



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE \_\_\_\_\_

October 28, 2014

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$37,561 for the year ended June 30, 2013. The receipts included \$17,180 in property tax, \$11,058 from operating grants, contributions and restricted interest, \$9,296 from local option sales tax and \$27 from unrestricted interest on investments.

Disbursements for the year ended June 30, 2013 totaled \$39,633, and included \$15,971 for general government, \$10,066 for public works and \$7,208 for culture and recreation.

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/1322-0413-B00F.pdf>.

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

**JUNE 30, 2013**

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**City of Mount Union**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Marek	Mayor	Jan 2014
Diane Breon	Council Member	Jan 2014
Ben Johnson	Council Member	Jan 2014
Jason Moats	Council Member	Jan 2014
Shawn Bencze	Council Member	Jan 2016
Robyn Buffington	Council Member	Jan 2016
Melissa Noble	City Clerk	Indefinite
Steve Ort	City Attorney	Indefinite

**City of Mount Union**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Mount Union, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

### Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2012.

The City's local option sales tax (LOST) referendums restrict the use of LOST receipts for park and recreation/park improvement purposes. From its inception through June 30, 2013, the City has received \$134,360 of local option sales tax receipts. The City has not tracked use of LOST receipts for the purpose allowed and, accordingly, we were unable to determine the unspent LOST balance which should be reported as restricted cash basis net position.

### Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2012, and except for the adjustments necessary to report the unspent LOST balance as restricted cash basis net position at June 30, 2013, as discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the City of Mount Union as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

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

### Other Matters

#### *Supplementary and Other Information*

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the budgetary comparison on pages 21 and 22 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2014 on our consideration of the City of Mount Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 in considering the City of Mount Union's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2014

**City of Mount Union**

## **Basic Financial Statements**

**Exhibit A**

## City of Mount Union

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts Operating Grants, Contributions and Restricted Interest	Net (Disbursements) and Changes in Cash Basis Net Position  Governmental Activities
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 1,950	-	(1,950)
Public works	10,066	10,836	770
Culture and recreation	7,208	222	(6,986)
General government	15,971	-	(15,971)
Debt service	4,438	-	(4,438)
Total	\$ 39,633	11,058	(28,575)
<b>General Receipts:</b>			
Property and other city tax levied for general purposes			17,180
Local option sales tax			9,296
Unrestricted interest on investments			27
Total general receipts			26,503
Change in cash basis net position			(2,072)
Cash basis net position beginning of year			29,245
Cash basis net position end of year			\$ 27,173
<b>Cash Basis Net Position</b>			
Restricted for streets			\$ 2,959
Unrestricted			24,214
<b>Total cash basis net position</b>			\$ 27,173

See notes to financial statements.

City of Mount Union

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

As of and for the year ended June 30, 2013

	General	Special Revenue Road Use Tax	Total
Receipts:			
Property tax	\$ 17,180	-	17,180
Other city tax	9,296	-	9,296
Use of money and property	249	-	249
Intergovernmental	-	10,836	10,836
Total receipts	26,725	10,836	37,561
Disbursements:			
Operating:			
Public safety	1,950	-	1,950
Public works	2,189	7,877	10,066
Culture and recreation	7,208	-	7,208
General government	15,971	-	15,971
Debt service	4,438	-	4,438
Total disbursements	31,756	7,877	39,633
Excess (deficiency) of receipts over (under) disbursements	(5,031)	2,959	(2,072)
Cash balances beginning of year	29,245	-	29,245
Cash balances end of year	\$ 24,214	2,959	27,173
<b>Cash Basis Fund Balances</b>			
Restricted for streets	\$ -	2,959	2,959
Unassigned	24,214	-	24,214
Total cash basis fund balances	\$ 24,214	2,959	27,173

See notes to financial statements.

**City of Mount Union**

City of Mount Union

Notes to Financial Statements

June 30, 2013

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

The City of Mount Union is a political subdivision of the State of Iowa located in Henry County. It was first incorporated in 1904 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, culture and recreation and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Mount Union 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: Henry County Assessor's Conference Board, Henry County Emergency Management Commission, Des Moines County Regional Solid Waste Commission and Henry County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as 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 are supported by tax and intergovernmental revenues.

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

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental 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.

The Special Revenue, 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.

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 is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Governmental Cash Basis Fund Balances

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

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 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) Bank Loans**

On November 3, 2010, the City obtained a bank loan of \$7,000 to purchase a metal roof for its community building. The loan was to be repaid in 48 monthly installments of \$165, including interest at 6.25% per annum, beginning November 3, 2010. During the year ended June 30, 2013, the City paid the remaining principal on the loan of \$4,260 plus interest of \$178.

On February 13, 2013, the City Council approved obtaining a bank loan of \$7,000 for legal fees. As of June 30, 2013, the City had not drawn down any funds on this loan.

**(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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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 contribution to IPERS for the year ended June 30, 2013 was \$435, equal to the required contribution for the year.

**(5) Des Moines County Regional Solid Waste Commission Agreement**

On December 17, 1991, the City entered into an agreement with Des Moines County Regional Solid Waste Commission for the establishment, maintenance and operation of solid waste disposal and resource recovery. The City paid a one-time entry charge of \$1,192 and pays a monthly fee of \$189. The total paid under the agreement for the year ended June 30, 2013 was \$2,077.

**(6) Hewitt Excavating and Sanitation**

The City has a verbal agreement with Hewitt Excavating and Sanitation for the collection of solid waste. During the year ended June 30, 2013, the City paid \$180 per month for this service, totaling \$2,160 for the year.

**(7) Sanitary Sewer System**

The City entered into an agreement with Regional Utility Service System (RUSS) for RUSS to construct and own the sewer system. Under the agreement, RUSS will charge users for sewer services.

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$2,300 during the year ended June 30, 2013.

**(9) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. 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 at a level determined by the Board not to exceed 300% of 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 disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were \$3,235.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

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. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and surety bond. 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.

## **(10) Litigation**

The City is subject to pending litigation filed by Regional Utility Service System (RUSS) regarding indemnification for delinquent and unpaid sewer accounts by the citizens of the City. The City denies it is required to indemnify and denies it owes any money for delinquent and unpaid sewer accounts of its citizens. The total amount claimed as damages, including attorney fees, is \$57,836.

In June 2014, the Iowa District Court ruled against the City and concluded RUSS is entitled to a judgement against the City for delinquent user fees of \$27,862 as of December 31, 2013. The Court denied the request by RUSS for attorney fees.

In September 2014, RUSS took action to garnish the City's funds to pay the City's judgement owed to RUSS. The City is challenging this action and the matter is under judicial review.

**(11) Subsequent Event**

In September 2013, the City was advanced \$10,721 on a \$25,000 closed end line of credit. The purpose of the loan was for legal fees and the loan is collateralized by the City's community building. The City is to make payments, including interest at a rate of 5% per annum, until the maturity date of October 31, 2014.

**City of Mount Union**

**Other Information**

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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Original and Final Budget	Final to Total Variance
Receipts:			
Property tax	\$ 17,180	17,164	16
Other city tax	9,296	8,576	720
Use of money and property	249	150	99
Intergovernmental	10,836	7,000	3,836
Total receipts	<u>37,561</u>	<u>32,890</u>	<u>4,671</u>
Disbursements:			
Public safety	1,950	1,300	(650)
Public works	10,066	7,600	(2,466)
Culture and recreation	7,208	5,700	(1,508)
Community and economic development	-	500	500
General government	15,971	15,200	(771)
Debt service	4,438	-	(4,438)
Total disbursements	<u>39,633</u>	<u>30,300</u>	<u>(9,333)</u>
Excess (deficiency) of receipts over (under) disbursements	(2,072)	2,590	(4,662)
Balances beginning of year	29,245	22,088	7,157
Balances end of year	<u>\$ 27,173</u>	<u>24,678</u>	<u>2,495</u>

See accompanying independent auditor's report.

City of Mount Union

Notes to Other Information – Budgetary Reporting

June 30, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did not amend its budget during the year ended June 30, 2013.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and debt service functions.

## **Supplementary Information**

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City of Mount Union  
Schedule of Indebtedness  
Year ended June 30, 2013

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Bank loan: Community building roof	Nov 3, 2010	6.25%	\$ 7,000

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See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
4,260	-	4,260	-	178	-

**City of Mount Union**



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

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Mary Mosiman, 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Mount Union, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 7, 2014. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were able to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2012 and the City did not report the unspent local option sales tax balance as restricted cash basis net position at June 30, 2013.

Internal Control Over Financial Reporting

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

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mount Union'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 an instance of non-compliance or other matters which is required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings as item (A) on page 31.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 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 Mount Union's Responses to the Findings

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

## Purpose of this Report

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

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

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 7, 2014

City of Mount Union

Schedule of Findings

Year ended June 30, 2013

**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) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement functions, handling and recording cash.
- (3) Receipts – opening mail, collecting, depositing, journalizing, maintaining the deposit/check register and posting.
- (4) Disbursements – check preparation, purchasing, check signing, recording, maintaining the check register and reconciling.
- (5) Payroll – approval, input of information, preparing, check signing, recording and distributing.
- (6) Financial reporting – preparing, reconciling 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 utilizing currently available staff, including elected officials.

Response – We will review transactions and reports to obtain the maximum control possible.

Conclusion – Response accepted.

- (B) City Financial Management Information – The City has not implemented the City Finance Committee’s recommended Uniform Chart of Accounts for Iowa Cities (COA) and does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including, but not limited to, road use tax and local option sales tax.

Monthly financial reports, including fund balances and comparisons of actual results to budget by function, were not compiled from the accounting records and provided to the City Council for its review and approval.

Monthly reconciliations are not prepared to reconcile book to bank balances.

City of Mount Union

Schedule of Findings

Year ended June 30, 2013

Recommendation – The City should establish procedures to ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. The COA should be followed by the City.

To improve financial accountability and control, a monthly report should be submitted to the City Council showing beginning balances, receipts, disbursements, transfers and ending balances for each fund. To provide better control over budgeted disbursements and an opportunity for timely amendments to the budget, the monthly financial reports should include comparisons to the City's budget by function.

A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner. Receipts and disbursements per the City's financial records should be compared to bank account activity to ensure completeness and accuracy.

Response – The City has received training and supporting documentation to implement the COA to meet governmental accounting and financial reporting.

Conclusion – Response accepted.

- (C) Information Systems – During our review of internal control, the existing control activities in the City's computer based financial 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. A weakness noted in the City's computer based financial systems is the City does not require backups be performed and stored off site daily.

Recommendation – The City should develop procedures to ensure backups are performed and stored off site.

Response – These procedures have been implemented as recommended.

Conclusion – Response accepted.

- (D) Receipts and Timely Deposits – Receipts were not always deposited or recorded in a timely manner.

Recommendation – To safeguard collections and increase funds available for investment, receipts should be deposited intact and posted in a timely basis.

Response – The City accepts and will implement the recommendation.

Conclusion – Response accepted.

City of Mount Union

Schedule of Findings

Year ended June 30, 2013

- (E) Disbursements – Three of sixteen disbursements tested did not have supporting documentation, or the invoices or other supporting documentation could not be located for review.

Recommendation – All disbursements should be supported by original invoices or other supporting documentation. Support should be maintained for all disbursements.

Response – The recommendation has been accepted and implemented.

Conclusion – Response accepted.

- (F) Timesheets – The City Clerk does not prepare a timesheet.

Recommendation – Timesheets should be prepared by all personnel. The timesheets should be prepared by the employee and signed by the employee's supervisor.

Response – A time sheet policy has been implemented.

Conclusion – Response accepted.

**INSTANCE OF NON-COMPLIANCE:**

- (A) Local Option Sales Tax – The City's local option sales tax referendum effective January 1, 2001 through December 31, 2005 states the proceeds shall be used for Parks and Recreation. The City's local option sales tax referendum effective January 1, 2006 through December 31, 2015 states the proceeds shall be used for City Park improvements.

The City records local option sales tax receipts in the General Fund. From its inception through June 30, 2013, the City has received \$134,360 of local option sales tax receipts. The City does not track how local option sales tax receipts are spent or document the unspent balance. As a result, we were unable to determine whether the City has used the local option sales tax for the purposes specified in the local option sales tax referendums. Due to the magnitude of local option sales tax collections in relation to the balances of the City's governmental funds, we were unable to determine the true financial condition of the City's General Fund.

Recommendation – The City should document local option sales tax receipts and disbursements since inception to determine the unspent balance at June 30, 2013. A corrective transfer should be made from the General Fund to establish a Special Revenue Fund for the unspent balance of local option sales tax as of June 30, 2013.

The City should expend local option sales tax in accordance with the local option sales tax referendums.

Response – The City will attempt to reconstruct the LOST activity and determine the unspent balance. The local option sales tax monies will be spent as required.

Conclusion – Response accepted.

City of Mount Union

Schedule of Findings

Year ended June 30, 2013

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and debt service 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 – Budgets will be amended as needed to reflect required changes.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Diane Breon, Council Member, Husband is Dennis Breon	Mowing, per bid	\$ 2,100
Diane Breon, Council Member, Daughter is Taylor Breon	Community Center cleaning	200

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions for Community Center cleaning do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year. The transactions for mowing do not appear to represent a conflict of interest since the contract was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

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

City of Mount Union

Schedule of Findings

Year ended June 30, 2013

- (6) City Council Minutes – Except as noted below, no transactions were found which we believe should have been approved in the City Council minutes but were not.

The posting of minutes did not include total disbursements by fund, a summary of receipts by fund, a listing of all claims approved and the annual gross salaries of employees as required by Chapter 372.13(6) of the Code of Iowa.

City Council meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

For three meetings, the City Council went into closed session, but the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

The minutes did not include the City Council's approval of employee hourly pay rates.

Minutes could not be located for the City Council meeting held in November 2012.

Recommendation – The City should ensure the City Council minutes, including a complete list of approved claims, a summary of receipts, total disbursements by fund and actual gross salaries of employees, are posted as required. The City Council should ensure the minutes are signed as required by the Code of Iowa. The City Council should comply with Chapter 21 of the Code of Iowa for closed sessions. The City Council minutes should include approval of employee pay rates. The City should maintain minutes for all City Council meetings.

Response – The City has received training from the Iowa League of Cities to address these issues. The City has passed a resolution reestablishing the City Clerk's pay rate.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted, except the City has not approved an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should approve a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Response – The City will approve an investment policy.

Conclusion – Response accepted.

City of Mount Union

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Year ended June 30, 2013

- (8) Bank Loan – On September 16, 2013, the City entered into an agreement with a local bank for a \$25,000 line of credit. The City received \$10,721 under the agreement subsequent to June 30, 2013 to pay for legal fees. The City did not comply with the provisions of Chapter 384.24A of the Code of Iowa which require certain authorization procedures to be followed, including notice, publication of intended action and time and place of the meeting to approve the intended action. The only documented approval of the loan agreement was a motion in the February 13, 2013 City Council minutes by which the City Council approved obtaining a loan “in the amount of \$7,000, plus financing fees for legal fees incurred for legal representation.”

The loan was collateralized by the City’s community building. It does not appear appropriate for the City to use the community building as collateral for the loan. Rather, general obligation debt of cities is typically backed by the full faith and credit of the City and funded with a debt service levy.

Recommendation – The City should consult legal counsel about this matter.

Response – The City will consult legal counsel and comply with Chapter 384.24A of the Code of Iowa when entering into loan agreements.

Conclusion – Response accepted.

- (9) Road Use Tax – Road use tax collections were posted directly to the General Fund for the year ended June 30, 2013. This was properly adjusted for reporting purposes.

Recommendation – The City should establish a Special Revenue, Road Use Tax Fund to record road use tax collections and to ensure the funds are spent in accordance with Chapter 312 of the Code of Iowa.

Response – A Special Revenue, Road Use Tax Fund was established and the funds will be reported accordingly.

Conclusion – Response accepted.

- (10) Annual Financial Report – Although the City’s Annual Financial Report for the year ended June 30, 2013 was submitted as required by Chapter 384.22 of the Code of Iowa, the amounts reported did not agree with the City’s financial records.

Recommendation – The Annual Financial Report should be amended and resubmitted.

Response – The Annual Financial Report will be amended and resubmitted.

Conclusion – Response accepted.

- (11) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Mount Union

Staff

This audit was performed by:

Donna F. Kruger CPA, Manager  
Brandon J. Vogel, Senior Auditor  
Ryan J. Pithan, Staff Auditor  
Benjamin R. Salow, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State