund in any month shall be the amount equal to pay in full the installment of interest coming due on the next interest payment date plus the equal monthly amount necessary to pay in full the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. Money in the Revenue Note and Interest Sinking Funds shall be used solely for the purpose of paying principal of and interest on the respective Notes as the same shall become due and payable.
- (e) Money in the Telecommunications and Electric Revenue Funds shall be disbursed to maintain a debt service reserve equal to the reserve fund requirement, which is an amount equal to the lesser of (a) the maximum annual amount of the principal and interest coming due on the Notes, (b) 10% of the stated principal amount of the Notes or (c) 125% of the average annual principal and interest coming due on the Notes. Money in the Reserve Funds shall be used solely for the purpose of paying principal at maturity of or interest on the Notes for the payment of which insufficient money shall be available in the Sinking Fund. In each month there shall be deposited in the Reserve Fund an amount equal to 25 percent of the amount required to be deposited in such month in the Revenue Note and Interest Sinking Fund.
- (f) Money in the Telecommunications and Electric Revenue Funds shall next be disbursed to maintain funds to be known as the Telecommunications Revenue Improvement Fund and the Electric Revenue Improvement Fund. The minimum amount to be deposited in the Telecommunications Improvement Fund each month shall be \$939,

provided, however, when the amount of deposits in the fund equals or exceeds \$93,855, no further monthly deposits need be made in to the Telecommunications Revenue Improvement Fund, except to maintain it at such a level. The minimum amount to be deposited in the Electric Revenue Improvement Fund each month shall be \$1,200, provided, however, when the amount of deposits in the fund equals or exceeds \$70,000, no further monthly deposits need be made to the Electric Revenue Improvement Fund, except to maintain such a level.

- (g) Money in the Revenue Funds may next be used to pay principal and interest on other obligations which by their terms shall be payable from the revenues of the Systems, but subordinate to the Notes, and which have been issued for the purposes of extensions or improvements to the Systems or to retire the Notes in advance of maturity, or to pay for extraordinary repairs or replacements in the systems.
- (h) All money thereafter remaining in the Revenue Funds at the close of each month may be deposited in any of the funds created by the resolutions, to pay for extraordinary repairs or replacements to the systems, or may be used to pay or redeem the Notes, any of them, or for any lawful purpose.

The City has not established the Electric Revenue Improvement Fund and has not made the required transfers to the Sewer Sinking Fund.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.74% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2005 was \$13,805, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave 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 sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,700
Sick leave	8,600
	\$ 17,300
Total	

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 11,267
	Emergency	2,711
	Local Option Sales Tax	4,765
	Enterprise:	
	TCA Telecom	14,700
		<u>33,443</u>
Special Revenue:	Special Revenue:	
Road Use Tax	Employee Benefits	7,958
	Debt Service	13,862
		<u>21,820</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>13,331</u>
Capital Projects	General	226
	Special Revenue:	
	Local Option Sales Tax	21,558
		<u>21,784</u>
Total		<u>\$ 90,378</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 were covered by the purchase of commercial insurance until May 9, 2005 when the City became member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims

expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2005 were \$26,720.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the City's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City carries workers compensation with the Iowa Municipal Workers Compensation Association in the amount of \$1,000,000 and paid premiums during the year totaling \$11,490.

The City also carries commercial insurance purchased from another insurer for coverage associated with an employee blanket bond in the amount of \$5,000 for all employees except the Mayor, City Clerk/Treasurer and Library Treasurer which are \$45,000. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balances

The General Fund had a deficit balance of \$82,256 at June 30, 2005. The deficit will be eliminated by making some budget cuts to every department financed from the General Fund, utilizing available local option sales tax proceeds and using available telecom profits.

The Special Revenue, Housing Rehabilitation Fund had a deficit balance at June 30, 2005 of \$261. The deficit will be eliminated by grant receipts in the next year.

The Enterprise, Sewer Fund had a deficit balance of \$1,199. The deficit will be eliminated as the balance builds in the future.

The Enterprise, Garbage Fund had a deficit balance of \$16,877 at June 30, 2005. The deficit balance will be eliminated by collections from a rate increase in November 2005.

(9) Community Development Block Grant

On March 18, 2005, the City entered into a Community Development Block Grant (CDBG) Housing Fund Contract with the Iowa Department of Economic Development for \$240,000 to rehabilitate eight (8) owner occupied homes within the City. No funds were expended during the year ended June 30, 2005 for services under this contract.

(10) Development Agreement

The City entered into a development agreement with Primghar Advancement Corporation (PAC) on May 12, 1997 to assist in urban renewal projects. The City resolved that property taxes in TIF District #2 be utilized for debt reduction on PAC loans obtained from local banks.

(11) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary 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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 228,540	-
Other city tax	137,100	-
Licenses and permits	3,439	-
Use of money and property	36,942	18,799
Intergovernmental	90,469	-
Charges for service	49,161	1,108,859
Miscellaneous	106,208	56,235
Total receipts	<u>651,859</u>	<u>1,183,893</u>
Disbursements:		
Public safety	109,975	-
Public works	86,081	-
Health and social services	40,379	-
Culture and recreation	153,275	-
Community and economic development	76,718	-
General government	72,821	-
Debt service	119,446	-
Capital projects	6,051	-
Business type activities	-	2,116,624
Total disbursements	<u>664,746</u>	<u>2,116,624</u>
Excess (deficiency) of receipts over (under) disbursements	(12,887)	(932,731)
Other financing sources, net	<u>17,585</u>	<u>1,004,165</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	4,698	71,434
Balances beginning of year	<u>173,832</u>	<u>1,014,862</u>
Balances end of year	<u>\$ 178,530</u>	<u>1,086,296</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
228,540	224,651	224,651	3,889
137,100	131,491	136,491	609
3,439	1,870	1,870	1,569
55,741	35,058	39,588	16,153
90,469	80,725	80,575	9,894
1,158,020	1,312,630	1,147,735	10,285
162,443	109,375	122,955	39,488
1,835,752	1,895,800	1,753,865	81,887
109,975	111,275	105,835	(4,140)
86,081	65,910	87,110	1,029
40,379	41,060	41,010	631
153,275	161,055	166,045	12,770
76,718	83,460	86,000	9,282
72,821	54,700	72,500	(321)
119,446	105,820	120,300	854
6,051	-	6,051	-
2,116,624	848,128	2,168,993	52,369
2,781,370	1,471,408	2,853,844	72,474
(945,618)	424,392	(1,099,979)	154,361
1,021,750	-	1,020,000	1,750
76,132	424,392	(79,979)	156,111
1,188,694	812,574	1,188,693	1
1,264,826	1,236,966	1,108,714	156,112

City of Primghar

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and the 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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund, the Capital Projects Fund and the Proprietary 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 \$1,382,436. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety and general government functions.

Other Supplementary Information

City of Primghar

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

As of and for the year ended June 30, 2005

	Road Use Tax	Employee Benefits	Emergency	Local Option Sales Tax	Special Tax Increment Financing
Receipts:					
Property tax and other city tax	\$ -	19,225	2,711	-	-
Tax increment financing	-	-	-	-	80,274
Local option sales tax	-	-	-	56,826	-
Use of money and property	-	-	-	622	-
Intergovernmental	74,083	-	-	-	-
Miscellaneous	152	-	-	-	-
Total receipts	74,235	19,225	2,711	57,448	80,274
Disbursements:					
Operating:					
Public works	82,161	-	-	-	-
Health and social services	-	-	-	28,413	-
Community and economic development	-	-	-	-	70,171
Capital projects	-	-	-	-	-
Total disbursements	82,161	-	-	28,413	70,171
Excess (deficiency) of receipts over (under) disbursements	(7,926)	19,225	2,711	29,035	10,103
Other financing sources (uses):					
Operating transfers in	21,820	-	-	-	-
Operating transfers out	-	(19,225)	(2,711)	(39,654)	-
Total other financing sources (uses)	21,820	(19,225)	(2,711)	(39,654)	-
Net change in cash balances	13,894	-	-	(10,619)	10,103
Cash balances beginning of year	28,159	-	-	34,410	-
Cash balances end of year	\$ 42,053	-	-	23,791	10,103
Cash Basis Fund Balances					
Reserved for perpetual care	\$ -	-	-	-	-
Unreserved, reported in:					
Special revenue funds	42,053	-	-	23,791	10,103
Total cash basis fund balances	\$ 42,053	-	-	23,791	10,103

See accompanying independent auditor's report.

Revenue		Permanent	Capital Projects		
Housing Rehabilitation	Wright Expendable Trust	Perpetual Care	Pool Renovations		Total
-	-	-	-	-	21,936
-	-	-	-	-	80,274
-	-	-	-	-	56,826
-	8,918	-	-	-	9,540
-	-	-	-	-	74,083
64	-	400	-	-	616
64	8,918	400	-	-	243,275
-	-	-	-	-	82,161
-	8,918	-	-	-	37,331
325	-	-	-	-	70,496
-	-	-	6,051	-	6,051
325	8,918	-	6,051	-	196,039
(261)	-	400	(6,051)	-	47,236
-	-	-	21,784	-	43,604
-	-	-	-	-	(61,590)
-	-	-	21,784	-	(17,986)
(261)	-	400	15,733	-	29,250
-	-	29,856	(15,733)	-	76,692
(261)	-	30,256	-	-	105,942
-	-	30,256	-	-	30,256
(261)	-	-	-	-	75,686
(261)	-	30,256	-	-	105,942

City of Primghar

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

As of and for the year ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Garbage	Meter Deposits
Operating receipts:				
Charges for service	\$ 138,998	117,867	63,311	-
Miscellaneous	13,131	2,656	1,125	12,330
Total operating receipts	152,129	120,523	64,436	12,330
Operating disbursements:				
Business type activities	141,385	75,639	62,763	6,912
Excess of operating receipts over operating disbursements	10,744	44,884	1,673	5,418
Non-operating receipts (disbursements):				
Interest on investments	1,519	998	-	187
Sewer revenue capital loan notes proceeds	-	13,735	-	-
Debt service	-	(43,689)	-	-
Capital projects	-	(19,061)	-	-
Total non-operating receipts (disbursements)	1,519	(48,017)	-	187
Net change in cash balances	12,263	(3,133)	1,673	5,605
Cash balances beginning of year	72,985	1,934	(18,550)	5,989
Cash balances end of year	\$ 85,248	(1,199)	(16,877)	11,594
Cash Basis Fund Balances				
Unreserved	\$ 85,248	(1,199)	(16,877)	11,594

See accompanying independent auditor's report.

Cable TV	Total
-	320,176
-	29,242
-	349,418
-	286,699
-	62,719
-	2,704
-	13,735
-	(43,689)
-	(19,061)
-	(46,311)
-	16,408
1	62,359
1	78,767
1	78,767

City of Primghar
 Schedule of Indebtedness
 Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Essential corporate purpose	Aug 1, 1993	4.70-5.00%	\$ 275,000
Street improvements	Apr 1, 1997	4.45-5.35	290,000
Water well	Jul 1, 2001	4.10-4.90	145,000
Pool improvements	Nov 1, 2003	2.00-4.35	120,000
Fire Truck	Mar 25, 2004	2.75	25,000
Total			
Revenue capital loan notes:			
Electric	Feb 1, 2001	4.70-5.60%	\$ 975,000
Sewer	Aug 5, 2003	3.00	613,000
Electric	Oct 10, 2003	2.00	600,000
Telecommunications	Apr 1, 2004	1.80-4.15	700,000
Electric	Sep 30, 2004	2.20-5.50	1,025,000
Total			

See accompanying independent auditor's report.

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$	100,000	-	25,000	75,000	4,925
	105,000	-	35,000	70,000	5,512
	115,000	-	15,000	100,000	5,315
	120,000	-	10,000	110,000	4,163
	25,000	-	12,500	12,500	831
\$	465,000	-	97,500	367,500	20,746
\$	830,000	-	50,000	780,000	43,908
	404,265	13,735	31,000	387,000	12,279
	600,000	-	600,000	-	6,000
	700,000	-	55,000	645,000	19,073
	-	1,025,000	15,000	1,010,000	19,310
\$	2,534,265	1,038,735	751,000	2,822,000	100,570

City of Primghar

Note Maturities

June 30, 2005

Year Ending June 30,	General Oligation Capital Loan Notes					
	Series 1993		Series 1997		Series 2001	
	Essential Corporate Purpose		Street Improvements		Water Well	
	Issued August 1, 1993		Issued April 1, 1997		Issued July 1, 2001	
	Int. Rate	Principal	Int. Rate	Principal	Int. Rate	Principal
2006	5.00%	\$ 25,000	5.35%	\$ 35,000	4.40%	\$ 15,000
2007	5.00	25,000	5.35	35,000	4.50	15,000
2008	5.00	25,000	-	-	4.60	15,000
2009	-	-	-	-	4.70	15,000
2010	-	-	-	-	4.80	20,000
2011	-	-	-	-	4.90	20,000
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
Total		<u>\$ 75,000</u>		<u>\$ 70,000</u>		<u>\$ 100,000</u>

Year Ending June 30,	Revenue Capital Loan Notes					
	Series 2001		Series 2003		Series 2004	
	Electric		Sewer		Telecommunications	
	Issued February 1, 2001		Issued August 5, 2003		Issued April 1, 2004	
	Int. Rate	Principal	Int. Rate	Principal	Int. Rate	Principal
2006	5.00%	\$ 55,000	3.00%	\$ 32,000	2.25%	\$ 65,000
2007	5.05	55,000	3.00	16,000	2.65	65,000
2008	5.10	60,000	3.00	17,000	3.00	65,000
2009	5.15	65,000	3.00	17,000	3.20	70,000
2010	5.20	65,000	3.00	18,000	3.45	70,000
2011	5.30	70,000	3.00	18,000	3.65	75,000
2012	5.35	75,000	3.00	19,000	3.80	75,000
2013	5.40	80,000	3.00	20,000	4.00	80,000
2014	5.45	80,000	3.00	20,000	4.15	80,000
2015	5.50	85,000	3.00	21,000	-	-
2016	5.60	90,000	3.00	21,000	-	-
2017	-	-	3.00	22,000	-	-
2018	-	-	3.00	23,000	-	-
2019	-	-	3.00	23,000	-	-
2020	-	-	3.00	24,000	-	-
2021	-	-	3.00	25,000	-	-
2022	-	-	3.00	25,000	-	-
2023	-	-	3.00	26,000	-	-
Total		<u>\$ 780,000</u>		<u>\$ 387,000</u>		<u>\$ 645,000</u>

See accompanying independent auditor's report.

Series 2003		Series 2004		Total
Pool Improvements		Fire Truck		
Issued November 1, 2003		Issued March 25, 2004		
Int. Rate	Principal	Int. Rate	Principal	
2.40%	\$ 10,000	2.75%	\$ 12,500	97,500
2.80	10,000	-	-	85,000
3.20	15,000	-	-	55,000
3.45	15,000	-	-	30,000
3.75	15,000	-	-	35,000
4.00	15,000	-	-	35,000
4.20	15,000	-	-	15,000
4.35	15,000	-	-	15,000
	<u>\$ 110,000</u>		<u>\$ 12,500</u>	<u>367,500</u>

Series 2004		
Electric		
Issued September 30, 2004		
Int. Rate	Principal	Total
2.60%	\$ 15,000	167,000
3.00	15,000	151,000
3.30	15,000	157,000
3.60	15,000	167,000
3.85	15,000	168,000
4.05	15,000	178,000
4.25	15,000	184,000
4.40	20,000	200,000
4.55	20,000	200,000
4.70	25,000	131,000
4.85	25,000	136,000
5.00	120,000	142,000
5.10	125,000	148,000
5.20	130,000	153,000
5.30	140,000	164,000
5.40	145,000	170,000
5.50	155,000	180,000
	-	26,000
	<u>\$ 1,010,000</u>	<u>2,822,000</u>

City of Pringhar



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 17, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

Except as noted in the Independent Auditor's Report, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Primghar's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Primghar's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.


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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that 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, 2005 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.

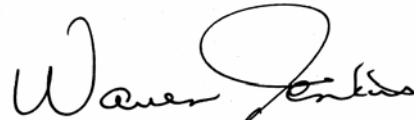
This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Primghar and other parties to whom the City of Primghar may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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.



DAVID A. VAUDT, CPA
Auditor of State

March 17, 2006



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

City of Primghar
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:

- Accounting system – performing all general accounting functions and having custody of assets.
- Cash – handling and recording.
- Investments – investing, recording and custody.
- Long-term debt – recording, reconciling and performing cash functions.
- Receipts – listing mail receipts, reconciling mail receipt listing to receipts and deposits, collecting, depositing, posting and reconciling.
- Utility receipts – billing, collecting, depositing and posting.
- Disbursements – preparing, signing and recording.
- Payroll – preparing, signing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City’s Administrative Policy of Internal Control and Investment Policy are strictly adhered to for maximum internal control. Staff also strictly adhere to all CMS/INCODE balancing procedures for financial, payroll and utility billing software components. Segregation of duties is difficult for an office staff of two; however, competent staff faithfully performs all job duties/requirements. Additionally, staff has initiated their own “self internal controls” for added assurances.

Conclusion – Response acknowledged. The City should rotate duties to the extent practical.

City of Primghar

Schedule of Findings

Year ended June 30, 2005

- (B) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality. In addition, password length is not set at a minimum of at least 6 characters (preferably 8 or more).
- A computer log to be maintained to record who recorded a transaction, based on the employees login name. This information should be attached to the transactions in a data file.
- Requiring access to programs and functions within programs be limited to those who have a legitimate need, especially in the utilities program.
- A security awareness program including precautions that should be taken with e-mail.
- Ensuring software not licensed to the City is not installed on a PC.
- The personal use of the computer equipment and software.
- Requiring computers to have a log off function when not in use.
- Having back-up tapes stored off-site daily.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response – The City adopted a Computer Based Policy on April 10, 2006. Upon installation (end of April) of the new server and networking system, the policy will be amended to reflect upgraded user password securities.

Conclusion – Response accepted.

- (C) Payroll – Time sheets are required to be prepared by all employees. However, independent approval of the time sheets is not documented.

Recommendation – Time sheets should be approved and the approval of the time sheet should be properly documented by the initial and date of the person reviewing and approving the time sheets.

Response – The City Clerk or Deputy Clerk continue to verify each time sheet. All verifications and special notes are made with red ink. Each time sheet now includes initials of City Clerk or Deputy Clerk with date in lower right corner.

Conclusion – Response accepted.

City of Primghar

Schedule of Findings

Year ended June 30, 2005

- (D) Receipts – Checks received are not always stamped “For Deposit Only” immediately upon receipt. The deposit slip does not detail how much cash and checks are deposited. Deposits are made two or three times a week and not daily.

Recommendation – All checks received should be stamped “For Deposit Only” immediately upon receipt to help ensure assets are properly safeguarded. To provide additional control over cash receipts, the deposit slip should detail how much cash and checks is in each deposit. Deposits should be made daily.

Response – All received checks are now immediately stamped “For Deposit Only” upon receipt. Deposits are now made daily as warranted. Each deposit slip now indicates cash and check amounts accordingly. Deposit slips are now itemized, if applicable, or include special notes.

Conclusion – Response accepted.

- (E) Disbursements – Lists of claims are presented to the Council for approval. However, the approved lists are not signed by at least the Mayor to indicate approval of the bills. Therefore, it is not possible to determine whether the composition of each list retained was the list approved by the Council at each meeting. Also, the Mayor’s signature is required on all checks. However, the City Clerk has a signature stamp that can be used in the Mayor’s absence to sign checks.

Recommendation – The Mayor or a member of the Council should sign the final approved claims list. The signed claims list should be retained to document approval of the Council of the approved claims. A signature stamp should not be used to sign the Mayor’s name on checks in his absence. To strengthen internal control over disbursements, the Council may want to designate other persons, along with the City Clerk, to co-sign checks in the absence of the Mayor.

Response – The claims list is now presented at each regular Council session for approval and signed by Mayor or Mayor Pro Tem prior to disbursement of checks. The Mayor’s signature stamp was destroyed. Co-signature checks are signed by the City Clerk or Deputy Clerk and Mayor or Mayor Pro Tem.

Conclusion – Response accepted.

- (F) Utility Billings, Collections, Delinquencies and Accounts Receivable – Utility billings, collections, delinquencies and accounts receivable were not reconciled at the end of each month. Adjustments to the billing records, collections and accounts receivable are not approved by an independent person. Changes to the utility master list are not made by an independent person. Utility stubs received were not always marked paid when received, the amount paid was not always entered on the utility stub, the stub was not marked cash or check and the batch total was not always evidenced by a total tape of the day’s total of receipts.

Recommendation – Procedures should be established to reconcile utility billings, collections, delinquencies and accounts receivable monthly. All reconciling items should be identified and supported on the monthly reconciliation. The City should prepare a complete listing of all delinquent accounts and accounts receivable monthly. The City

City of Primghar

Schedule of Findings

Year ended June 30, 2005

Clerk should approve all adjustments to the billings, collections and accounts receivable files before the Deputy Clerk makes the adjustments. The City Clerk should be the only one allowed to make changes to the utility master file.

Response – All above recommendations are now strictly adhered to with the exception to City Clerk only accessing utility master file. Utility billing software does not allow such restriction. However, the City Clerk is now having the Deputy Clerk/Billing Clerk prepare a printout of the Master File prior to making any changes and after the changes are made and the Clerk is reviewing the printout of the Master File before and after it has been updated and initialing and dating the review of both and retain the lists.

Conclusion – Response accepted.

- (G) Separately Maintained Records – The bookkeeping and custody of the Library Board and Fire Department records were in the control of the Library Board and Fire Department personnel in locations separate from the City Clerk's office. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." Monthly reports of the Library Board were presented to the Clerk each month. However, monthly reports from the Fire Department were not required to be submitted to the Clerk each month. Since the Fire Department is not a separate non-profit corporation, but a department of the City, the activity in the fire department accounts should be included monthly in the accounting records of the City. Prenumbered receipts were not issued by the Library Board and Fire Department for all collections. Fire Department disbursements were not supported by sufficient documentation to substantiate the reason for the disbursement.

Recommendation – Monthly reports of receipts, disbursements, balances and bank reconciliations should be presented monthly to the City by the Fire Department and included in the monthly reports of the City. Prenumbered receipts should be issued by the Library Board and Fire Department for all collections. Fire Department disbursements should be accompanied by documentation to substantiate the basis for all disbursements.

Response – The City Clerk and the Fire Department treasurer will coordinate their efforts to create and maintain an excel spreadsheet to generate required quarterly reports for Council approval. Prenumbered receipts will be utilized. Substantiating documentation will accompany all disbursements.

Conclusion – Response accepted.

- (H) Employee Evaluations – Evaluations of employees are performed, but they are not reduced to writing and a written response is not received from the employee to the evaluation.

Recommendation – To more appropriately document evaluations of employees, the City should require written evaluations to properly document the evaluation process of employees.

Response – Personnel committee will comply with the above recommendation.

Conclusion – Response accepted.

City of Pringhar

Schedule of Findings

Year ended June 30, 2005

- (I) Cash and Investment Counts – Surprise cash counts and reconciliations of investments are not made by the audit committee on a test basis.

Recommendation – The audit committee should make surprise cash counts and reconcile the cash on hand and actual investments to the records of cash and investments.

Response – Audit committee will comply with above recommendation.

Conclusion – Response accepted.

City of Primghar

Schedule of Findings

Year ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming an official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the public safety and general government 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 public safety function exceeded the budget due to the Fire Department’s separate checking account expenditures. Expenditures were not disclosed until after June 30th. The general government function only exceeded the budget by \$321. The FY05 budget was amended twice. The general government function exceeded the budget in June when it was too late to amend the budget a third time according to Iowa Code. The recommendation will be complied with in the future.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The Fire Department made disbursements to the following businesses:

<u>Business</u>	<u>Purpose</u>	<u>Amount</u>
Barama Drug	Beer totaling \$69, pictures, camera and photos \$39, and \$154 in undocumented disbursements	\$ 262
Bob & Scott’s	Beer and ice \$27, Pepsi \$28 and \$391 in undocumented disbursements	446
JW’s	Soda and pizza \$55 and \$579 in undocumented disbursements	634
Legends Pub	Undocumented disbursements	27
Pizza Ranch	Eight piece chicken with potatoes and large pizza \$24, \$80 in undocumented disbursements	104
Shortee’s Pit Stop	Undocumented disbursements	<u>326</u>
Total		<u>\$1,799</u>

City of Primghar

Schedule of Findings

Year ended June 30, 2005

In addition, included in the files of the Fire Department was a receipt from Barama Drug dated August 10, 2004 for \$246 for beer and liquor. However, this amount was not disbursed by check and was not a recorded disbursement of the Fire Department.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. Because the Fire Department is not legally separate from the City, any funds collected by the Department are public funds and may only be spent for a public purpose.

Recommendation – The City should determine and document the public purpose served by these disbursements. The City should consider establishing the Fire Department as a private non-profit corporation. This would move accountability of these funds from the City to the corporation.

Response – Per City Attorney’s opinion, no private non-profit corporation status required. City Attorney and Council acknowledge City will continue to receive audit comments for questionable spending.

Conclusion – Response acknowledged. The City and Fire Department should document the public purpose of disbursements in the future. If a public purpose cannot be documented, the disbursement should not be made from public funds.

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

<u>Business Connection</u>	<u>Name, Title, and Description</u>	<u>Amount</u>
Kurt Edwards, Council Member, owner of Nicholson and Edwards	Diesel fuel, chemicals and supplies	\$ 6,575
Clara Black, Council Member, husband owns Black’s Farm Store	Materials and supplies	639

Recommendation – In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Member’s husband do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year. The remaining transactions between the City and Nicholson and Edwards may represent a conflict of interest since the total transactions were greater than \$2,500 during the fiscal year. The City should consult legal counsel to determine the disposition of this matter.

Response – In accordance with Chapter 362.5(11) of the Code of Iowa, all future purchases of diesel fuel, chemicals and supplies will be made according to lowest bid.

City of Primghar

Schedule of Findings

Year ended June 30, 2005

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of the transactions occurring during the year ended June 30, 2005..

- (6) 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 insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes, except interfund transfers were not approved in the Council minutes.

Recommendation – All interfund transfers should be approved in the Council minutes.

Response – All interfund transfers were approved in Council minutes per resolutions for either FY budgets or amendments to FY budgets. For added internal control, itemized interfund transfer now listed on the claim list for Council approval.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (9) Financial Condition – The following funds had deficit balances at June 30, 2005:

Fund	Deficit Balance
General	\$ (82,256)
Special Revenue:	
Housing Rehabilitation	(261)
Enterprise:	
Sewer	(1,199)
Garbage	(16,877)

Recommendation – The City should investigate alternatives to eliminate these deficits and should continue to monitor the accounts to ensure they return to a sound financial condition.

Response – LOST and TCA Telecom Fund internal transfers will partially alleviate General Fund deficit. Payroll reallocations, two rounds of budget cuts and new service fees have slowed deficit growth. Once TIF #2 district retires in 2015 released assessed value will increase the \$8.10 levy base. In the meantime, there will be continued prudent spending. The Housing Rehabilitation Fund deficit was due to unreimbursed mileage and lodging expenses. A CDBG grant will reimburse these expenses. Reimbursements from CDBG and SRF monies will return the Sewer Fund to a positive balance. Restructured garbage rates will turn the Garbage Fund around in FY08.

Conclusion – Response accepted.

City of Primghar

Schedule of Findings

Year ended June 30, 2005

- (10) Special Assessments – The special assessments and interest were used by the City to pay interest and principal on the bonds as proceeds were collected in accordance with Chapter 384.68(3) of the Code of Iowa. However, the City continues to receive special assessments on a street improvement even though the bonds have been paid in full.

Recommendation – The City should transfer the remaining funds to the road use tax fund.

Response – The balance was transferred to Road Use Tax Fund on March 14, 2006. Remaining FY06 and FY07 assessments will be receipted in Road Use Tax Fund.

Conclusion – Response accepted.

- (11) Contract Labor – The City did not file form 1099's with the Internal Revenue Service for contract labor paid in excess of \$600.

Recommendation – The City should ensure all 1099 forms are properly completed and filed.

Response – In FY2006, 1099's will be issued and filed with Internal Revenue Service for all contract labor paid in excess of \$600.

Conclusion – Response accepted.

- (12) Revenue Capital Loan Notes – The City has not established the Electric Revenue Improvement Fund as required by the note resolution and sufficient revenue was not received as of June 30, 2005 to eliminate the deficit in the Sewer Sinking Fund.

Recommendation – The City should establish the fund and make the monthly transfers required by the note resolution. In addition, the City should make a transfer from the Sewer Fund to eliminate the deficit and provision should be made in the Sewer Sinking Fund for future debt payments.

Response – From initially talking to our bonding attorneys we were under the impression that we did not have to establish an improvement fund for this issue. We will contact our bonding attorneys concerning this matter and comply with what is required. We will make a transfer from the Sewer Fund to the Sinking Fund to eliminate the deficit and future receipts which must be receipted in the Sinking Fund will provide for a Sinking Fund balance sufficient to pay future indebtedness.

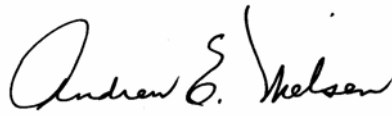
Conclusion – Response accepted.

City of Primghar

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
James L. Blekfeld, CPA, Senior Auditor
Joseph M. Seuntjens, Assistant Auditor
Nathan H. Kalkwarf, 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