



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

FOR RELEASE

December 26, 2018

---

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$2,342,211 for the year ended June 30, 2018. The receipts included \$35,049 of property tax, \$63,993 of charges for service, \$21,177 of operating grants, contributions and restricted interest, \$546,715 of capital grants, contributions and restricted interest, \$11,254 of local option sales tax, \$69 of unrestricted interest on investments, \$1,628,000 of note proceeds and \$35,954 of other general receipts.

Disbursements for the year ended June 30, 2018 totaled \$2,433,944, and included \$57,151 for public works, \$32,460 for general government and \$23,897 for public safety. Also, disbursements for business type activities totaled \$2,299,627.

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/audit-reports/>.

###



**CITY OF MAGNOLIA**

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

**JUNE 30, 2018**

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor’s Report	5-7
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A      10-11
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B      12
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	C      13
Notes to Financial Statements	15-23
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund	26-27
Notes to Other Information – Budgetary Reporting	28
Schedule of the City’s Proportionate Share of the Net Pension Liability	29
Schedule of City Contributions	31
Notes to Other Information – Pension Liability	33
Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1      36-37
Schedule of Note Maturities	2      38
Schedule of Expenditures of Federal Awards	3      39
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	41-42
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	43-44
Schedule of Findings and Questioned Costs	45-51
Staff	52

**City of Magnolia**

**Officials**

**(Before January 2018)**

<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
Karen Jacobsen	City Clerk/Treasurer	Indefinite
Phil Caniglia	Attorney	Indefinite

**(After January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Weigelt	Mayor	Jan 2022
Diane Archer	Council Member	Jan 2020
Mark Hoffman	Council Member	Jan 2020
Eugene Jacobsen	Council Member	Jan 2022
Michelle Rhoten	Council Member	Jan 2022
Ted Michael	Council Member	Jan 2022
Karen Jacobsen	City Clerk/Treasurer	Indefinite
Judson Frisk	Attorney	Indefinite

**City of Magnolia**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, each major fund and the aggregate remaining fund information of the City of Magnolia, Iowa, as of and for the year ended June 30, 2018, 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 unmodified and qualified 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, 2017.

### 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, 2017, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Magnolia as of June 30, 2018, 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.

### Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the discretely presented component unit of the City of Magnolia as of June 30, 2018 and the 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

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Magnolia's basic financial statements. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 26 through 33, 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 November 16, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Magnolia's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

November 16, 2018

**City of Magnolia**

## **Basic Financial Statements**

City of Magnolia

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 23,897	390	-	-
Public works	57,151	-	21,177	-
Culture and recreation	20,359	25	-	-
Community and economic development	450	-	-	-
General government	32,460	465	-	-
Total governmental activities	134,317	880	21,177	-
Business type activities:				
Water	2,299,627	63,113	-	546,715
<b>Total Primary Government</b>	<b>\$ 2,433,944</b>	<b>63,993</b>	<b>21,177</b>	<b>546,715</b>
<b>Component Unit:</b>				
Magnolia Fire and Rescue Association	\$ 49,315	21,186	45,232	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Streets				
Debt service				
Capital projects				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Magnolia Fire and Rescue Association
(23,507)	-	(23,507)	
(35,974)	-	(35,974)	
(20,334)	-	(20,334)	
(450)	-	(450)	
(31,995)	-	(31,995)	
(112,260)	-	(112,260)	
-	(1,689,799)	(1,689,799)	
(112,260)	(1,689,799)	(1,802,059)	
			17,103
35,049	-	35,049	-
11,254	-	11,254	-
42	27	69	-
-	1,628,000	1,628,000	-
35,954	-	35,954	-
(6,000)	6,000	-	-
76,299	1,634,027	1,710,326	-
(35,961)	(55,772)	(91,733)	17,103
122,016	96,391	218,407	66,287
\$ 86,055	40,619	126,674	83,390
\$ 18,776	-	18,776	-
-	2,700	2,700	-
-	21,010	21,010	-
67,279	16,909	84,188	83,390
\$ 86,055	40,619	126,674	83,390

**Exhibit B**

## City of Magnolia

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

As of and for the year ended June 30, 2018

	General	Special Revenue		Total
		Road Use Tax	Non-major Employee Benefits	
Receipts:				
Property tax	\$ 34,248	-	-	34,248
Other city tax	12,520	-	-	12,520
Licenses and permits	390	-	-	390
Use of money and property	42	-	-	42
Intergovernmental	250	21,177	-	21,427
Charges for fees and service	56	-	-	56
Miscellaneous	35,673	-	-	35,673
Total receipts	83,179	21,177	-	104,356
Disbursements:				
Operating:				
Public safety	23,897	-	-	23,897
Public works	-	57,151	-	57,151
Culture and recreation	20,359	-	-	20,359
Community and economic development	450	-	-	450
General government	30,655	-	1,805	32,460
Total disbursements	75,361	57,151	1,805	134,317
Excess (deficiency) of receipts over (under) disbursements	7,818	(35,974)	(1,805)	(29,961)
Other financing sources (uses):				
Transfers in	280	-	-	280
Transfers out	(6,280)	-	-	(6,280)
Total other financing sources (uses)	(6,000)	-	-	(6,000)
Changes in cash balances	1,818	(35,974)	(1,805)	(35,961)
Cash balances beginning of year	67,254	54,750	12	122,016
Cash balances end of year	\$ 69,072	18,776	(1,793)	86,055
<b>Cash Basis Fund Balances</b>				
Restricted for streets	\$ -	18,776	-	18,776
Unassigned	69,072	-	(1,793)	67,279
Total cash basis fund balances	\$ 69,072	18,776	(1,793)	86,055

See notes to financial statements.

City of Magnolia

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

As of and for the year ended June 30, 2018

	<u>Enterprise</u>
	<u>Water</u>
Operating receipts:	
Charges for service	\$ 63,113
Operating disbursements:	
Business type activities	<u>43,657</u>
Excess of operating receipts over operating disbursements	<u>19,456</u>
Non-operating receipts (disbursements):	
Intergovernmental	546,715
Interest on investments	27
Revenue note proceeds	1,628,000
Capital projects	(1,433,942)
Debt service	<u>(822,028)</u>
Non-operating receipts (disbursements)	<u>(81,228)</u>
Deficiency of receipts under disbursements	<u>(61,772)</u>
Transfers in	6,280
Transfers out	<u>(280)</u>
Total transfers in (out)	<u>6,000</u>
Change in cash balance	(55,772)
Cash balance beginning of year	<u>96,391</u>
Cash balance end of year	<u>\$ 40,619</u>
<b>Cash Basis Fund Balance</b>	
Restricted for debt services	\$ 2,700
Restricted for capital projects	21,010
Unrestricted	<u>16,909</u>
Total cash basis fund balances	<u>\$ 40,619</u>

See notes to financial statements.

**City of Magnolia**

City of Magnolia

Notes to Financial Statements

June 30, 2018

**(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, 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 911 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:

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 City reports the following major proprietary fund:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system and 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, 2018, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions prior to the budget amendment.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2018 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) Notes Payable**

Annual debt service requirements to maturity for water revenue capital loan notes are as follows:

Year Ending June 30,	Revenue Notes	
	Principal	Interest
2019	\$ 11,396	22,216
2020	11,713	21,899
2021	12,039	21,573
2022	12,374	21,238
2023	12,719	20,893
2024-2028	69,110	98,950
2029-2033	79,284	88,776
2034-2038	90,957	77,103
2039-2043	104,349	63,711
2044-2048	119,710	48,350
2049-2053	137,334	30,726
2054-2058	152,115	10,478
Total	<u>\$ 813,100</u>	<u>525,913</u>

Revenue Notes

The City has pledged future water customers receipts, net of specified operating disbursement, to repay \$814,000 of water revenue capital loan notes issued in May 25, 2018. Proceeds from the notes provided financing for the construction of improvements to the water system. The notes are payable solely from water customer net receipts and are payable through 2058. Annual principal and interest payments on the notes are expected to require 14% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,339,013. For the current year, principal and interest paid and total customer net receipts were \$2,801 and \$19,456, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue debt reserve account until a balance equal to one annual loan payment has been established.

**(4) 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](http://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 2018, 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, 2018 totaled \$1,316.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$7,085 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the City’s proportion was 0.000106%, which was a decrease of 0.000067% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$975, \$2,582 and \$1,360, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 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, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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 arithmetic 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
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core pls fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
<b>Total</b>	<b>100.0%</b>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 11,674	7,085	3,230

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](http://www.ipers.org).

**(5) 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 775 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, 2018 were \$7,726.

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 \$500,000 per claim. Claims exceeding \$500,000 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.

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.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Water	\$ 280
Enterprise: Water	General	<u>6,280</u>
		<u>\$ 6,560</u>

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

**(7) Construction Commitments**

The City has entered into three construction contracts totaling \$1,668,564 for water treatment plant improvements. During the year ended June 30, 2018, costs of \$1,339,560 have been paid on the projects. The balance of \$329,004 remaining on the contracts at June 30, 2018 will be paid as work on the projects progress.

**(8) Deficit Balance**

The Special Revenue, Employee Benefits Fund had a deficit balance of \$1,793 at June 30, 2018. The deficit was a result of disbursements occurring without property taxes levied. The deficit will be eliminated through future property tax collections.

**City of Magnolia**

## **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, 2018

	Governmental Funds Actual	Proprietary Fund Actual	Total
<b>Receipts:</b>			
Property tax	\$ 34,248	-	34,248
Other city tax	12,520	-	12,520
Licenses and permits	390	-	390
Use of money and property	42	27	69
Intergovernmental	21,427	546,715	568,142
Charges for service	56	63,113	63,169
Miscellaneous	35,673	-	35,673
<b>Total receipts</b>	<b>104,356</b>	<b>609,855</b>	<b>714,211</b>
<b>Disbursements:</b>			
Public safety	23,897	-	23,897
Public works	57,151	-	57,151
Culture and recreation	20,359	-	20,359
Community and economic development	450	-	450
General government	32,460	-	32,460
Business type activities	-	1,485,627	1,485,627
<b>Total disbursements</b>	<b>134,317</b>	<b>1,485,627</b>	<b>1,619,944</b>
Excess (deficiency) of receipts over (under) disbursements	(29,961)	(875,772)	(905,733)
Other financing sources, net	(6,000)	820,000	814,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(35,961)	(55,772)	(91,733)
Balances beginning of year	122,016	96,391	218,407
Balances end of year	\$ 86,055	40,619	126,674

See accompanying independent auditor's report.

---

Budgeted Amounts		Final to
Original	Final	Total
		Variance
35,403	70,806	(36,558)
12,803	25,803	(13,283)
390	780	(390)
2,200	4,400	(4,331)
1,408,588	3,422,588	(2,854,446)
60,700	121,400	(58,231)
-	35,000	673
<u>1,520,084</u>	<u>3,680,777</u>	<u>(2,966,566)</u>
7,300	37,300	13,403
26,000	101,000	43,849
6,650	26,650	6,291
5,000	6,000	5,550
39,700	79,400	46,940
<u>1,381,500</u>	<u>3,395,500</u>	<u>1,909,873</u>
<u>1,466,150</u>	<u>3,645,850</u>	<u>2,025,906</u>
53,934	34,927	(940,660)
-	-	814,000
53,934	34,927	(126,660)
<u>214,550</u>	<u>483,034</u>	<u>(264,627)</u>
<u>268,484</u>	<u>517,961</u>	<u>(391,287)</u>

City of Magnolia

Notes to Other Information – Budgetary Reporting

June 30, 2018

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, 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 one budget amendment increased budgeted disbursements by \$2,179,700. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2018, disbursements exceeded amounts budgeted in the public safety and culture and recreation functions prior to the budget amendment.

---

City of Magnolia

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

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

Other Information

	2018	2017	2016
City's proportion of the net pension liability	0.000106%	0.000173%	0.000148%
City's proportionate share of the net pension liability	\$ 7	10	7
City's covered payroll	\$ 8	12	10
City's proportionate share of the net pension liability as a percentage of its covered payroll	87.50%	83.33%	70.00%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	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 Four Years  
(In Thousands)

Other Information

	2018	2017	2016	2015
Statutorily required contribution	\$ 1	1	1	1
Contributions in relation to the statutorily required contribution	(1)	(1)	(1)	(1)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 15	8	12	10
Contributions as a percentage of covered payroll *	8.93%	8.93%	8.93%	8.93%

\* Amounts reported do not agree with calculated amounts due to rounding required contributions and covered payroll to the nearest thousandth.

**Note:** City's contributions and covered payroll information for the years ended 2009 to 2014 were not readily available.

See accompanying independent auditor's report.

**City of Magnolia**

City of Magnolia

Notes to Other Information – Pension Liability

Year ended June 30, 2018

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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.560% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%e will be amortized on a separate closed 20-year period.

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2015. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

**City of Magnolia**

## **Supplementary Information**

---

City of Magnolia  
Schedule of Indebtedness  
Year ended June 30, 2018

---

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Interim revenue project note:			
Water revenue anticipation note	Dec 15, 2017	3.125%	\$ 814,000
Revenue notes:			
Water revenue capital loan notes	May 25, 2018	2.75%	\$ 555,000
Water revenue capital loan notes	May 25, 2018	2.75	259,000
Total			

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
\$ -	814,000	814,000	-	5,227	-
-	555,000	614	554,386	1,296	-
-	259,000	286	258,714	605	-
\$ -	814,000	900	813,100	1,901	-

**Schedule 2**

## City of Magnolia

## Schedule of Note Maturities

June 30, 2018

Revenue Notes					
Year Ending June 30,	Water		Water		Total
	Interest Rates	Amount	Interest Rates	Amount	
2019	2.75%	\$ 7,773	2.75%	\$ 3,623	11,396
2020	2.75	7,989	2.75	3,724	11,713
2021	2.75	8,211	2.75	3,828	12,039
2022	2.75	8,440	2.75	3,934	12,374
2023	2.75	8,675	2.75	4,044	12,719
2024	2.75	8,917	2.75	4,157	13,074
2025	2.75	9,165	2.75	4,272	13,437
2026	2.75	9,420	2.75	4,391	13,811
2027	2.75	9,683	2.75	4,514	14,197
2028	2.75	9,952	2.75	4,639	14,591
2029	2.75	10,230	2.75	4,768	14,998
2030	2.75	10,514	2.75	4,901	15,415
2031	2.75	10,807	2.75	5,038	15,845
2032	2.75	11,108	2.75	5,178	16,286
2033	2.75	11,418	2.75	5,322	16,740
2034	2.75	11,736	2.75	5,470	17,206
2035	2.75	12,062	2.75	5,623	17,685
2036	2.75	12,398	2.75	5,779	18,177
2037	2.75	12,744	2.75	5,940	18,684
2038	2.75	13,099	2.75	6,106	19,205
2039	2.75	13,463	2.75	6,276	19,739
2040	2.75	13,838	2.75	6,451	20,289
2041	2.75	14,224	2.75	6,630	20,854
2042	2.75	14,620	2.75	6,815	21,435
2043	2.75	15,027	2.75	7,005	22,032
2044	2.75	15,445	2.75	7,200	22,645
2045	2.75	15,876	2.75	7,400	23,276
2046	2.75	16,318	2.75	7,606	23,924
2047	2.75	16,772	2.75	7,818	24,590
2048	2.75	17,239	2.75	8,036	25,275
2049	2.75	17,719	2.75	8,260	25,979
2050	2.75	18,213	2.75	8,490	26,703
2051	2.75	18,720	2.75	8,726	27,446
2052	2.75	19,241	2.75	8,969	28,210
2053	2.75	19,777	2.75	9,219	28,996
2054	2.75	20,328	2.75	9,476	29,804
2055	2.75	20,894	2.75	9,740	30,634
2056	2.75	21,476	2.75	10,011	31,487
2057	2.75	22,074	2.75	10,290	32,364
2058	2.75	18,781	2.75	9,045	27,826
Total		<u>\$ 554,386</u>		<u>\$ 258,714</u>	<u>813,100</u>

See accompanying independent auditor's report.

## City of Magnolia

## Schedule of Expenditures of Federal Awards

June 30, 2018

Grantor/Program	Pass-through		Program Expenditures
	CFDA Number	Entity Identifying Number	
Direct:			
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	FY2018	\$ 1,273,058
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	15-WS-026	<u>75,657</u>
Total			<u>\$ 1,348,715</u>

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Magnolia under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Magnolia, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Magnolia.

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

**Indirect Cost Rate** – The City of Magnolia has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**City of Magnolia**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, each major fund and the aggregate remaining fund information of the City of Magnolia, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2018. The 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 report expressed an unmodified opinion on the discretely presented component unit. We expressed qualified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2017.

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 and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-18 and II-B-18 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 and Questioned Costs as items II-C-18 and II-D-18 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2018 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 and Questioned Costs. 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

November 16, 2018



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Magnolia, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Magnolia's major federal program for the year ended June 30, 2018. The City of Magnolia's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the City of Magnolia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

  
MARY MOSIMAN, CPA  
Auditor of State

November 16, 2018

City of Magnolia

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

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

- (a) The financial statements were prepared on the basis of cash receipts and disbursements which is a basis of accounting other than generally accepted accounting principles. An unmodified opinion was issued on the discretely presented component unit. Qualified opinions were issued on the government activities, the business type activities, each major fund and the aggregate remaining information since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2017.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Magnolia did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-18 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) Financial reporting – preparing, recording and reconciling.
- (7) 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 and Questioned Costs

Year ended June 30, 2018

Recommendation – The City and the Association should review their 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 – Internal control is monitored by the Mayor and Council. The Mayor reviews and initials all monthly bank reconciliations with the statements. The City Council is given a list of all transactions during the month along with a detailed report. Bills and financial reports are always available for review by the Council along with monthly water records.

Fire Association – The Magnolia Fire Association will continue to segregate duties where possible in the Department. Each month the statements are discussed at the meetings and they are signed by the fire chief.

Conclusions –

City – Response accepted.

Fire Association – Response acknowledged. The Association should also consider using current personnel to provide additional control through independent reviews of transactions, reconciliations and reports.

II-B-18 Fire and Rescue Association 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 – 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 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.

Response – We will work on implementing correct procedures.

Conclusion – Responses accepted.

City of Magnolia

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

II-C-18 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 do not include a comparison of actual to budgeted disbursements by function.

Cause – City policies and procedures have not been established to require the City Council be provided with monthly reports which include a comparison of actual to budgeted disbursements.

Effect – The City Council is not provided with reports which include comparisons of actual to budgeted disbursements by function, which is needed to make informed decisions regarding the City.

Recommendation – To provide better financial information, the monthly reports should include actual year-to-date disbursements by function compared with budgeted disbursements by function.

Response – I will keep balance sheets by the month. Currently the City Council and Mayor review all financials but I will have them sign the reports each month. I will provide budget reports to keep the Council informed of the current status of the budget.

Conclusion – Response accepted.

II-D-18 Payroll

Criteria – An effective internal control system provides for internal controls related to the processing and approval of payroll for all City employees. City Council approval of salaries can help ensure proper payment of payroll expenses.

Condition – City Council approved pay increases as a dollar increase, not an hourly rate or salary.

Cause – The City did not understand the potential effects of approving a dollar increases rather than actual rates of pay.

Effect – Approving dollar amount increases without documenting the approved rates of pay could result in unauthorized pay and the opportunity for misappropriation.

Recommendation – The City should document the approved rate of pay when approving pay increases.

Response – I will more clearly state salary changes in the future.

Conclusion – Response accepted.

City of Magnolia

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

No material weaknesses in internal control over the major program were noted.

City of Magnolia

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

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

IV-A-18 Certified Budget – Disbursements in the public safety and culture and recreation functions exceeded the amount budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will watch the budget more closely.

Conclusion – Response accepted.

IV-B-18 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney general’s opinion dated April 25, 1979 were noted.

IV-C-18 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-18 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	\$ 2,800

---

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transactions with Paul Rhoten may represent a conflict of interest since the total transactions during the year were greater than \$2,500 and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – Our City Attorney is currently reviewing this matter.

Conclusion – Response accepted.

IV-E-18 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-18 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 and Questioned Costs

Year ended June 30, 2018

IV-G-18 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Although the maximum allowed deposit is listed in the minutes, 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 – The City will adopt a policy for investments and a resolution approving depositories.

Conclusion – Response accepted.

IV-H-18 Revenue Bonds and Notes – No instances of non-compliance with the revenue note resolutions were noted.

IV-I-18 Financial Condition – At June 30, 2018, the City had a deficit balance of \$1,793 in the Special Revenue, Employee Benefits Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial condition.

Response – We will work toward returning the fund to a positive balance.

Conclusion – Response accepted.

City of Magnolia

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager  
Jenna M. Paysen, Senior Auditor  
Michaela M. Goergen, Assistant Auditor  
Molly N. Kalkwarf, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State