

CITY OF MORRISON

Independent Auditors' Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings

June 30, 2012

CITY OF MORRISON

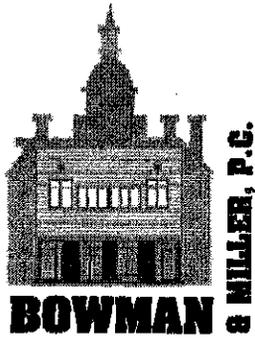
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CITY OF MORRISON

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|-----------------|---------------------|
| Dave Hach | Mayor | Jan 2014 |
| Jeremy Wittgreve | Mayor Pro Tem | Jan 2016 |
| Laurie Beenken | Council Member | Jan 2014 |
| Larry Smith | Council Member | Jan 2014 |
| Larry Sager | Council Member | Jan 2014 |
| Jill Matejka | Council Member | Jan 2016 |
| Peggy Husmann | Clerk/Treasurer | Indefinite |
| Michael Rickert | Attorney | Indefinite |



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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James R. Bowman, CPA • jim@bowmanandmillerpc.com
Elizabeth A. Miller, CPA • beth@bowmanandmillerpc.com

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Morrison, Iowa, as of and for the year ended June 30, 2012, 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 Morrison's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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, 2011.

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, 2011, 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, each major fund and the aggregate remaining fund information of the City of Morrison, as of June 30, 2012, 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.

The City of Morrison has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2013 on our consideration of the City of Morrison'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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 12 through 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information 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.

Bowman and Miller, P.C.

Marshalltown, Iowa
February 22, 2013

CITY OF MORRISON
Statement of Activities and Net Assets-Cash Basis
As of and for the year ended June 30, 2012

| | | Program Receipts | |
|---|------------------|------------------------|--|
| | Disbursements | Charges for Service | Operating Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | |
| Governmental activities: | | | |
| Public safety | \$ 214 | - | - |
| Public works | 33,511 | - | 8,619 |
| Culture and recreation | 2,490 | - | 2,515 |
| Community and economic development | 10,263 | - | 10,000 |
| General government | 9,055 | 780 | - |
| | <u>\$ 55,533</u> | <u>780</u> | <u>21,134</u> |
| General Receipts: | | | |
| Property and other city tax levied for: | | | |
| General purposes | | | |
| Local option sales tax | | | |
| Unrestricted interest on investments | | | |
| Loan proceeds | | | |
| Miscellaneous | | | |
| Total general receipts | | | |
| 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: | | | |
| Expendable: | | | |
| Park | | | |
| Unrestricted | | | |
| Total cash basis net assets | | | |

Net (Disbursements) Receipts
and Changes in Cash Basis Net Assets

| Governmental Activities | Total |
|----------------------------|-------|
|----------------------------|-------|

| | |
|----------|----------|
| (214) | (214) |
| (24,892) | (24,892) |
| 25 | 25 |
| (263) | (263) |
| (8,275) | (8,275) |
| (33,619) | (33,619) |

| | |
|--------|--------|
| 18,952 | 18,952 |
| 6,515 | 6,515 |
| 42 | 42 |
| 8,000 | 8,000 |
| 42 | 42 |

| | |
|--------|--------|
| 33,551 | 33,551 |
|--------|--------|

| | |
|------|------|
| (68) | (68) |
|------|------|

| | |
|--------|--------|
| 14,805 | 14,805 |
|--------|--------|

| | |
|-----------|-----------|
| \$ 14,737 | \$ 14,737 |
|-----------|-----------|

| | |
|----------|----------|
| \$ 1,325 | \$ 1,325 |
| 13,412 | 13,412 |

| | |
|-----------|-----------|
| \$ 14,737 | \$ 14,737 |
|-----------|-----------|

CITY OF MORRISON
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2012

| | Special Revenue | | | Total |
|---|------------------|-----------------|---------------------------|---------------|
| | General | Road Use Tax | Local Option Sales Tax | |
| Receipts: | | | | |
| Property tax | \$ 18,952 | - | - | 18,952 |
| Other city tax | - | - | 6,515 | 6,515 |
| Intergovernmental | 11,393 | 8,619 | - | 20,012 |
| Licenses and permits | 780 | - | - | 780 |
| Use of money and property | 42 | - | - | 42 |
| Miscellaneous | 1,164 | - | - | 1,164 |
| Total receipts | 32,331 | 8,619 | 6,515 | 47,465 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 214 | - | - | 214 |
| Public works | 4,597 | 16,619 | 12,295 | 33,511 |
| Culture and recreation | 2,490 | - | - | 2,490 |
| Community and economic and development | 10,263 | - | - | 10,263 |
| General government | 9,055 | - | - | 9,055 |
| Total disbursements | 26,619 | 16,619 | 12,295 | 55,533 |
| Excess (deficiency) of receipts over (under) disbursements | 5,712 | (8,000) | (5,780) | (8,068) |
| Other financing sources: | | | | |
| Loan proceeds | - | 8,000 | - | 8,000 |
| Total other financing sources | - | 8,000 | - | 8,000 |
| Net change in cash balances | 5,712 | - | (5,780) | (68) |
| Cash balances beginning of year | 9,025 | - | 5,780 | 14,805 |
| Cash balances end of year | \$ 14,737 | - | - | 14,737 |
| Cash Basis Fund Balances | | | | |
| Assigned for: | | | | |
| Park | 1,325 | - | - | 1,325 |
| Unassigned | 13,412 | - | - | 13,412 |
| Total cash basis fund balances | \$ 14,737 | - | - | 14,737 |

CITY OF MORRISON
Notes to Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies

The City of Morrison is a political subdivision of the State of Iowa located in Grundy County. It was first incorporated in 1884 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.

A. Reporting Entity

For financial reporting purposes, the City of Morrison 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 of Morrison 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: Grundy County Assessor's Conference Board, Grundy County Emergency Management Commission, Grundy County Landfill Commission, Grundy County Joint E911 Service Board and Grundy County Economic Development 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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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

CITY OF MORRISON
Notes to Financial Statements (Continued)
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. 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 that are not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for projects financed by local option sales tax.

C. Measurement Focus and Basis of Accounting

The City of Morrison 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.

CITY OF MORRISON
Notes to Financial Statements (Continued)
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

D. Governmental Cash Basis Fund Balances:

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

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the community and economic development function.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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.

CITY OF MORRISON
Notes to Financial Statements (Continued)
June 30, 2012

Note 3 – Notes Payable

Bank Loan

On July 14, 2011, the City obtained a bank loan for \$8,000 to help pay for street maintenance and repairs. The loan was to be repaid in 16 monthly payments of \$500 plus a final payment at maturity of \$382 on December 25, 2012. During the year ended June 30, 2012, the City paid off the entire principal balance of the loan.

Note 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012 was \$205, equal to the required contributions for the year.

Note 5 – Risk Management

The Commission is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 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 150 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.

CITY OF MORRISON
Notes to Financial Statements (Continued)
June 30, 2012

Note 5 – Risk Management (Continued)

The Commission's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Commission's contributions to the Pool for the year ended June 30, 2012 and 2011 was \$1,689.

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 \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

Note 6 – Related Party Transactions

The City had business transactions between the City and City officials totaling \$391 during the year ended June 30, 2012.

Note 7 – Date of Management Evaluation

The City has evaluated subsequent events through February 22, 2013, the date which financial statements were available to be issued.

CITY OF MORRISON
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds
Other Information
Year ended June 30, 2012

| | Governmental | |
|---|------------------|---------------|
| | Funds | |
| | Actual | Total |
| Receipts: | | |
| Property tax | \$ 18,952 | 18,952 |
| Other city tax | 6,515 | 6,515 |
| Intergovernmental | 20,012 | 20,012 |
| Licenses and permits | 780 | 780 |
| Use of money and property | 42 | 42 |
| Miscellaneous | 1,164 | 1,164 |
| Total receipts | <u>47,465</u> | <u>47,465</u> |
| Disbursements: | | |
| Public safety | 214 | 214 |
| Public works | 33,511 | 33,511 |
| Health and social services | - | - |
| Culture and recreation | 2,490 | 2,490 |
| Community and economic development | 10,263 | 10,263 |
| General government | 9,055 | 9,055 |
| Total disbursements | <u>55,533</u> | <u>55,533</u> |
| Deficiency of receipts under disbursements | (8,068) | (8,068) |
| Other financing sources | <u>8,000</u> | <u>8,000</u> |
| Deficiency of receipts and other financing sources under disbursements | (68) | (68) |
| Balances beginning of year | <u>14,805</u> | <u>14,805</u> |
| Balances end of year | <u>\$ 14,737</u> | <u>14,737</u> |

| Budgeted Amounts | | Final to |
|------------------|----------|-------------------|
| Original | Final | Total Variance |
| 17,817 | 17,817 | 1,135 |
| 7,493 | 7,493 | (978) |
| 8,500 | 8,500 | 11,512 |
| 780 | 780 | - |
| 50 | 50 | (8) |
| 7,500 | 7,500 | (6,336) |
| 42,140 | 42,140 | 5,325 |
| 3,174 | 3,174 | (2,960) |
| 34,543 | 34,543 | (1,032) |
| 250 | 250 | (250) |
| 13,600 | 13,600 | (11,110) |
| 275 | 275 | 9,988 |
| 11,110 | 11,110 | (2,055) |
| 62,952 | 62,952 | (7,419) |
| (20,812) | (20,812) | 12,744 |
| - | - | 8,000 |
| (20,812) | (20,812) | 20,744 |
| 20,812 | 20,812 | (6,007) |
| - | - | 14,737 |

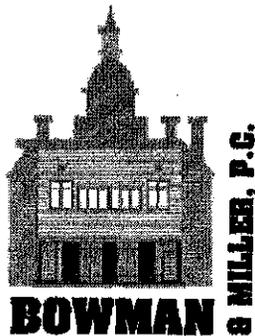
CITY OF MORRISON
Notes to Other Information – Budgetary Reporting
June 30, 2012

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

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

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

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the community and economic development function.



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Elizabeth A. Miller, CPA • beth@bowmanandmillerpc.com

Independent Auditors' 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, each major fund and the aggregate remaining fund information of the City of Morrison, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 22, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 Morrison's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-12 and II-B-12 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 Part II of the accompanying Schedule of Findings as items II-C-12 and II-D-12 to be significant deficiencies.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Morrison'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 III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operation for the year ended June 30, 2012 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 Morrison's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Morrison's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Morrison and other parties to whom the City of Morrison 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 Morrison 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.

Bowman and Miller, P.C.

Marshalltown, Iowa
February 22, 2013

CITY OF MORRISON
Schedule of Findings
Year ended June 30, 2012

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which 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.
- (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.

CITY OF MORRISON
Schedule of Findings
Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual has control over each of the following areas with no compensating controls:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (3) Disbursements – check writing, signing, posting and reconciling.
- (4) Payroll – preparation and distribution.
- (5) Bank reconciliations – preparation and maintenance of accounting records.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible utilizing currently available personnel including elected officials. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – The City Council and Mayor will review bank statements and reconciliations on a regular basis. The reviewers will initial the reviewed items when completed. The City currently requires dual signatures on all checks written.

Conclusion – Response accepted.

II-B-12 Bank Reconciliations – Although the City prepares a listing of monthly receipts and disbursements and presents them to the City Council for its review and approval, fund balances are not reconciled to the bank account balances monthly.

Recommendation – To improve financial accountability and control, fund balances should be reconciled to bank balances monthly.

Response – We will develop a spread sheet to account for fund balances and will reconcile those to the bank balances on a monthly basis.

Conclusion – Response accepted.

CITY OF MORRISON
Schedule of Findings
Year ended June 30, 2012

INTERNAL CONTROL DEFICIENCIES (continued):

II-C-12 Disbursements – All of the documentation for two of the fifteen disbursements tested could not be located.

Recommendation – All disbursements should be supported by original invoices or other supporting documentation.

Response – We will ensure that all checks have supporting documentation.

Conclusion – Response accepted.

II-D-12 Dual Signatures – We noted one check that had only the City Clerk's signature.

Recommendation – All checks should have dual signatures as required by City policy.

Response – We will ensure that dual signatures are on all checks in the future.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the community and economic development function.

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

Response – The budget was exceeded due to the repayment to the Community Foundation for an economic development grant. We will monitor the budgeted expenses in the future and will amend the budget if necessary.

Conclusion – Response accepted.

III-B-12 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

III-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF MORRISON
Schedule of Findings
Year ended June 30, 2012

Part III: Other Findings Related to Required Statutory Reporting (continued):

III-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title, and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| Floyd Matejka, spouse of council member Jill Matejka | Street work | \$ 80 |
| Luke Beenken, grandson of the City Clerk | Mowing | 311 |

The transaction with Luke Beenken does not appear to represent a conflict of interest since it was entered into through a competitive selection process in accordance with Chapter 362.5(4) of the Code of Iowa.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with Floyd Matejka does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

III-E-12 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 insure that the coverage is adequate for current operations.

III-F-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-12 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

CITY OF MORRISON

Staff

This audit was performed by:

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