



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

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NEWS RELEASE

FOR RELEASE

May 23, 2017

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

The City's receipts totaled \$179,395 for the year ended June 30, 2016. The receipts included \$36,355 of property tax, \$83,519 of charges for service, \$20,549 of operating grants, contributions and restricted interest, \$16,730 of capital grants, contributions and restricted interest, \$11,460 of local option sales tax, \$51 of unrestricted interest on investments and \$10,731 of other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$143,231, and included \$39,219 for general government, \$34,724 for community and economic development and \$11,198 for public works. Also, disbursements for business type activities totaled \$49,354.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1622-0403-B00F>.

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

JUNE 30, 2016

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City of Magnolia

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lisa Winther	Mayor	Jan 2016
Diane Archer	Council Member	Jan 2016
Mark Hoffman	Council Member	Jan 2016
Bernard Barber	Council Member	Jan 2018
Michelle Rhoten	Council Member	Jan 2018
Ted Michael	Council Member	Jan 2018
Suzanne Vokt	City Clerk/Treasurer	July and Aug 2015
Suzanne Vokt and Stacy Van Iten	Co-City Clerks/Treasurers	Sept to Dec 2015
Phil Canilia	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Weigelt	Mayor	Jan 2018
Bernard Barber	Council Member	Jan 2018
Michelle Rhoten	Council Member	Jan 2018
Ted Michael	Council Member	Jan 2018
Diane Archer	Council Member	Jan 2020
Mark Hoffman	Council Member	Jan 2020
Christina Mether	City Clerk/Treasurer	Jan to June 2016
Karen Jacobsen	City Clerk/Treasurer	Indefinite
Phil Caniglia	Attorney	Indefinite

City of Magnolia



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit and each major fund information of the City of Magnolia, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by fund of the total fund balances at July 1, 2015.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2015, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit and each major fund information of the City of Magnolia as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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


Other Matters

Other Information

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 24 through 30, 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 April 27, 2017 on our consideration of the City of Magnolia'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 Magnolia's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

April 27, 2017

Basic Financial Statements

City of Magnolia

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 3,005	-	-	-
Public works	11,198	-	20,549	-
Culture and recreation	5,731	-	-	-
Community and economic development	34,724	23,000	-	-
General government	39,219	390	-	-
Total governmental activities	93,877	23,390	20,549	-
Business type activities:				
Water	49,354	60,129	-	16,730
Total Primary Government	\$ 143,231	83,519	20,549	16,730
Component Unit:				
Magnolia Fire and Rescue Association	\$ 15,821	-	18,553	-
General Receipts:				
Property and other city tax levied for general purposes				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted for streets				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position				
Governmental Activities	Business Type Activities	Total		Component Unit
(3,005)	-	(3,005)		
9,351	-	9,351		
(5,731)	-	(5,731)		
(11,724)	-	(11,724)		
(38,829)	-	(38,829)		
(49,938)	-	(49,938)		
-	27,505	27,505		
(49,938)	27,505	(22,433)		
				2,732
36,355	-	36,355		-
11,460	-	11,460		-
33	18	51		-
10,731	-	10,731		-
58,579	18	58,597		-
8,641	27,523	36,164		2,732
97,360	54,638	151,998		58,859
\$ 106,001	82,161	188,162		61,591
\$ 25,108	-	25,108		-
80,893	82,161	163,054		61,591
\$ 106,001	82,161	188,162		61,591

City of Magnolia

City of Magnolia

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

As of and for the year ended June 30, 2016

	Special Revenue			Total
	General	Road Use Tax	Debt Service	
Receipts:				
Property tax	\$ 35,377	-	-	35,377
Other city tax	12,438	-	-	12,438
Licenses and permits	390	-	-	390
Use of money and property	33	-	-	33
Intergovernmental	23,092	20,549	-	43,641
Miscellaneous	10,639	-	-	10,639
Total receipts	81,969	20,549	-	102,518
Disbursements:				
Operating:				
Public safety	3,005	-	-	3,005
Public works	-	11,198	-	11,198
Culture and recreation	5,731	-	-	5,731
Community and economic development	34,724	-	-	34,724
General government	39,219	-	-	39,219
Total disbursements	82,679	11,198	-	93,877
Change in cash balances	(710)	9,351	-	8,641
Cash balances beginning of year	81,781	15,757	(178)	97,360
Cash balances end of year	\$ 81,071	25,108	(178)	106,001
Cash Basis Fund Balances				
Restricted for streets	\$ -	25,108	-	25,108
Unassigned	81,071	-	(178)	80,893
Total cash basis fund balances	\$ 81,071	25,108	(178)	106,001

See notes to financial statements.

City of Magnolia

City of Magnolia

Statement of Cash Receipts, Disbursements
and Changes in Cash Balance
Proprietary Fund

As of and for the year ended June 30, 2016

	<u>Enterprise</u>
	<u>Water</u>
Operating receipts:	
Charges for service	\$ 60,129
Operating disbursements:	
Business type activities	<u>49,354</u>
Excess of operating receipts over operating disbursements	<u>10,775</u>
Non-operating receipts:	
Intergovernmental	16,730
Interest on investments	<u>18</u>
Non-operating receipts	<u>16,748</u>
Change in cash balance	27,523
Cash balance beginning of year	<u>54,638</u>
Cash balance end of year	<u>\$ 82,161</u>
Cash Basis Fund Balance	
Unrestricted	<u>\$ 82,161</u>

See notes to financial statements.

City of Magnolia

City of Magnolia

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Magnolia is a political subdivision of the State of Iowa located in the Harrison County. It was first incorporated in 1909 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Magnolia 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.

Discretely Presented Component Unit

Pursuant to Chapter 501B of the Code of Iowa, the City of Magnolia Fire and Rescue Association (Association) is an incorporated nonprofit association. The Association exists for charitable purposes in support of the City of Magnolia Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Association are substantially for the direct benefit of the City of Magnolia Fire Department.

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: Harrison County Assessor's Conference Board, Harrison County Emergency Management Agency and Harrison County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise fund 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 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.

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

The City reports the following major proprietary fund:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system along with funds set aside for major maintenance and projects of the City's water system.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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, 2016, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Pension Plan

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

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

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

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

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

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

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$1,106.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$7,323 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0001482%, which was a decrease of 0.0000014% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$618, \$1,409 and \$1,705, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 12,821	7,323	2,682

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(4) 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 746 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 official's 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 casualty 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 estimated for the fiscal 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 basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$7,244.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The City does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2016, no liability has been disclosed in the City's financial statements. As of June 30, 2016, 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation in the amount of \$1,000,000. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(5) Deficit Balance

The Debt Service Fund had a deficit balance of \$178 at June 30, 2016. The deficit balance was a result of prior year activity. The deficit will be eliminated with a transfer to the Debt Service Fund from the General Fund.

(6) New Accounting Pronouncement

The City of Magnolia adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

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

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Property tax	\$ 35,377	-
Other city tax	12,438	-
Licenses and permits	390	-
Use of money and property	33	18
Intergovernmental	43,641	16,730
Charges for service	-	60,129
Special assessments	-	-
Miscellaneous	10,639	-
Total receipts	<u>102,518</u>	<u>76,877</u>
Disbursements:		
Public safety	3,005	-
Public works	11,198	-
Culture and recreation	5,731	-
Community and economic development	34,724	-
General government	39,219	-
Business type activities	-	49,354
Total disbursements	<u>93,877</u>	<u>49,354</u>
Excess of receipts over disbursements	8,641	27,523
Balances beginning of year	<u>97,360</u>	<u>54,638</u>
Balances end of year	<u>\$ 106,001</u>	<u>82,161</u>

See accompanying independent auditor's report.

Total	Budgeted	Final to Total Variance
	Amounts Original and Final	
35,377	34,319	1,058
12,438	11,742	696
390	390	-
51	500	(449)
60,371	16,220	44,151
60,129	45,000	15,129
-	20,000	(20,000)
10,639	500	10,139
179,395	128,671	50,724
3,005	9,280	6,275
11,198	19,500	8,302
5,731	7,950	2,219
34,724	1,600	(33,124)
39,219	42,500	3,281
49,354	45,500	(3,854)
143,231	126,330	(16,901)
36,164	2,341	33,823
151,998	140,163	11,835
188,162	142,504	45,658

City of Magnolia

Notes to Other Information – Budgetary Reporting

June 30, 2016

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 except the discretely presented component unit. 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 Fund, the Debt Service Fund and the Enterprise Fund. 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, 2016, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

City of Magnolia

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

Iowa Public Employees' Retirement System
Last Fiscal Year*

Other Information

	<u>2016</u>
City's proportion of the net pension liability	0.0001482%
City's proportionate share of the net pension liability	\$ 7,323
City's covered-employee payroll	\$ 10,154
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.12%
IPERS' net position as a percentage of the total pension liability	85.19%

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

See accompanying independent auditor's report.

City of Magnolia

City of Magnolia
Schedule of City Contributions
Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	2016	2015
Statutorily required contribution	\$ 1,106	907
Contributions in relation to the statutorily required contribution	(1,106)	(907)
Contribution deficiency (excess)	\$ -	-
City's covered-employee payroll	\$ 12,389	10,154
Contributions as a percentage of covered-employee payroll	8.93%	8.93%

* City's contributions and covered-employee payroll information for the years ended 2007 to 2014 were not readily available.

See accompanying independent auditor's report.

City of Magnolia

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

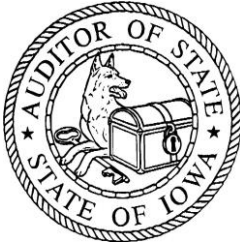
The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

**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**

City of Magnolia



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit and each major fund information of the City of Magnolia, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 27, 2017. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Magnolia'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 Magnolia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Magnolia'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 Magnolia's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items A through C to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Magnolia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 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 Magnolia's Responses to the Findings

The City of Magnolia's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Magnolia'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 Magnolia 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

April 27, 2017

City of Magnolia

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

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

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, recording and reconciling.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – opening mail, billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Journal entries – preparing and recording.
- (7) Financial reporting – preparing, recording and reconciling.
- (8) Computer usage – performing all general accounting functions and controlling all data input and output.

For the Magnolia Fire and Rescue Association (Association), one individual has control over the following areas:

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

Cause – The City and the Association have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City and the Association's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

City of Magnolia

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City and the Association should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Responses –

City – The Mayor will be involved in reviewing the above areas at the end of each month.

Association – We will continue to require two signatures on checks, the Fire Chief and Secretary and review the receipts and disbursements at the fire meetings.

Conclusion – Responses accepted.

(B) Bank Reconciliation

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

Condition – Reconciliations of the book balance to the bank balances were not performed monthly for 11 of the 12 months. The one reconciliation completed was not reviewed and approved by an independent person. In addition, monthly book to bank balance reconciliation were not prepared by the Association.

Cause – Procedures have not been implemented to ensure all accounts are reconciled and the amounts recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds.

Effect – A lack of bank to book reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Responses –

City – The Mayor will review the monthly reconciliations and initial. The City Clerk will provide more financial information in this area.

Association – Will have the Fire Chief and Secretary sign the bank reconciliation each month.

Conclusion – Responses accepted.

City of Magnolia

Schedule of Findings

Year ended June 30, 2016

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

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

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

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

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

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

Response – We will provide financial statements showing delinquent accounts along with the date of payment on delinquent accounts. This will be done monthly.

Conclusion – Response accepted.

(D) Chart of Accounts

Criteria – An effective internal control system provides for internal controls related to accurate and complete financial reporting.

Condition – The City has not fully implemented the recommended Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee.

In addition, the ending fund balances reported on the City's fiscal year 2016 Annual Financial Report (AFR) do not agree with City records.

Cause – City policies and procedures have not been established to require the use of the Uniform Chart of Accounts and to ensure the AFR agrees to the City's records.

Effect – Not using a uniform chart account could result in inaccurate or incomplete financial reporting, including the AFR not agreeing to the City's records.

City of Magnolia

Schedule of Findings

Year ended June 30, 2016

Recommendation – To provide better financial information and control, the City should establish policies and procedures to require the use of the recommended Uniform Chart of Accounts, or its equivalent. In addition, the City should develop policies and procedures to ensure the AFR agrees with City records.

Response – We will look at implementing a chart of accounts for the City. We will also incorporate procedures to complete the AFR more accurately.

Conclusion – Response accepted.

(E) Financial Reporting

Criteria – An effective internal control system provides for internal controls related to accurate and complete financial reporting, including monitoring actual to budgeted disbursements.

Condition – The Clerk’s monthly financial reports to the City Council included cash balances and monthly receipts and disbursements, but did not include a summary of beginning balance, receipts, disbursement or ending balance by fund. Also, it does not include a comparison of actual to budgeted disbursements by function.

Cause – City policies and procedures have not been established to prepare detailed financial reports to provide the City Council with accurate and complete information, including a comparison of actual to budgeted disbursements.

Effect – The City Council is not provided with accurate and complete information, including a comparison of actual to budgeted disbursements, which is needed to make informed decisions regarding the City.

Recommendation – To provide better financial information, the monthly reports should include the beginning balance, receipts, disbursements and ending balance for each fund. Also, the monthly reports should include actual year-to-date disbursements by function compared with budgeted disbursements by function.

Response – We will create financial statements to provide the City Council with detailed financial accounting each month as listed above.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Magnolia

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the community and economic development and business type activity functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The budget will be amended in the future, if applicable.

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:

Name, Title and Business Connection	Transaction Description	Amount
Michelle Rhoten, City Council Member, Husband is Paul Rhoten	City mowing, per bid	\$ 2,800
Dianne Archer, City Council Member, Husband is Bruce Archer	Electrical	325

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transactions with Paul Rhoten do not appear to represent conflicts of interest since it was entered into through competitive bidding. The transaction with Bruce Archer does not appear to represent a conflict of interest since total transactions with the individual were less than \$2,500 during the fiscal year in accordance with Chapter 362.5(3)(k) 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.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Magnolia

Schedule of Findings

Year ended June 30, 2016

- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

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

Response – We will adopt a written investment policy and a depository resolution.

Conclusion – Response accepted.

- (8) Financial Condition – The Debt Service Fund had a deficit balance of \$178 at June 30, 2016.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We will do a transfer from the General Fund to eliminate the deficit in the Debt Service Fund.

Conclusion – Response accepted.

- (9) Employee Benefit Levy – According to Chapter 384.6(1) of the Code of Iowa, a City may certify taxes for payment of costs related to employee benefits and set up a separate fund for the activity. The budget documents show this levy as a Special Revenue levy, therefore a separate Special Revenue Fund should be used to account for the property tax receipts and related disbursements or transfers out. The City has not established a Special Revenue, Employee Benefit Fund to record the property tax receipts and related disbursements or transfers associated with the Employee Benefit levy.

Recommendation – The City should establish a Special Revenue, Employee Benefits Fund in the general ledger to record the receipts and disbursement of property tax for employee benefits.

Response – We will prepare financial records showing all transactions in this Special Revenue Fund.

Conclusion – Response accepted.

- (10) Annual Financial Report (AFR) – The AFR for the year ending June 30, 2016 was not filed by December 1 as required by Chapter 384.22 of the Code of Iowa. The report was filed on December 9, 2016.

Recommendation – The AFR should be filed by December 1 as required by Chapter 384.22 of the Code of Iowa.

City of Magnolia

Schedule of Findings

Year ended June 30, 2016

Response – Due to the fact a new City Clerk was employed after the 2016 fiscal year, it was difficult to prepare records of the prior City Clerk for the fiscal year 2016 AFR. We will be prepared in the future to better complete the AFR.


Conclusion – Response accepted.

City of Magnolia

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Ryan J. Pithan, CPA, Senior Auditor
Taylor I. Cook, 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