



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

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NEWS RELEASE

FOR RELEASE September 28, 2007

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Magnolia, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$104,574 for the year ended June 30, 2006. The receipts included \$31,444 in property tax, \$9,149 from local option sales tax, \$31,620 from charges for service, \$27,077 from operating grants, contributions and restricted interest, \$3,186 from capital grants, contributions and restricted interest, \$350 from unrestricted interest on investments and \$1,748 from other general receipts.

Disbursements for the year totaled \$102,093, and included \$25,538 for debt service, \$20,992 for general government and \$14,388 for public safety. Also, disbursements for business type activities totaled \$28,084.

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

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

JUNE 30, 2006

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City of Magnolia

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Jim Kill	Mayor	Jan 2008
Eugene Jacobsen	Mayor Pro-tem	Jan 2008
Eugene Barber	Council Member	Jan 2006
Joanne Barber	Council Member	Jan 2006
Michelle Rhoten	Council Member	Jan 2006
Carl Rorden	Council Member	Jan 2008
Karen Jacobsen	Clerk	Jan 2006
(After January 2006)		
Jim Kill	Mayor	Jan 2008
Eugene Jacobsen	Mayor Pro-tem	Jan 2008
Carl Rorden	Council Member	Jan 2008
Eugene Barber	Council Member	Jan 2010
Joanne Barber	Council Member	Jan 2010
Michelle Rhoten	Council Member	Jan 2010
Karen Jacobsen	Clerk	Jan 2007
Phil R. Caniglia	City Attorney	Indefinite

City of Magnolia



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Magnolia, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Magnolia's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

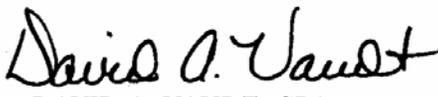
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present 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, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2007 on our consideration of the City of Magnolia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Magnolia's basic financial statements. Other supplementary information included in Schedules 1 and 2 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Magnolia provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$5,000, due primarily to an overall increase in receipts.
- The cash basis net assets of the City's business type activities decreased approximately \$2,000, due primarily to an overall increase in disbursements.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property taxes finance most of these activities.
- Business Type Activities include the waterworks system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for water operations. The Water Fund is considered to be a major fund of the City.

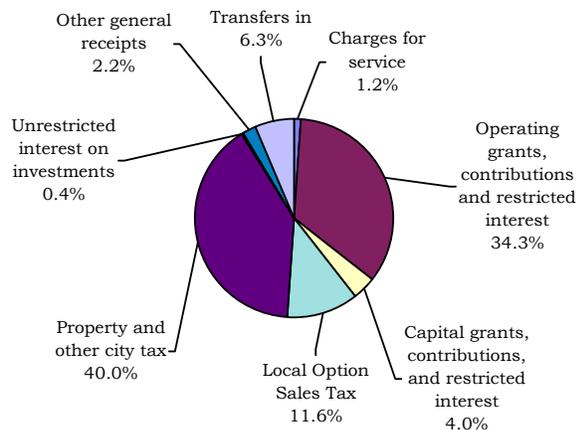
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

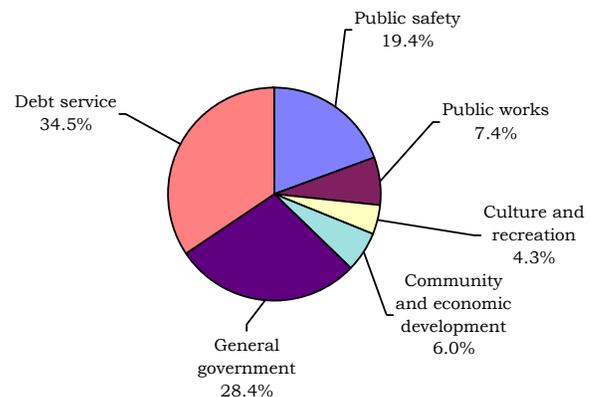
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities is \$65,789 at June 30, 2006. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 943
Operating grants, contributions and restricted interest	27,077
Capital grants, contributions and restricted interest	3,186
General receipts:	
Property and other city tax	31,444
Local option sales tax	9,149
Unrestricted interest on investments	350
Other general receipts	1,748
Transfers in	4,955
Total receipts and transfers	<u>78,852</u>
Disbursements:	
Public safety	14,388
Public works	5,476
Culture and recreation	3,205
Community and economic development	4,410
General government	20,992
Debt service	25,538
Total disbursements	<u>74,009</u>
Increase in cash basis net assets	4,843
Cash basis net assets beginning of year	<u>60,946</u>
Cash basis net assets end of year	<u>\$ 65,789</u>

Receipts by Source



Disbursements by Function



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 30,677
Disbursements and transfers:	
Water	28,084
Transfers	4,955
Total disbursements and transfers	<u>33,039</u>
Decrease in cash basis net assets	(2,362)
Cash basis net assets beginning of year	<u>5,342</u>
Cash basis net assets end of year	<u>\$ 2,980</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Magnolia completed the year, its governmental funds reported a combined fund balance of \$65,789, an increase of \$4,843 over the June 30, 2005 balance of \$60,946. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$12,200 over the prior year to a year-end balance of \$40,289, due primarily to fund raisers and donations received by the fire department during the fiscal year.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$5,745 to \$22,334 during the fiscal year, due primarily to increased street light costs during the fiscal year.
- The Debt Service Fund cash balance of zero remains unchanged at the end of the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$2,362 to \$2,980, due primarily to an increase in disbursements and transfers out.

BUDGETARY HIGHLIGHTS

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

The City's actual receipts were \$17,269 more than budgeted receipts. This was primarily due to receiving more intergovernmental and miscellaneous receipts than anticipated in the year.

This City's actual disbursements were \$18,340 in total less than budgeted disbursements. This was primarily due to less disbursements in the culture and recreation and public works functions than anticipated. However, actual disbursements for the public safety and business type activities functions were more than the budgeted amounts. This was primarily due to the purchase of fire department supplies and water system repairs.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$95,000 in general obligation note and other debt outstanding, compared to \$116,000 last year, as shown below:

	Outstanding Debt at Year End	
	June 30,	
	2006	2005
General obligation note	\$ 95,000	115,000
Installment loan	-	1,000
Total	\$ 95,000	116,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's general obligation debt of \$95,000 is below its constitutional debt limit of \$249,000.

Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Magnolia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's fiscal year 2007 assessed taxable valuation decreased approximately 1.6%, or \$38,617, from the fiscal year 2006 level.

The fiscal year 2007 budget includes total receipts of \$93,720 and disbursements of \$113,845.

The fiscal year 2007 levy is \$8.10 per \$1,000 of taxable valuation, which is unchanged from fiscal year 2006.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$20,000 by the close of fiscal year 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Jacobsen, City Clerk, 811 Second Street, Magnolia, Iowa 51550.

City of Magnolia

Basic Financial Statements

City of Magnolia

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 14,388	-	11,543	3,186
Public works	5,476	-	15,534	-
Culture and recreation	3,205	-	-	-
Community and economic development	4,410	-	-	-
General government	20,992	943	-	-
Debt service	25,538	-	-	-
Total governmental activities	74,009	943	27,077	3,186
Business type activities:				
Water	28,084	30,677	-	-
Total	\$ 102,093	31,620	27,077	3,186
General Receipts:				
Property and other city tax levied for general purposes				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
341	-	341
10,058	-	10,058
(3,205)	-	(3,205)
(4,410)	-	(4,410)
(20,049)	-	(20,049)
(25,538)	-	(25,538)
(42,803)	-	(42,803)
-	2,593	2,593
(42,803)	2,593	(40,210)
31,444	-	31,444
9,149	-	9,149
350	-	350
1,748	-	1,748
4,955	(4,955)	-
47,646	(4,955)	42,691
4,843	(2,362)	2,481
60,946	5,342	66,288
\$ 65,789	2,980	68,769
\$ 22,334	-	22,334
3,166	-	3,166
40,289	2,980	43,269
\$ 65,789	2,980	68,769

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, 2006

	Special Revenue				Total
	General	Road Use Tax	Debt Service	Nonmajor	
Receipts:					
Property tax	\$ 27,561	-	-	2,919	30,480
Other city tax	10,020	-	-	93	10,113
Licenses and permits	943	-	-	-	943
Use of money and property	350	-	-	-	350
Intergovernmental	6,258	14,314	-	-	20,572
Miscellaneous	11,439	-	-	-	11,439
Total receipts	56,571	14,314	-	3,012	73,897
Disbursements:					
Operating:					
Public safety	14,388	-	-	-	14,388
Public works	-	5,476	-	-	5,476
Culture and recreation	3,205	-	-	-	3,205
Community and economic development	1,976	-	-	2,434	4,410
General government	18,802	-	-	2,190	20,992
Debt service	-	-	25,538	-	25,538
Total disbursements	38,371	5,476	25,538	4,624	74,009
Excess (deficiency) of receipts over (under) disbursements	18,200	8,838	(25,538)	(1,612)	(112)
Other financing sources (uses):					
Operating transfers in	10,000	-	25,538	-	35,538
Operating transfers out	(16,000)	(14,583)	-	-	(30,583)
Total other financing sources (uses)	(6,000)	(14,583)	25,538	-	4,955
Net change in cash balances	12,200	(5,745)	-	(1,612)	4,843
Cash balances beginning of year	28,089	28,079	-	4,778	60,946
Cash balances end of year	\$ 40,289	22,334	-	3,166	65,789
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ 40,289	-	-	-	40,289
Special revenue funds	-	22,334	-	3,166	25,500
Total cash basis fund balances	\$ 40,289	22,334	-	3,166	65,789

See notes to financial statements.

City of Magnolia

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Proprietary Fund

As of and for the year ended June 30, 2006

	<u>Water</u>
Operating receipts:	
Charges for service	\$ 30,677
Operating disbursements:	
Business type activities	<u>28,084</u>
Excess of operating receipts over operating disbursements	<u>2,593</u>
Transfers:	16,000
Transfers in	<u>(20,955)</u>
Transfers out	<u>(4,955)</u>
Total transfers	
Net change in cash balances	(2,362)
Cash balances beginning of year	<u>5,342</u>
Cash balances end of year	<u>\$ 2,980</u>
Cash Basis Fund Balances	
Unreserved	<u>\$ 2,980</u>

See notes to financial statements.

City of Magnolia

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Magnolia is a political subdivision of the State of Iowa located in 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: 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 Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

The Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

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

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Note Payable

Annual debt service requirements to maturity for the general obligation note are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	3.35%	\$ 10,000	1,991	11,991
2008	3.60	10,000	1,824	11,824
2009	3.85	10,000	1,644	11,644
2010	4.10	10,000	1,451	11,451
2011	4.30	10,000	1,246	11,246
2012	4.45	15,000	1,031	16,031
2013	4.60	15,000	698	15,698
2014	4.70	15,000	353	15,353
Total		\$ 95,000	10,238	105,238

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$868, equal to the required contribution.

(5) Water Improvements Contract

The City entered into an agreement on December 17, 2004 to waive payments for certain water improvements to be performed over the next three years, with payments of \$11,923 beginning until July 1, 2007 and continuing every July 1 through 2009. In the years 2010 and 2011, the annual cost will be the established maintenance fee of \$2,759.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Water	<u>\$ 10,000</u>
Debt Service	Special Revenue: Road Use Tax	14,583
	Enterprise: Water	<u>10,955</u>
		<u>25,538</u>
Enterprise: Water	General	<u>16,000</u>
Total		<u>\$ 51,538</u>

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

(7) Interfund Loan

During the years ended June 30, 2005 and June 30, 2006, the General Fund loaned a total of \$9,000 to the Enterprise, Water Fund for water improvements incurred in the current and prior fiscal years. The loan is interest free and will be repaid in the future. The interfund loan due at June 30, 2006 is \$9,000.

(8) Local Government Risk Pool

The City is a member in 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 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-

end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2006 were \$9,152.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

(9) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

City of Magnolia

Required Supplementary 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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Property tax	\$ 30,480	-
Other city tax	10,113	-
Licenses and permits	943	-
Use of money and property	350	-
Intergovernmental	20,572	-
Charges for service	-	30,677
Miscellaneous	11,439	-
Total receipts	<u>73,897</u>	<u>30,677</u>
Disbursements:		
Public safety	14,388	-
Public works	5,476	-
Culture and recreation	3,205	-
Community and economic development	4,410	-
General government	20,992	-
Debt service	25,538	-
Business type activities	-	28,084
Total disbursements	<u>74,009</u>	<u>28,084</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(112)</u>	<u>2,593</u>
Other financing sources (uses):		
Operating transfers in	35,538	16,000
Operating transfers out	(30,583)	(20,955)
Total other financing sources (uses)	<u>4,955</u>	<u>(4,955)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	4,843	(2,362)
Balances beginning of year	<u>60,946</u>	<u>5,342</u>
Balances end of year	<u>\$ 65,789</u>	<u>2,980</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts Original and Final	Final to Total Variance
30,480	30,455	25
10,113	8,770	1,343
943	780	163
350	-	350
20,572	17,100	3,472
30,677	29,200	1,477
11,439	1,000	10,439
104,574	87,305	17,269
14,388	14,000	(388)
5,476	13,000	7,524
3,205	12,700	9,495
4,410	5,000	590
20,992	27,600	6,608
25,538	25,633	95
28,084	22,500	(5,584)
102,093	120,433	18,340
2,481	(33,128)	35,609
51,538	25,633	25,905
(51,538)	(25,633)	(25,905)
-	-	-
2,481	(33,128)	35,609
66,288	54,743	11,545
68,769	21,615	47,154

City of Magnolia

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments during the year.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

Other Supplementary Information

City of Magnolia

City of Magnolia

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

As of and for the year ended June 30, 2006

	Special Revenue		Total
	Emergency	Employee Benefits	
Receipts:			
Property tax	\$ 651	2,268	2,919
Other city tax	21	72	93
Total receipts	<u>672</u>	<u>2,340</u>	<u>3,012</u>
Disbursements:			
Operating:			
Community and economic development	2,434	-	2,434
General government	-	2,190	2,190
Total disbursements	<u>2,434</u>	<u>2,190</u>	<u>4,624</u>
Excess (deficiency) of receipts over (under) disbursements	(1,762)	150	(1,612)
Cash balances beginning of year	<u>2,569</u>	<u>2,209</u>	<u>4,778</u>
Cash balances end of year	<u>\$ 807</u>	<u>2,359</u>	<u>3,166</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	<u>\$ 807</u>	<u>2,359</u>	<u>3,166</u>

See accompanying independent auditor's report.

City of Magnolia
 Schedule of Indebtedness
 Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street improvement	Feb 1, 2003	2.25-4.70%	\$ 125,000
Water	Apr 1, 1996	4.65-5.55%	70,000
Total			
Installment loan:			
Fire department pickup	Jun 28, 2001	9.0%	\$ 5,000

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
105,000	-	10,000	95,000	4,283	-
10,000	-	10,000	-	555	-
\$ 115,000	-	20,000	95,000	4,838	-
1,000	-	1,000	-	68	-

City of Magnolia



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

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Magnolia, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 7, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 7, 2007

City of Magnolia

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City, one individual has control over each of the following areas:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – initiating cash receipts and disbursement functions and handling and recording cash.
 - (3) Long term debt – recording, wire transfers and reconciling.
 - (4) Receipts – opening mail receipts, collecting, depositing, journalizing, maintaining the deposit/check register and posting.
 - (5) Disbursements – check preparation, purchasing, check signing, recording, maintaining the check register and Mayor signature stamp and reconciling.
 - (6) Payroll – approval, input of information, preparing and distributing.
 - (7) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
 - (8) Financial reporting – preparing, reconciling and distributing.

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

Response – It is difficult to have any segregation of duties with only one office employee. The size of our City does not warrant additional employees because the additional costs would significantly impact a very limited budget. Therefore, we will take the recommendation under advisement and the City Council will discuss various ways to implement more internal control.

Conclusion – Response accepted.

- (B) Information Systems – During our review of internal control, the existing control activities in the City's computer based financial systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable

City of Magnolia

Schedule of Findings

Year ended June 30, 2006

laws and regulations. The following weaknesses in the City's computer based financial systems were noted:

The City does not have written policies over the computer based financial system for:

- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- requiring backups be performed daily, weekly, monthly and yearly.
- ensuring only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- addressing information systems security (including internet usage).

Also, the City does not require back up media to be stored off site daily in a secure location and the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based financial systems. The City should also require off-site storage of backup media and a written disaster recovery plan should be developed.

Response – The City will develop written policies on the financial computer system and will purchase a fireproof file cabinet for storage of backup tapes which will be stored at another site.

The City has recently purchased a computer system which will aid in solving the issues addressed concerning the City's financial computer based system. Prior to that time, the financial records were maintained on the City Clerk's personal computer system because of the cost of purchasing a computer system on a limited City budget.

Conclusion – Response accepted.

- (C) Separately Maintained Records – The Magnolia Fire and Rescue Department maintains separate accounting records for their operation. These transactions and resulting balances were not included in the City's accounting records. However, these transactions and resulting balances are included in the financial statements included in this audit report.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

City of Magnolia

Schedule of Findings

Year ended June 30, 2006

Response – The City will take strides to work more closely with the Fire Department. At a minimum, the City will require an annual financial report from the Fire Department for preparation of the City’s financial reports.

Conclusion – Response accepted.

- (D) Utility Collections – Utility collection information did not include the dates individual payments were received by the City.

Recommendation – Procedures should be established to record the dates utility payments are received by the City to ensure timely deposits are made.

Response – The City Clerk will adjust the utility collection records to reflect the dates utility payments are received by the City and deposit utility payments weekly.

Conclusion – Response accepted.

- (E) Prenumbered Receipts – Prenumbered receipts were not issued for collections.

Recommendation – Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all money. Also, prenumbered receipts issued should be accounted for by someone independent of the receipts process.

Response – The City will use prenumbered receipts for all deposits of City funds. However, the utility deposits will be recorded in batches to correspond with weekly deposits.

Conclusion – Response accepted.

- (F) Disbursements – Certain invoices were paid prior to Council approval. The City does not have a written disbursement approval policy allowing certain items to be paid prior to Council approval. Also, even though a second signature is required for a check to be issued (generally through the use of the Mayor’s signature stamp), an independent person is not affixing the second signature.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to Council approval. All City disbursements should be approved by the Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to Council approval, a listing should be provided to the Council at the next Council meeting for review and approval.

Also, checks issued should be countersigned (or the signature should be stamped) by a person who does not otherwise participate in the preparation of checks. Prior to signing or affixing the signature, the checks and the supporting documents should be reviewed for propriety and the review should be documented.

City of Magnolia

Schedule of Findings

Year ended June 30, 2006

Response – Because of due dates and penalty on certain bills, it is not possible to bring all bills to the City Council for payment. The City will adopt a written disbursement policy pertaining to payment of certain bills before Council approval. The City will designate an independent person to affix the Mayor’s signature stamp on checks and document review of supporting documentation.

Conclusion – Response accepted.

- (G) Safeguarding City Records – Accounting records were not stored in a secure place, such as a fireproof locked file.

Recommendation – Accounting records should be stored in a secure place, such as a fireproof locked file.

Response – The City will purchase a fireproof locked cabinet to maintain accounting records.

Conclusion – Response accepted.

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

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

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

Response – The City will create an accounting policies and procedures manual that will contain the information necessary to aid the City. This manual will focus on uniformity and structure of the City’s records. This will create a permanent record that will aid in decision making on situations that arise frequently.

Conclusion – Response accepted.

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

City of Magnolia

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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 City did not exceed the total budget. However, we are aware that the budget was exceeded in the areas of Public Safety and Business Type Activities functions.

The Public Safety area was exceeded because the City did not take into consideration the disbursements of the Fire Department. However, we are now aware the Fire Department disbursements do need to be incorporated into the budget and financial reports and we will watch the budget closely so that we do not exceed the limits.

The Business Type activities budget was exceeded due to considerable disbursements in the Water Fund toward the end of the fiscal year. The City will monitor closely all unexpected disbursements and amend the budget as needed in the future.

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
Paul Rhoten, husband of Council member Michelle Rhoten	Mowing	\$ 1,535

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since the individual cumulative amounts were less than \$2,500 during the year.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with Code of Iowa provisions. However, the City Code requires surety bond coverage be \$10,000 and the City’s coverage was \$1,000.

City of Magnolia

Schedule of Findings

Year ended June 30, 2006

Recommendation - The City should comply with the provisions contained in the City Code and periodically review its coverage for adequacy.

Response - The City has been in contact with the City's insurance carrier regarding increasing the bond coverage and will amend the City Code according to the increase.

Conclusion - Response accepted.

- (6) Council Minutes - Transfers were not included in the approved list of bills or in the minutes record.

Minutes of Council proceedings were not published or posted and they did not include total disbursements from each fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, public notices and official actions were not always posted at 3 locations as required by Chapter 362.3(2) of the Code of Iowa.

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

Recommendation - The Council should ensure all transfers are approved through the certified budget, resolutions or minutes record. Also, the City should comply with Chapters 372.13(6) and 362.3(2) of the Code of Iowa and publish minutes and annual individual salaries and post public notices and official actions as required.

Response - The City will require approval for all transfers and the minutes are being published in the City's designated newspaper along with monthly salaries, monthly bills and a summary of all receipts. Public notices will be handled in accordance with state statute and City Code of Ordinances.

Conclusion - Response accepted.

- (7) Deposits and Investments - Except an investment policy could not be located, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

Recommendation - An investment policy should be adopted by the Council as required by Chapters 12B and 12C of the Code of Iowa.

Response - As recommended, the City Council will adopt an investment policy.

Conclusion - Response accepted.

City of Magnolia

Schedule of Findings

Year ended June 30, 2006

- (8) City Code - Chapter 380.8 of the Code of Iowa states, in part, "At least once every five years, a City shall compile a code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys." The City Code has not been recodified within the past five years.

Recommendation - The City should review the City Code for compliance with Chapter 380.8 of the Code of Iowa.

Response - As recommended, the City Council will begin the process of reviewing the Code of Ordinances.

Conclusion - Response accepted.

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

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

Response - The City Clerk contacted banking officials and the bank will begin imaging both sides of the cancelled checks.

Conclusion - Response accepted.

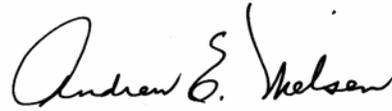
- (10) Petition for Audit - Except as noted, all items included in the petition for audit have been resolved.

City of Magnolia

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Nancy F. Curtis, CPA Senior Auditor II
Brett M. Zeller, 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