



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

March 14, 2013

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$422,320 for the year ended June 30, 2011. The receipts included \$117,974 from charges for service, \$179,242 from operating grants, contributions and restricted interest, \$81,633 in property tax, \$40,473 from local option sales tax, \$1,186 from unrestricted interest on investments and \$1,812 from other general receipts.

Disbursements for the year totaled \$402,160, and included \$151,632 for public works, \$78,782 for general government and \$10,679 for culture and recreation. Also, disbursements for business type activities totaled \$137,741.

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 <http://auditor.iowa.gov/reports/1122-0021-B00F.pdf>.

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

JUNE 30, 2011

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Indebtedness	1	32-33
Bond and Note Maturities	2	34
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 <u>Government Auditing Standards</u>		35-36
Schedule of Findings		38-49
Staff		50

City of Mystic

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Robinson	Mayor	(Deceased)
Chris Chester (Appointed)	Mayor	Nov 2011
John Hatfield (Appointed)	Council Member	Nov 2011
Nancy Robinson (Appointed)	Council Member	Nov 2011
Walter Buban	Council Member	Jan 2012
Valerie Hatfield	Council Member	Jan 2012
Patsy Seals	Council Member	Jan 2012
Chris Chester	Council Member	(Resigned)
Paige Seddon	Council Member	(Resigned)
Heidi Gomez	Clerk	(Resigned)
Patricia Cisler	Clerk	Indefinite
Debra George	Attorney	Indefinite

City of Mystic



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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 and each major fund of the City of Mystic, Iowa, as of and for the year ended June 30, 2011, 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 Mystic's management. 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 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.

In our opinion, 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 and each major fund of the City of Mystic as of June 30, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2012 on our consideration of the City of Mystic'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 the internal control over financial reporting or on 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 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mystic's basic financial statements. Other supplementary information included in Schedules 1 and 2 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, 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

December 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mystic 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because 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.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased \$20,157, due primarily to receipts exceeding disbursements and lower overall costs in most disbursement functions.
- The cash basis net assets of the City's business type activities remained relatively unchanged.

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 financial 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.

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, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. 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 Local Option Sales Tax, 3) the Debt Service Fund and 4) 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 two Enterprise Funds to provide separate information for the water and sewer systems. The Water and Sewer Funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

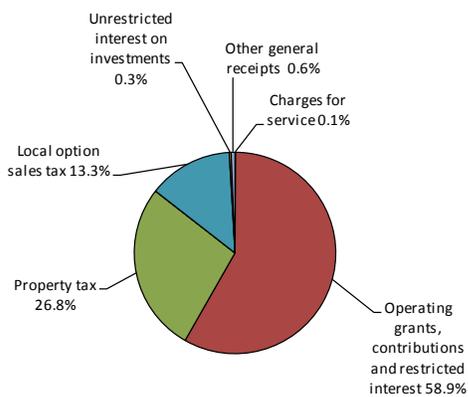
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from a restated balance of \$203,830 to \$223,987. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

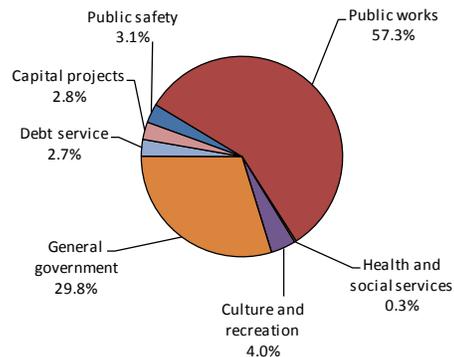
Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2011	2010
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 257	19,932
Operating grants, contributions and restricted interest	179,242	284,236
General receipts:		
Property tax	81,633	83,524
Local option sales tax	40,473	45,005
Unrestricted interest on investments	962	385
Other general receipts	1,812	24,070
Total receipts and transfers	<u>304,379</u>	<u>457,152</u>
Disbursements:		
Public safety	7,998	25,104
Public works	151,632	319,082
Health and social services	773	1,367
Culture and recreation	10,679	6,231
Community and economic development	-	250
General government	78,782	77,858
Debt service	7,120	6,594
Capital projects	7,435	15,414
Total disbursements	<u>264,419</u>	<u>451,900</u>
Change in cash basis net assets before transfers	39,960	5,252
Transfers, net	(19,803)	(594)
Change in cash basis net assets	20,157	4,658
Cash basis net assets beginning of year, as restated	203,830	199,172
Cash basis net assets end of year	<u>\$ 223,987</u>	<u>203,830</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental funds increased primarily due to the timing of receiving FEMA reimbursements.

The cost of all governmental activities this year was \$264,419. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$84,920 because some of the cost was paid by those directly benefited from the programs (\$257) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$179,242). The City paid the remaining "public benefit" portion of governmental activities with \$124,880 of tax (some of which could only be used for certain programs) and other receipts, such as interest on investments.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 65,160	65,936
Sewer	52,557	56,423
General receipts:		
Unrestricted interest on investments	224	322
Total receipts	<u>117,941</u>	<u>122,681</u>
Disbursements:		
Water	58,048	75,105
Sewer	79,693	96,485
Total disbursements	<u>137,741</u>	<u>171,590</u>
Change in cash basis net assets before transfers	(19,800)	(48,909)
Transfers, net	19,803	594
Change in cash basis net assets	3	(48,315)
Cash basis net assets beginning of year.	38,221	86,536
Cash basis net assets end of year	<u>\$ 38,224</u>	<u>38,221</u>

Total business type activities cash basis net assets increased slightly over a year ago, increasing from \$38,221 to \$38,224.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mystic completed the year, its governmental funds reported a combined fund balance of \$223,987, an increase of \$20,157 over last year's restated total of \$203,830. 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 from the prior year. The cash balance decreased \$8,755 to a deficit balance of \$8,370 at fiscal year-end.

The Special Revenue, Road Use Tax Fund cash balance decreased \$4,004 to \$1,511. The decrease is a result of disbursements exceeding the amount of road use tax collections during the year.

The Special Revenue, Employee Benefits Fund cash balance increased \$4,983 due, in part, to an increase in the property tax levy.

The Special Revenue, Local Option Sales Tax Fund cash balance remained stable, decreasing \$1,948 to \$97,415.

The Special Revenue, FEMA Fund cash balance increased \$16,548 to \$22,161. The increase is due primarily to a transfer of proceeds collected in the General Fund to the Special Revenue, FEMA Fund.

The Debt Service Fund cash balance increased \$16,589 to \$72,496. The increase is the result of the City's property tax levy exceeding the annual debt service payment.

The Permanent, Cemetery Perpetual Care Fund cash balance decreased \$3,256 to \$33,791. The decrease was the result of disbursements exceeding receipts for the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$7,046 to \$53,784. The increase was primarily the result of lower expenses.
- The Enterprise, Sewer Fund cash balance decreased \$7,043 to a deficit of \$15,560, due primarily to expenses exceeding charges for sewer rental.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget.

Total disbursements were \$60,249 more than budgeted. Actual disbursements for the public works, health and social services, culture and recreation, capital projects and business type activities functions were \$69,432, \$698, \$8,179, \$7,435 and \$398, respectively, more than the budget. This was primarily due to the City under estimating disbursements and not properly amending the budget.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$273,164 of bonds and other long-term debt outstanding, compared to \$282,222 at June 30, 2010 as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation bonds	\$ 33,839	38,971
Revenue bonds	232,853	243,251
County loan	6,472	-
Total	\$ 273,164	282,222

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 and County loan is \$40,311, which is significantly below its constitutional debt limit of approximately \$402,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Mystic's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 assessed taxable valuation increased approximately \$52,500 over the fiscal year 2011 level.

The fiscal year 2012 budget contains total receipts of \$285,844 and disbursements of \$266,754. This budget is lower than the fiscal year 2011 budget which contained total receipts of \$488,683 and disbursements of \$341,911. The fiscal year 2012 budget includes decreased intergovernmental receipts.

The fiscal year 2012 property tax levy is \$22.31441 per \$1,000 of taxable valuation, which is a slight increase from the fiscal year 2011 property tax levy of \$21.88515 per \$1,000 of taxable valuation.

These parameters were taken into account when adopting the budget for fiscal year 2012.

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 City Clerk, 304 W. Main St., Mystic, Iowa 52574.

Basic Financial Statements

City of Mystic

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 7,998	-	23,792
Public works	151,632	95	143,930
Health and social services	773	-	-
Culture and recreation	10,679	150	7,619
General government	78,782	12	3,901
Debt service	7,120	-	-
Capital projects	7,435	-	-
Total governmental activities	264,419	257	179,242
Business type activities:			
Water	58,048	65,160	-
Sewer	79,693	52,557	-
Total business type activities	137,741	117,717	-
Total	\$ 402,160	117,974	179,242

General Receipts and Transfers:

Property and other city tax levied for:
 General purposes
 Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year, as restated
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Nonexpendable:
 Cemetery perpetual care
 Expendable:
 Streets
 Employee benefits
 Local option sales tax
 FEMA
 Debt service
 Cemetery
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
15,794	-	15,794
(7,607)	-	(7,607)
(773)	-	(773)
(2,910)	-	(2,910)
(74,869)	-	(74,869)
(7,120)	-	(7,120)
(7,435)	-	(7,435)
(84,920)	-	(84,920)
-	7,112	7,112
-	(27,136)	(27,136)
-	(20,024)	(20,024)
(84,920)	(20,024)	(104,944)
62,294	-	62,294
19,339	-	19,339
40,473	-	40,473
962	224	1,186
1,812	-	1,812
(19,803)	19,803	-
105,077	20,027	125,104
20,157	3	20,160
203,830	38,221	242,051
\$ 223,987	38,224	262,211
\$ 21,300	-	21,300
1,511	-	1,511
4,983	-	4,983
97,415	-	97,415
22,161	-	22,161
72,496	367	72,863
12,491	-	12,491
(8,370)	37,857	29,487
\$ 223,987	38,224	262,211

City of Mystic

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

As of and for the year ended June 30, 2011

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	FEMA
Receipts:					
Property tax	\$ 46,392	-	15,902	-	-
Other city tax	-	-	-	40,473	-
Licenses and permits	12	-	-	-	-
Use of money and property	150	-	-	757	-
Intergovernmental	84,456	52,300	-	-	26,138
Charges for service	95	-	-	-	-
Miscellaneous	12,243	-	-	-	-
Total receipts	143,348	52,300	15,902	41,230	26,138
Disbursements:					
Operating:					
Public safety	7,998	-	-	-	-
Public works	13,236	56,304	7,492	4,400	70,200
Health and social services	773	-	-	-	-
Culture and recreation	1,301	-	-	-	-
General government	75,355	-	3,427	-	-
Debt service	4,370	-	-	-	-
Capital projects	-	-	-	7,435	-
Total disbursements	103,033	56,304	10,919	11,835	70,200
Excess (deficiency) of receipts over (under) disbursements	40,315	(4,004)	4,983	29,395	(44,062)
Other financing sources (uses):					
Operating transfers in	15,500	-	-	-	60,610
Operating transfers out	(64,570)	-	-	(31,343)	-
Total other financing sources (uses)	(49,070)	-	-	(31,343)	60,610
Change in cash balances	(8,755)	(4,004)	4,983	(1,948)	16,548
Cash balances beginning of year, as restated	385	5,515	-	99,363	5,613
Cash balances end of year	\$ (8,370)	1,511	4,983	97,415	22,161
Cash Basis Fund Balances					
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	-
Restricted for:					
Streets	-	1,511	-	-	-
Employee benefits	-	-	4,983	-	-
Local option sales tax	-	-	-	97,415	-
FEMA	-	-	-	-	22,161
Debt service	-	-	-	-	-
Cemetery	-	-	-	-	-
Unassigned	(8,370)	-	-	-	-
Total cash basis fund balances	\$ (8,370)	1,511	4,983	97,415	22,161

See notes to financial statements.

Debt Service	Permanent Cemetery		Total
	Perpetual Care		
19,339	-		81,633
-	-		40,473
-	-		12
-	206		1,113
-	-		162,894
-	-		95
-	5,916		18,159
19,339	6,122		304,379
-	-		7,998
-	-		151,632
-	-		773
-	9,378		10,679
-	-		78,782
2,750	-		7,120
-	-		7,435
2,750	9,378		264,419
16,589	(3,256)		39,960
-	-		76,110
-	-		(95,913)
-	-		(19,803)
16,589	(3,256)		20,157
55,907	37,047		203,830
72,496	33,791		223,987
-	21,300		21,300
-	-		1,511
-	-		4,983
-	-		97,415
-	-		22,161
72,496	-		72,496
-	12,491		12,491
-	-		(8,370)
72,496	33,791		223,987

Exhibit C

City of Mystic

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

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 65,160	52,557	117,717
Operating disbursements:			
Business type activities	53,369	52,252	105,621
Excess of operating receipts over operating disbursements	11,791	305	12,096
Non-operating receipts (disbursements):			
Interest on investments	224	-	224
Debt service	(4,679)	(17,343)	(22,022)
Capital projects	-	(10,098)	(10,098)
Total non-operating receipts (disbursements)	(4,455)	(27,441)	(31,896)
Excess (deficiency) of receipts over (under) disbursements	7,336	(27,136)	(19,800)
Other financing sources (uses):			
Operating transfers in	2,460	22,843	25,303
Operating transfers out	(2,750)	(2,750)	(5,500)
Total other financing sources (uses)	(290)	20,093	19,803
Change in cash balances	7,046	(7,043)	3
Cash balances beginning of year, as restated	46,738	(8,517)	38,221
Cash balances end of year	\$ 53,784	(15,560)	38,224
Cash Basis Fund Balances			
Restricted for debt service	\$ 367	-	367
Unrestricted	53,417	(15,560)	37,857
Total cash basis fund balances	\$ 53,784	(15,560)	38,224

See notes to financial statements.

City of Mystic

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Mystic is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1889 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 and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission and Appanoose County Joint E911 Board. The City also participates in the Rathbun Solid Waste Management Commission, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 categories. 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.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for the collection and use of property tax for employee pensions, retirement and insurance benefits.

The Local Option Sales Tax Fund is utilized to account for the collection and use of the local option sales tax.

The FEMA Fund is used to account for grant activity for FEMA funded projects.

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

The Permanent, Cemetery Perpetual Care Fund is used to account for receipts from cemetery lots sales to be used for the upkeep and maintenance of the City cemetery.

The City reports the following major proprietary funds:

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

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

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 imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation, capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 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) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	\$ 5,265	1,926	10,806	11,058	16,071	12,984	29,055
2013	6,404	1,415	11,192	10,574	17,596	11,989	29,585
2014	6,548	1,046	11,613	10,057	18,161	11,103	29,264
2015	3,699	349	12,042	9,530	15,741	9,879	25,620
2016	3,856	513	12,529	9,180	16,385	9,693	26,078
2017-2021	8,067	627	74,430	34,857	82,497	35,484	117,981
2022-2026	-	-	83,986	16,246	83,986	16,246	100,232
2027	-	-	16,255	1,219	16,255	1,219	17,474
Total	\$ 33,839	5,876	232,853	102,721	266,692	108,597	375,289

Sewer Revenue Bonds

On June 27, 1988, the City entered into a loan and disbursement agreement with the USDA for the issuance of \$292,500 of sewer revenue bonds with interest at 5.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of establishing a municipal sanitary sewer system. During the year ended June 30, 2011, the City made a principal payment of \$7,398 and an interest payment of \$9,945, leaving a principal balance of \$186,039 at June 30, 2011.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts. Annual principal and interest payments on the bonds are expected to require more than 100% of net receipts. The total principal and interest remaining to be paid on the bonds is \$277,488. For the year ended June 30, 2011, principal and interest paid and total customer net receipts were \$17,343 and \$305, respectively.

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

- (a) To comply with all applicable State and Federal laws and regulations and to continually operate and maintain the facility in good condition.
- (b) To provide for receipt of adequate revenues to meet the requirements of debt service, operation and maintenance and the establishment of adequate reserves.
- (c) To acquire and maintain insurance coverage, including fidelity bonds, as may be required.
- (d) To establish and maintain books and records relating to the operation of the facility and its financial affairs and to provide for audit as may be required by the lender.

The City has not established adequate reserves.

Water Revenue Bonds

On February 26, 2008, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority for the issuance of \$74,000 of water revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of establishing a municipal water system. The funds were drawn by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2011, the City had drawn down \$55,814, including a \$740 initiation fee. During the year ended June 30, 2011, the City made a principal payment of \$3,000 and an interest payment of \$1,494. Total principal and interest remaining to be paid on the bonds is \$56,990.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue bonds. The bonds are payable solely from water customer net receipts. Annual principal and interest payments on the bonds are generally expected to require less than 39% of net receipts. For the current year, principal and interest paid and total customer net receipts were \$4,494 and \$11,791, respectively.

The resolution providing for the issuance of the water revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of such water system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds.

County Loan

The City entered into an interest free loan agreement with the Appanoose County Secondary Roads Department for \$9,708 to be repaid in three equal annual installments. At June 30, 2011, the City had made a payment of \$3,236, leaving a balance of \$6,472 at June 30, 2011.

(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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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 years ended June 30, 2011, 2010 and 2009 were \$6,882, \$4,992 and \$3,496, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There is 1 active member in the plan. Retired participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would 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 pay-as-you-go basis. The most recent active member monthly premium for the City and the plan member is \$263 for single coverage.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Because the City did not track compensated absences, the approximate liability for earned vacation and compensatory payments payable cannot be calculated.

(7) Risk Management

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

(8) Deficit Balances

The General Fund and the Enterprise, Sewer Fund had deficit balances of \$8,370 and \$15,560, respectively at June 30, 2011.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 10,000
	Enterprise:	
	Water	2,750
	Sewer	2,750
		<u>15,500</u>
Special Revenue:	General	<u>60,610</u>
FEMA		
Enterprise:	General	<u>2,460</u>
Water		
Sewer	General	<u>1,500</u>
	Special Revenue:	
	Local Option Sales Tax	<u>21,343</u>
		<u>22,843</u>
Total		<u>\$ 101,413</u>

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

(10) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. Also, certain balances were restated to retroactively report separately maintained account balances. The effects of fund type reclassification and the addition of the separately maintained accounts is as follows:

	General	Special Revenue Fire Department	Permanent Cemetery Perpetual Care
Balances June 30, 2010, as previously reported	\$ (22,677)	18,770	-
Change in fund type classification per implementation of GASB Statement No. 54	18,770	(18,770)	-
Mystic Fire Department balance not previously reported	4,292	-	-
Cemetery Perpetual Care balance not previously reported			<u>37,047</u>
Balances July 1, 2010, as restated	<u>\$ 385</u>	<u>-</u>	<u>37,047</u>

The beginning balances of the Enterprise, Water and Sewer Funds were restated to reclassify activity as follows:

	Enterprise	
	Water	Sewer
Balance June 30, 2010, as previously reported	\$ 34,980	3,241
To reclassify receipt activity	<u>11,758</u>	<u>(11,758)</u>
Balances July 1, 2010, as restated	<u>46,738</u>	<u>(8,517)</u>

City of Mystic

Required Supplementary Information

City of Mystic
 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, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 81,633	-
Other city tax	40,473	-
Licenses and permits	12	-
Use of money and property	1,113	224
Intergovernmental	162,894	-
Charges for service	95	117,717
Miscellaneous	18,159	-
Total receipts	<u>304,379</u>	<u>117,941</u>
Disbursements:		
Public safety	7,998	-
Public works	151,632	-
Health and social services	773	-
Culture and recreation	10,679	-
Community and economic development	-	-
General government	78,782	-
Debt service	7,120	-
Capital projects	7,435	-
Business type activities	-	137,741
Total disbursements	<u>264,419</u>	<u>137,741</u>
Excess (deficiency) of receipts over (under) disbursements	39,960	(19,800)
Other financing sources, net	<u>(19,803)</u>	19,803
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	20,157	3
Balances beginning of year	<u>203,830</u>	<u>38,221</u>
Balances end of year	<u>\$ 223,987</u>	<u>38,224</u>

See accompanying independent auditor's report.

Total		Budgeted Amounts Original/Final	Final to Total Variance
81,633		80,569	1,064
40,473		50,576	(10,103)
12		500	(488)
1,337		-	1,337
162,894		229,038	(66,144)
117,812		127,000	(9,188)
18,159		1,000	17,159
422,320		488,683	(66,363)
7,998	-	14,700	6,702
151,632		82,200	(69,432)
773		75	(698)
10,679		2,500	(8,179)
-		1,000	1,000
78,782		84,000	5,218
7,120	-	20,093	12,973
7,435		-	(7,435)
137,741		137,343	(398)
402,160	-	341,911	(60,249)
20,160	-	146,772	(126,612)
-	-	-	-
20,160	-	146,772	(126,612)
242,051	-	344,499	(102,448)
262,211	-	491,271	(229,060)

City of Mystic

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

In accordance with the Code of Iowa, the 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 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, there were no budget amendments.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works, health and social services, culture and recreation, capital projects and business type activities functions.

Other Supplementary Information

City of Mystic
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Fire station	Jan 29, 1996	7.50 %	\$ 30,000
Fire equipment	May 23, 2008	4.25	35,000
Total			
Revenue bonds:			
Sewer	Jun 27, 1988	5.00 %	\$ 292,500
Water	Feb 26, 2008	* 3.00	55,814
Total			
County loan:			
Appanoose County Secondary Roads Department	Jul 1, 2010	0.00 %	\$ 9,708

* The City is also required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
10,000	-	2,000	8,000	750
28,971	-	3,132	25,839	1,238
\$ 38,971	-	5,132	33,839	1,988
193,437	-	7,398	186,039	9,945
49,814	-	3,000	46,814	1,494
\$ 243,251	-	10,398	232,853	11,439
\$ -	9,708	3,236	6,472	-

City of Mystic
 Bond and Note Maturities
 June 30, 2011

Year Ending June 30,	General Obligation Capital Loan Notes					Total
	Fire Station		Fire Equipment			
	Issued Jan. 29, 1995		Issued May 23, 2008			
	Interest Rates	Amount	Interest Rates	Amount		
2012	7.50%	\$ 2,000	4.25%	\$ 3,265	5,265	
2013	7.50	3,000	4.25	3,404	6,404	
2014	7.50	3,000	4.25	3,548	6,548	
2015		-	4.25	3,699	3,699	
2016		-	4.25	3,856	3,856	
2017		-	4.25	4,020	4,020	
2018		-	4.25	4,047	4,047	
Total		<u>\$ 8,000</u>		<u>\$ 25,839</u>	<u>33,839</u>	

Year Ending June 30,	Revenue Bonds					Total
	Sewer		Water			
	Issued June 27, 1988		Issued Feb. 26, 2008			
	Interest Rates	Amount	Interest Rates	Amount		
2012	5.00%	\$ 7,806	3.00%	\$ 3,000	10,806	
2013	5.00	8,192	3.00	3,000	11,192	
2014	5.00	8,613	3.00	3,000	11,613	
2015	5.00	9,042	3.00	3,000	12,042	
2016	5.00	9,529	3.00	3,000	12,529	
2017	5.00	10,006	3.00	3,000	13,006	
2018	5.00	10,519	3.00	4,000	14,519	
2019	5.00	11,050	3.00	4,000	15,050	
2020	5.00	11,633	3.00	4,000	15,633	
2021	5.00	12,222	3.00	4,000	16,222	
2022	5.00	12,848	3.00	4,000	16,848	
2023	5.00	13,501	3.00	4,000	17,501	
2024	5.00	14,203	3.00	4,000	18,203	
2025	5.00	14,927	3.00	814	15,741	
2026	5.00	15,693		-	15,693	
2027	5.00	16,255		-	16,255	
Total		<u>\$ 186,039</u>		<u>\$ 46,814</u>	<u>232,853</u>	

See accompanying independent auditor's report.



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David A. Vaudt, CPA
Auditor of State

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 and each major fund of the City of Mystic, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 31, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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

Management of the City of Mystic is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Mystic's internal control over financial reporting as a basis for designing our auditing procedures 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 Mystic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mystic's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be 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 Mystic's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (G) to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mystic'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 which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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 Mystic's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Mystic's responses and, accordingly, we express no opinion on them.

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 Mystic and other parties to whom the City of Mystic may report and 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 Mystic 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



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 31, 2012

Schedule of Findings

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(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. For the City, one individual has control over each of the following areas:

- (1) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (2) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (3) Payroll – recordkeeping, preparation and distribution.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (6) Cash – handling, reconciling and recording.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Computer system – performing all general accounting functions and controlling all data and output.

For the Fire Department account, one individual has control over each of the following areas:

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

For the Cemetery Association account, one individual has control over each of the following areas:

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

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Fire Department and Cemetery Association should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff and elected officials. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Response – The Mayor and City Clerk are required to sign all checks. Most disbursements are now approved through City Council meetings prior to payment. The only exception is a utility bill which may come into the office and is due before the next City Council meeting. Employees fill out timesheets which are approved and signed by the Mayor. The Mayor and City Clerk also sign payroll checks. The City now balances the cash drawer on a daily basis with the accounting records. An independent person will review and approve utility receipts and debt records on a periodic basis. The City will review and approve CD activity of the Cemetery Association. The City has no other investments.

Also, the Fire Department and Cemetery Association will provide a detailed monthly report to the City Council for review and approval. The Fire Department and Cemetery Association will have two members sign receipts and disbursements.

Conclusion – Response accepted.

- (B) Financial Reporting – During the audit, we identified a material amount of Enterprise, Water Fund receipts recorded in the Enterprise, Sewer Fund in the City's accounting records and material amounts of Permanent, Cemetery Perpetual Care Fund and Fire Department donations omitted from the accounting records. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

Recommendation – The City should implement procedures to ensure all receipts are properly recorded and all Cemetery Perpetual Care and Fire Department donation activity is properly recorded in the City's accounting records.

Response – At the end of the month, a reconciliation of utility receipts will be performed and a correcting transfer (allocation) made between accounts. The Fire Department and the Cemetery Association are implementing a detailed monthly report for City Council approval.

Conclusion – Response acknowledged. The City should ensure all activity is properly recorded in the City's accounting records.

- (C) Utilities – The following were noted regarding the City's utilities:

- (1) Utility billings, collections and delinquent accounts were not reconciled monthly.
- (2) A monthly listing of billings, collection and delinquent accounts was not printed and retained.
- (3) The allocation for posting of monthly Enterprise, Water and Sewer Fund collections was not supported.
- (4) The utility software does not permit tracking amounts posted as adjustments. The City posts approved adjustments and write-offs as amounts paid.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. An elected official or other independent person should review the reconciliations and monitor delinquent accounts. A listing of billings, collections, and delinquent accounts should be printed and retained monthly. The City should develop procedures to support adjustments to utility billings and reconcile postings with deposits. Allocation of receipts between the Enterprise, Water and Sewer Funds should be supported by appropriate documentation.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Response – A monthly utility reconciliation including correcting transfers (allocations), will be performed and approved by the City Council. We are now retaining a copy of billings and transaction reports of past due bills and paid dates. Also, shut-offs are being done and as a last resort any past due bills are now being enforced by small claims court. All accounts sent to small claims will be approved by the City Council.

Conclusion – Response accepted.

- (D) Unauthorized Electronic Bank Withdrawals – During the year, a City Council member assisting with utility billings made two unauthorized electronic bank withdrawals from the City’s account totaling \$1,976 to pay a personal utility account. These payments were repaid to the City upon discovery by the City Treasurer.

Recommendation – The City should implement procedures to ensure all payments are supported and approved by the City Council and are for authorized purposes.

Response – All payments are supported and approved by the City Council prior to disbursement. Bank statements are opened by the Mayor and reviewed for electronic transactions before the statement is provided to the City Clerk.

Conclusion – Response accepted.

- (E) Bank Reconciliations - Monthly reconciliations of the Clerk's balances to the bank accounts and investments were not prepared. A list of outstanding checks was not prepared each month.

Recommendation - To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month.

Response – A check register is now being kept for all accounts. All bank statements are now reconciled each month and includes a listing of outstanding checks.

Conclusion – Response accepted.

- (F) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Disbursements were not always approved for payment by the City Council.

Invoices and supporting documentation were not always marked as paid or canceled to prevent possible duplicate payment.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. All invoices and supporting documentation should be marked as paid to help prevent possible duplicate payments. The City Council should review all disbursements for approval.

Response – All disbursements are approved at a City Council meeting. After approval and signature of all present, the disbursements are recorded with the date paid and the check number and are filed by month.

Conclusion – Response accepted.

- (G) Initial Receipts Listing – The City does not prepare an initial listing of receipts. Since a listing is not prepared, an independent person does not compare the listing to deposits to determine all receipts have been properly deposited.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Recommendation – An initial listing should be prepared by the City and an independent person should periodically compare the initial receipt listing to deposits to determine all receipts have been properly deposited.

Response – Receipts are now issued to all customers and a copy is maintained by the City. A daily report from the accounting program which lists each customer payment is now reconciled to the daily receipts.

Conclusion – Response accepted.

- (H) Chart of Accounts and Fund Accounting – The City has not fully implemented the Uniform Chart of Accounts. As a result, certain receipts and disbursements were not properly reported in the Annual Financial Report. Also, the City does not maintain a ledger of fund activity and fund balances on a current basis. These were resolved and properly classified for audit purposes.

Recommendation – To provide better financial information and control, a chart of accounts, such as the Uniform Chart of Accounts approved by the City Finance Committee, should be followed by the City. The City should record receipts and disbursements to the proper accounts on a consistent basis. The City should maintain fund activity and fund balances on a current basis.

Response – The City has implemented this process and is working with the software engineer to use the Uniform Chart of Accounts in the accounting system.

Conclusion – Response accepted.

- (I) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – An accounting policies and procedures manual has been started and will be completed in a timely manner.

Conclusion – Response accepted.

- (J) Payroll – City employees are required to complete timesheets. Timesheets lack supervisory review and approval.

Also, in a prior year, Social Security and Medicare tax was not paid for an employee hired to monitor FEMA contract work.

Recommendation – Timesheets should be signed by the employee and the employee's supervisor. In addition, Social Security and Medicare tax should be paid on all employees.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Response – The City employees fill out a timesheet which is approved and signed by the Mayor and initialed by the City Clerk before the paychecks are signed and disbursed on payday. At this time, we have no FEMA contract work to be paid out. If the event would happen again, we would implement the deduction of Social Security and Medicare tax.

Conclusion – Response accepted.

- (K) Compensated Absences - A detailed record of vacation and sick leave earned and used by each employee is not maintained.

In July 2010, the City approved a payment of \$176 to a City employee which appeared to be a vacation payout, but support for the payment was not maintained or reviewed.

Recommendation - A detailed record of employee compensated absences should be maintained to account for the proper accumulation and use of this time. In addition, support for all pay-outs should be reviewed and maintained.

Response – A monthly statement has been implemented to show employees personal and/or vacation time and is signed by the Mayor and the City Clerk.

Conclusion – Response accepted.

- (L) Fuel Logs – Fuel pump usage reports for City owned pumps are not maintained and reviewed by an independent person.

Recommendation – Fuel pump usage reports should be maintained and reviewed by an independent person.

Response – A weekly fuel log is now turned in on Friday and is on file and approved by the Mayor.

Conclusion – Response accepted.

- (M) Public Works Contract – The City contracts with an individual for water and wastewater testing and reporting. Additional hourly payments are made to this individual for helping with leak repairs as needed. No contract exists outlining compensation or work to be performed. Also, support was not retained for hourly time paid for leak repairs.

Recommendation – The City should prepare a written contract outlining compensation and job requirements. In addition, support should be retained for all hours paid.

Response – The City now has an agreement on file for this contract employee which includes hourly wage in the event of a leak requiring additional work.

Conclusion – Response accepted.

- (N) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and procedures for the proper accounting of credit card charges.

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 purposes, as well as the types of supporting documentation required to substantiate charges.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Response – The City has established a policy regarding credit card use, including who can use cards and for certain specified purposes. The policy requires all credit cards to be held in the City Clerk’s office and approval for purchases must be obtained from the City Clerk and the Mayor. The credit cards are to be returned to the City Clerk with a receipt to support the purchase. The Council will ratify the disbursement at a subsequent meeting.

Conclusion – Response accepted.

- (O) Firemen’s Donation Account – Monthly reconciliations of book and bank balances, including investments, were not prepared. A listing of outstanding checks was not always prepared each month.

Prenumbered receipts were not issued for all collections.

Certain invoices, canceled checks, bank statements and meeting minutes were not retained.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared. Any variances should be investigated and resolved timely. A listing of outstanding checks should be prepared each month. An independent review of the reconciliation should be performed and documented.

Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

All records, including invoices, bank statements, cancelled checks and meeting minutes should be retained.

Response – The Fire Department will prepare monthly reports and bank reconciliations which will be reviewed and approved by the City Council. Also, the Fire Department will obtain a pre-numbered receipt book for donations. All records, invoices, bank statements and minutes of meetings will be kept.

Conclusion – Response accepted.

- (P) Cemetery Association Account – Monthly reconciliations of book and bank balances, including investments, were not prepared. A list of outstanding checks was not prepared for each month and retained.

Prenumbered receipts were not issued for all collections.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved timely. A listing of outstanding checks should be prepared each month and retained. An independent review of the reconciliation should be performed.

Prenumbered receipts should be issued at the time of collection.

Response – The Cemetery Association will prepare monthly reports and bank reconciliations and these will be reviewed and approved by the City Council. Also, the Association has agreed to obtain a pre-numbered receipt book for donations. The Association has agreed to maintain a detailed monthly report at the City Clerk’s office.

Conclusion – Response accepted.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works, health and social services, culture and recreation, capital projects and business type activities 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.”

Also, the City budget was not approved through resolution as required by Chapter 384.16(5) of the Code of Iowa. The City did not hold a public hearing or the public hearing was not noted in the minutes. The City budget was not prepared and certified by March 15 as required by Chapter 384.16(6) of the Code of Iowa.

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. Also, the budget should be prepared and adopted in accordance with Chapter 384.16 of the Code of Iowa.

Response – A public hearing was held in regards to the budget. However, the budget was not published nor noted in the minutes. Any amendments to the budget will be done properly in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Patty Cisler	Cash withdraw at bank	\$75
Fareway Stores	Dinner for funeral	14
Utility Equipment Co.	Late fee	59

According to the opinion, it is possible for certain 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.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures which clearly document the public purpose, including the requirement for proper documentation.

Response – This practice has been discontinued.

Conclusion – Response accepted.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

- (3) Business Transactions – Except as follows, no business transactions between the City and City officials or employees for the year ended June 30, 2011 were noted. During part of the year, a Council Member served temporarily as the City Clerk. The temporary City Clerk was paid \$11 per hour for her time as City Clerk. However, no written employment contract or support for hours worked was retained. Also, payments were not processed through the City’s payroll and were not subject to payroll withholdings. Additionally, the duties of City Clerk and City Council member appear to be incompatible. Chapter 371.13(8) of the Code of Iowa states in part, “An elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office.”

Recommendation - The City should consult legal counsel to determine the disposition of this matter. Also, the City should ensure compensation paid is supported and proper withholdings are made. Also, employment contracts should be retained to evidence the terms of the agreement.

Response – The City has requested the assistance of the City attorney and will act on the recommendations presented to the City. Employment contracts will be retained in the future.

Conclusion – Response accepted.

- (4) Council Minutes – The following findings regarding the City Council minutes were noted:

Certain transfers between funds were not approved in the minutes.

The minutes were not signed to authenticate the record as required by Chapter 380.7 of the Code of Iowa.

The City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.

The City did not publish a summary of receipts or total disbursements per fund as required by Chapter 372.13(6) of the Code of Iowa.

The City Council went into closed session on several occasions during the year. The closed sessions were not entered into properly by referencing the specific exemption as required by Chapter 21.5 of the Code of Iowa.

The minutes lack sufficient details, including identifying persons hired as well as the vote of individual City Council Members, as required by Chapter 21.3 of the Code of Iowa.

The City Street Report was not approved by the City Council.

Also, on August 9, 2011, subsequent to the audit period, a roll call vote was taken to purchase a building for \$2,500. The minutes reflect one member of the City Council voted over the phone. Chapter 21.8 of the Code of Iowa permits public meetings by electronic means. Further, a Sunshine Advisory Bulletin issued by the Iowa Attorney General, explains the governmental body should assure that any member participating electronically is audible. It is unclear from the minutes record if the member participating over the phone was audible to the other participants.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa. The minutes should be in sufficient detail to identify persons hired as well as the vote of each City Council Member. Also, all transfers between funds should be approved. The City Street Report should be approved by the City Council.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Response – All transfers are now approved through the City Council. All minutes are signed by the Mayor and then published. All gross salaries will be published after W-2's are printed. The receipts and disbursements are now published. The City Street Report is now approved by resolution. The City's meeting minutes have been updated to implement the suggested procedure regarding the hiring of new employees. The closed session suggestion will be implemented at the next closed session. The City will comply with Chapter 21 of the Code of Iowa.

Conclusion – Response accepted.

- (5) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, a resolution naming official depositories could not be located.

Recommendation – The City should adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The City Council should also approve a depository resolution in amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Response – A resolution naming depositories has now been approved at a City Council meeting. The City Council will discuss establishing a written investment policy.

Conclusion – Response acknowledged. The City should establish a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

- (6) Payment of General Obligation Bonds – Certain general obligation bonds were paid from the General Fund, Fire Department Account. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer to the Debt Service Fund for future funding contributions. Payment of the bonds should be disbursed from the Debt Service Fund.

Response – Payments on the general obligation bonds will be paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Conclusion – Response accepted.

- (7) Revenue Bonds – The City's sewer revenue bond resolution requires the City to provide for the receipt of adequate revenues to meet the requirements of debt service, operation and maintenance, and the establishment of adequate reserves. The City did not have adequate reserves or adequate net revenues resulting in the sewer debt payment being paid from the Special Revenue, Local Option Sales Tax fund.

Recommendation – The City should consult bond counsel to determine the disposition of this matter. The City should establish a separate reserve fund or reserve account as required. The City should ensure net revenues of the system are adequate to make required debt service payments and to fund an adequate reserve.

Response – This recommendation has been implemented.

Conclusion – Response accepted.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

- (8) City Code of Ordinances – The City Code of Ordinances has not been recodified within the past five years.

Recommendation – Chapter 380.8 of the Code of Iowa requires cities to compile a code of ordinances containing all ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances for vacating streets and alleys at least once every five years. The City should review this for compliance.

Response – The ordinance book will be reviewed for compliance and recodified.

Conclusion – Response accepted.

- (9) Officials Compensation – During part of the year, the City made payments to the Mayor, Mayor Pro-Tem and City Council Members in amounts which were set by resolution rather than ordinance as required by Chapter 372.13(8) of the Code of Iowa. Also Social Security and Medicare payroll tax was not paid for City officials.

Recommendation – The City should comply with Chapter 372.13(8) of the Code of Iowa. Social Security and Medicare payroll tax should be paid for City officials.

Response – The proper taxes will be deducted. A City ordinance will be written to replace the salary resolution.

Conclusion – Response accepted.

- (10) Part Time Help – Chapter 372.13(4) of the Code of Iowa states, in part, “Except as otherwise provided by state or city law, the council may appoint city officers and employees, and prescribe their powers, duties, compensation, and terms.” In September 2008, the Mayor hired a part time employee to assist the City Clerk with various City duties. The City Council did not appoint the employee or prescribe the compensation, as required.

Recommendation – The City Council should approve the hiring of all City employees, as required.

Response – All hiring of employees will be approved through the City Council.

Conclusion – Response accepted.

- (11) Annual Financial Report – The City did not complete or file the Annual Financial Report (AFR) with the Auditor of State by December 1 for the fiscal year ended June 30, 2011 as required by Chapter 384.22 of the Code of Iowa. The City’s AFR was submitted March 9, 2012. The fund balances reported in the City’s AFR do not agree with the City’s accounting records as of June 30, 2011. Some of the City’s proprietary fund activity was reported in the governmental funds. Also the fund balances of the governmental funds were not separated and reported separately for the General Fund and the Special Revenue, Road Use Tax and Local Option Sales Tax Funds. Also, the Annual Financial Report was not published as required.

Recommendation – The City should complete and file the Annual Financial Report as required by Chapter 384.22 of the Code of Iowa. In accordance with fund accounting, reported fund balances should agree to the City’s accounting records. Also, fund balances of the governmental funds should be properly separated and reported for the General Fund and the Special Revenue, Road Use Tax and the Local Option Sales Tax Funds. An amended Annual Financial Report should be prepared and filed for the fiscal year ended June 30, 2011. Also, the City should ensure the AFR is published as required.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Response – The AFR has been corrected and balanced with City records. The AFR will be published as required.

Conclusion – Response accepted.

- (12) Financial Condition – The General Fund and the Enterprise, Sewer Fund had deficit balances of \$8,370 and \$15,560, respectively at June 30, 2011.

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

Response – The City is working to correct this situation by implementing a rate increase and a sewer user fee. The City is controlling expenses of all funds.

Conclusion – Response accepted.

- (13) Excessive Balance – The Debt Service Fund cash balance at June 30, 2011 was \$72,496 or 2,636% of the total disbursements of \$2,750 for the year ended June 30, 2011.

Recommendation – The City should reduce the balance of the Debt Service Fund by redeeming callable debt and discontinuing the debt service levy.

Response – The City will be reducing the tax asking of the Debt Service Fund.

Conclusion – Response acknowledged. The City should also redeem callable debt.

- (14) Employee Benefits – The City accounts for the proceeds of the employee benefits property tax levy in the General Fund rather than establishing a Special Revenue Fund as required by Chapter 384.6 of the Code of Iowa. This was corrected for financial reporting purposes.

Recommendation – The City should establish a Special Revenue, Employee Benefits Fund to account for the employee benefits levy as required by Chapter 384.6 of the Code of Iowa.

Response – The City has established a special revenue fund as required.

Conclusion – Response accepted.

- (15) Separately Maintained Records – The bookkeeping and custody of the Fire Donation account is under the control of the Fire Department in a location separate from the City Clerk's office. This account was not reflected in the City's accounting system and has not been included in the City's annual budget or monthly financial reports.

Similarly, the bookkeeping and custody of the Cemetery Perpetual Care Fund account is under the control of the Cemetery Association in a location separate from the City Clerk's office. This account was also not reflected in the City's accounting system and has not been included in the City's annual budget or monthly financial reports.

Recommendation – 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." The Cemetery Perpetual Care Fund and Fire Donation Account and other Cemetery account financial transactions should be included in the Clerk's monthly financial reports. Internal control could be strengthened and operating efficiency could be increased by integrating the Fire Donation and Cemetery receipts and disbursements with the City's accounting records in the City Clerk's office.

City of Mystic

Schedule of Findings

Year ended June 30, 2011

Response – The Fire Donation account and Cemetery Association account will continue to be maintained separately. The accounts will be under new record keeping requirements, including reconciled reports filed with the City and reviewed and approved by the City Council.

Conclusion – Response acknowledged. For better internal control and accountability, the Fire Donation and Cemetery Association receipts and disbursements should be integrated with City’s accounting records.

- (16) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains electronic images of the front of cancelled checks, but not the back of cancelled checks.

Recommendation – The City should retain an image of both the front and back of each cancelled check as required.

Response – Due to the bank’s costly charges, the City will obtain written assurance from the bank that the backs of the checks will be provided as needed.

Conclusion – Response accepted.

- (17) Perpetual Cemetery Account – The City Cemetery received a gift of \$10,000 in 1999. Since records do not exist, we were unable to determine where the \$10,000 gift was deposited.

Prior to August 2009, the City maintained a certificate of deposit valued at \$21,300 for the Perpetual Cemetery Account. After reviewing the perpetual care records submitted to the State, there is no evidence the \$10,000 was added to the CD held for the cemetery.

In August 2009, the Cemetery Association withdrew \$10,000 of the principal balance and placed the resources in a separate account controlled by the Cemetery Association. This does not appear to be a proper use of Cemetery Perpetual Care funds according to Chapter 523I.810 of the Code of Iowa.

Recommendation – The City and the Cemetery Association should consult legal counsel to determine the propriety of the \$10,000 withdrawal from the Cemetery Perpetual Care certificate of deposit, including the proper disposition of this matter.

Response – We will consult legal counsel to resolve the matter.

Conclusion – Response accepted.

City of Mystic

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Brett M. Zeller, Senior Auditor II
Kassi D. Adams, Staff Auditor
Emily K. Creighton, 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