



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

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NEWS RELEASE

FOR RELEASE August 12, 2009

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Auditor of State David A. Vaudt today released an audit report on the City of Maxwell, Iowa.

The City's receipts totaled \$711,331 for the year ended June 30, 2008. The receipts included \$147,332 in property tax, \$58,580 from tax increment financing, \$260,372 from charges for service, \$126,511 from operating grants, contributions and restricted interest, \$17,089 from capital grants, contributions and restricted interest, \$86,398 from local option sales tax, \$2,793 from unrestricted interest on investments and \$12,256 from the sale of capital assets.

Disbursements for the year totaled \$655,883, and included \$139,271 for public works, \$106,535 for public safety and \$97,700 for debt service. Also, disbursements for business type activities totaled \$162,946.

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 MAXWELL

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

JUNE 30, 2008

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City of Maxwell

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Roger Pointer	Mayor	Jan 2008
Eddie Erickson	Mayor Pro tem	Jan 2008
Jim Myers	Council Member	Jan 2008
Justin Wonders	Council Member	Jan 2008
Leota Hudson	Council Member	Jan 2010
Don Zeiser	Council Member	Jan 2010
Melissa Johannes	Clerk	Indefinite
Donald Juhl	Attorney	Indefinite
(After January 2008)		
Justin Wonders	Mayor	Jan 2010
Mark Leonard	Mayor Pro tem	Jan 2012
Leota Hudson	Council Member	Jan 2010
Don Zeiser	Council Member	Jan 2010
Darrin Williams	Council Member	Jan 2012
Mike Porter	Council Member	(Resigned April 2008)
Stacy Applegate (Appointed)	Council Member	Nov 2011
Deb Hayes	Clerk	Indefinite
Heather Handley-Cherry	Attorney	Indefinite

City of Maxwell



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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 Maxwell, Iowa, as of and for the year ended June 30, 2008, 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 Maxwell'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 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, 2007.

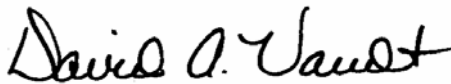
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present 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 Maxwell as of June 30, 2008, 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's General Fund cash balance decreased \$30,185 during the year to a deficit of \$201,421 at June 30, 2008. The City's Debt Service Fund cash balance increased \$380 during the year to a deficit of \$88,196 at June 30, 2008. Deficits in the Special Revenue, Employee Benefits and Emergency Funds and the Capital Projects Fund remained constant at \$6,427, \$769 and \$25,309, respectively, during the year. The City stated it would investigate alternatives to eliminate these deficit balances.

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2009 on our consideration of the City of Maxwell'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 12 and 28 through 30 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 Maxwell's basic financial statements. Other supplementary information included in Schedules 1 through 3 is 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, 2007, 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

June 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Maxwell 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$53,000, due primarily to local option sales tax receipts which exceeded disbursements in that fund. In addition, the City received approximately \$17,000 in federal funds for the Heart of Iowa Nature Trail for work performed in prior years. These receipts were offset by increased spending in the General Fund.
- The cash basis net assets of the City's business type activities increased approximately \$2,300. Receipts and disbursements were closely aligned for the business type activities, resulting in the slight increase in cash basis net assets.

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 which 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, health and social services, culture and recreation, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are 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 Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects 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.

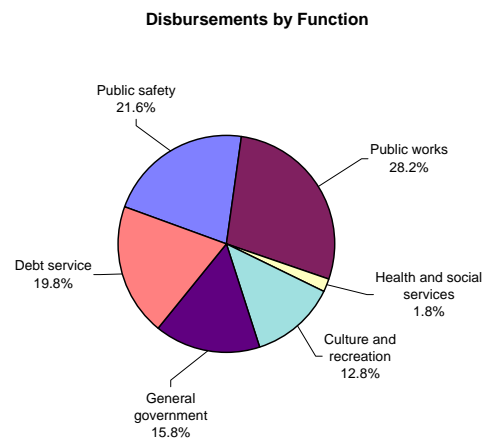
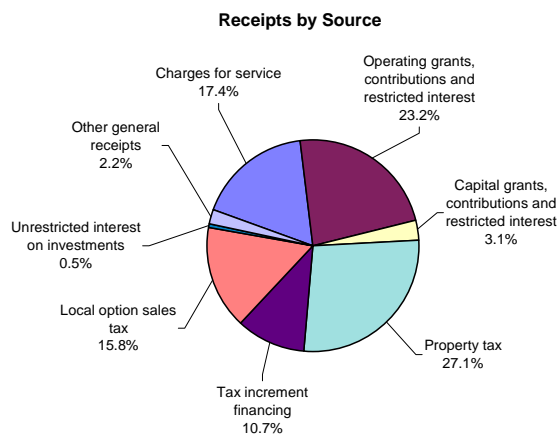
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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 increased from a year ago, increasing from a deficit of \$27,755 to \$25,418. 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, 2008
Receipts:	
Program receipts:	
Charges for service	\$ 95,185
Operating grants, contributions and restricted interest	126,477
Capital grants, contributions and restricted interest	17,089
General receipts:	
Property tax	147,332
Tax increment financing	58,580
Local option sales tax	86,398
Unrestricted interest on investments	2,793
Other general receipts	12,256
Total receipts	<u>546,110</u>
Disbursements:	
Public safety	106,535
Public works	139,271
Health and social services	8,848
Culture and recreation	62,945
General government	77,638
Debt service	97,700
Total disbursements	<u>492,937</u>
Increase in cash basis net assets	53,173
Cash basis net assets beginning of year	<u>(27,755)</u>
Cash basis net assets end of year	<u>\$ 25,418</u>



The increase in cash basis net assets was due primarily to local option sales tax receipts which exceeded disbursements in that fund. In addition, the City received approximately \$17,000 in federal funds for the Heart of Iowa Nature Trail for work performed in prior years. These receipts were offset by increased spending in the General Fund.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	Year ended June 30, 2008
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 95,596
Sewer	69,591
Operating grants, contributions and restricted interest	34
Total receipts	<u>165,221</u>
Disbursements:	
Water	97,355
Sewer	65,591
Total disbursements	<u>162,946</u>
Increase in cash basis net assets	2,275
Cash basis net assets beginning of year	<u>202,604</u>
Cash basis net assets end of year	<u>\$ 204,879</u>

The cash basis net assets of the City's business type activities increased approximately \$2,300, with no significant changes in the operation of the business type activities.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Maxwell completed the year, its governmental funds reported a combined fund balance of \$25,418, an increase of approximately \$53,000 over the prior year. The following are the primary reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$30,185 from the prior year to a deficit of \$201,421. This decrease is attributable to a general increase in operating disbursements due to increases in salaries and greater utility, insurance and vehicle operation costs during the fiscal year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$26,245 to \$49,016 during the fiscal year. This increase was not attributable to any change in the function of the fund, but rather a decreased level of spending in the current year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$2,712 from the prior year to \$5,423. The increase in cash balance is due to a slight excess of receipts over disbursements for the TIF development agreement and bank loan.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$59,482 from the prior year to \$268,641. The increase in cash balance is due to a decrease in spending in the current year. The City contributed less to other agencies in fiscal year 2008. In addition, local option sales tax receipts increased over the prior year.
- The Special Revenue, Maxwell Volunteer First Responders Fund cash basis balance remained consistent from the prior year, increasing \$2.

- The Special Revenue, Maxwell Volunteer Fire Department Fund cash basis balance decreased \$5,463 due to disbursements for the purchase and installation of new kitchen cabinets at the station.
- The Debt Service Fund cash balance increased \$380 to a deficit of \$88,196 during the fiscal year, which was not a significant change.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$1,725 to \$182,317 with no significant changes in the operation of the fund.
- The Sewer Fund cash balance increased \$4,000 to \$22,562 with no significant changes in the operation of the fund.

BUDGETARY HIGHLIGHTS

During the fiscal year, the City did not amend its budget. The City exceeded budgeted receipts by \$76,092, primarily due to increased intergovernmental receipts, such as the federal reimbursement received for the Heart of Iowa Nature Trail, and increased charges for service as a result of water and sewer rate increases during the fiscal year.

Total disbursements for the year were \$3,520 more than budgeted. The City exceeded the amounts budgeted in the general government, debt service and business type activities functions for the year ended June 30, 2008 due to increased legal and engineering fees, underestimating payments on tax increment financing debt and a vehicle purchase from the Water Fund.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$299,014 in notes and other long-term debt outstanding, compared to \$356,056 last year, as shown below.

Outstanding Debt at Year-End	
	June 30, 2008
General obligation notes	\$ 250,000
Loan agreements	21,329
Lease purchase agreement	27,685
Total	<u>\$ 299,014</u>

Debt decreased as a result of making payments on existing debt. No new debt was issued during the fiscal year.

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 outstanding general obligation debt of \$299,014, including \$82,967 remaining to be paid under a development agreement, is significantly below its constitutional debt limit of approximately \$1.9 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Maxwell’s elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities. The City’s fiscal year 2009 assessed value has increased approximately \$209,000 over the fiscal year 2008 level.

The FY2009 budget contains total receipts of \$680,065 and disbursements of \$639,010. If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$41,000 by the close of 2009.

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 Deb Hayes, City Clerk, 107 Main Street, City of Maxwell, Iowa 50161.

Basic Financial Statements

City of Maxwell

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 106,535	-	48,269	-
Public works	139,271	61,117	69,138	17,089
Health and social services	8,848	-	-	-
Culture and recreation	62,945	2,615	5,581	-
General government	77,638	5,961	3,489	-
Debt service	97,700	25,492	-	-
Total governmental activities	492,937	95,185	126,477	17,089
Business type activities:				
Water	97,355	95,596	34	-
Sewer	65,591	69,591	-	-
Total business type activities	162,946	165,187	34	-
Total	\$ 655,883	260,372	126,511	17,089

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Sale of capital assets
 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:
 Streets
 Local option sales tax purposes
 Maxwell Volunteer Fire Department
 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
(58,266)	-	(58,266)
8,073	-	8,073
(8,848)	-	(8,848)
(54,749)	-	(54,749)
(68,188)	-	(68,188)
(72,208)	-	(72,208)
(254,186)	-	(254,186)
-	(1,725)	(1,725)
-	4,000	4,000
-	2,275	2,275
(254,186)	2,275	(251,911)
118,367	-	118,367
58,580	-	58,580
28,965	-	28,965
86,398	-	86,398
2,793	-	2,793
12,256	-	12,256
307,359	-	307,359
53,173	2,275	55,448
(27,755)	202,604	174,849
\$ 25,418	204,879	230,297
\$ 49,016	-	49,016
268,641	-	268,641
12,546	-	12,546
17,337	-	17,337
(322,122)	204,879	(117,243)
\$ 25,418	204,879	230,297

City of Maxwell

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

As of and for the year ended June 30, 2008

	General	Special		
		Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts:				
Property tax	\$ 118,367	-	-	-
Tax increment financing	-	-	58,580	-
Other city tax	-	-	-	86,398
Licenses and permits	3,411	-	-	-
Use of money and property	4,723	-	-	-
Intergovernmental	29,868	86,227	-	-
Charges for service	63,417	-	-	-
Special assessments	-	-	-	-
Miscellaneous	5,215	-	-	-
Total receipts	225,001	86,227	58,580	86,398
Disbursements:				
Operating:				
Public safety	77,883	-	-	-
Public works	63,513	59,982	-	15,776
Health and social services	883	-	-	7,965
Culture and recreation	59,770	-	-	3,175
General government	77,638	-	-	-
Debt service	-	-	43,623	-
Total disbursements	279,687	59,982	43,623	26,916
Excess (deficiency) of receipts over (under) disbursements	(54,686)	26,245	14,957	59,482
Other financing sources (uses):				
Sale of capital assets	12,256	-	-	-
Operating transfers in	12,245	-	-	-
Operating transfers out	-	-	(12,245)	-
Total other financing sources (uses)	24,501	-	(12,245)	-
Net change in cash balances	(30,185)	26,245	2,712	59,482
Cash balances beginning of year	(171,236)	22,771	2,711	209,159
Cash balances end of year	\$ (201,421)	49,016	5,423	268,641
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ (201,421)	-	-	-
Special revenue funds	-	49,016	5,423	268,641
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ (201,421)	49,016	5,423	268,641

See notes to financial statements.

Revenue				
Maxwell Volunteer First Responders	Maxwell Volunteer Fire Department	Debt Service	Nonmajor	Total
-	-	28,965	-	147,332
-	-	-	-	58,580
-	-	-	-	86,398
-	-	-	-	3,411
263	457	-	-	5,443
-	1,530	-	-	117,625
-	-	17,261	-	80,678
-	-	8,231	-	8,231
375	20,566	-	-	26,156
638	22,553	54,457	-	533,854
636	28,016	-	-	106,535
-	-	-	-	139,271
-	-	-	-	8,848
-	-	-	-	62,945
-	-	-	-	77,638
-	-	54,077	-	97,700
636	28,016	54,077	-	492,937
2	(5,463)	380	-	40,917
-	-	-	-	12,256
-	-	-	-	12,245
-	-	-	-	(12,245)
-	-	-	-	12,256
2	(5,463)	380	-	53,173
11,912	18,009	(88,576)	(32,505)	(27,755)
11,914	12,546	(88,196)	(32,505)	25,418
-	-	-	-	(201,421)
11,914	12,546	-	(7,196)	340,344
-	-	(88,196)	-	(88,196)
-	-	-	(25,309)	(25,309)
11,914	12,546	(88,196)	(32,505)	25,418

City of Maxwell

City of Maxwell

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

As of and for the year ended June 30, 2008

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 95,596	69,591	165,187
Miscellaneous	34	-	34
Total operating receipts	95,630	69,591	165,221
Operating disbursements:			
Business type activities	80,455	65,591	146,046
Excess of operating receipts over operating disbursements	15,175	4,000	19,175
Non-operating disbursements:			
Equipment	16,900	-	16,900
Excess (deficiency) of receipts over (under) disbursements	(1,725)	4,000	2,275
Cash balances beginning of year	184,042	18,562	202,604
Cash balances end of year	\$ 182,317	22,562	204,879
Cash Basis Fund Balances			
Unreserved	\$ 182,317	22,562	204,879

See notes to financial statements.

City of Maxwell

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Maxwell is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1883 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Maxwell 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.

These financial statements present the City of Maxwell (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units – The following component units are entities which are legally separate from the City, but are so intertwined with the City they are, in substance, the same as the City. They are reported as part of the City and blended into the appropriate funds.

The Maxwell Volunteer First Responders was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The First Responders are reported as part of the City and blended as a Special Revenue Fund. The First Responders receive donations for the benefit of the Maxwell Volunteer First Responders. These donations are to be used to purchase items which are not included in the City's budget.

The Maxwell Volunteer Fire Department was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Department is reported as part of the City and blended as a Special Revenue Fund. The Department receives donations for the benefit of the Maxwell Volunteer Fire Department. These donations are to be used to purchase items which are not included in the City's budget.

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: Story County Emergency Management Commission and Story 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 and its component units. 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.

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for receipts from the local option sales and services tax. The receipts are used to finance cultural and community betterment in the City.

The Maxwell Volunteer First Responders Fund is used to account for the resources of the Maxwell Volunteer First Responders.

The Maxwell Volunteer Fire Department Fund is used to account for the resources of the Maxwell Volunteer Fire Department.

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 funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Maxwell 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, 2008, disbursements exceeded the amounts budgeted in the general government, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Long-Term Debt

Annual debt service requirements to maturity for general obligation notes and loan agreements are as follows:

Year Ending June 30,	General Obligation					
	Notes		Loan Agreements		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 20,000	11,335	10,585	761	30,585	12,096
2010	20,000	10,615	3,433	447	23,433	11,062
2011	20,000	9,845	3,589	290	23,589	10,135
2012	25,000	9,025	3,722	127	28,722	9,152
2013	25,000	7,950	-	-	25,000	7,950
2014 - 2018	140,000	21,585	-	-	140,000	21,585
Total	\$ 250,000	70,355	21,329	1,625	271,329	71,980

Loan Agreement for Urban Renewal Tax Increment Financing (TIF) Development

A loan agreement for \$112,000 was issued in 1999 for the purpose of defraying a portion of the costs to carry out development of an urban renewal area within the City. The proceeds of the loan were expended for purposes which are consistent with the plans of the City's urban renewal area and the Owen Tax Increment Development Agreement. The loan is a general obligation of the City and the debt is subject to the constitutional debt limitation of the City.

Capital Lease Purchase Agreement

On July 25, 2005, the City entered into a capital lease purchase agreement to purchase a backhoe. The total cost was \$59,346 plus 5% per annum interest to be financed over a five-year period. The following is a schedule of future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2008:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 13,509
2010	13,509
2011	<u>2,251</u>
Total minimum lease payments	<u>29,269</u>
Less amount representing interest	<u>(1,584)</u>
Present value of net minimum Lease payments	<u>\$ 27,685</u>

Payments under the capital lease purchase agreement totaled \$13,509 during the year ended June 30, 2008.

(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.

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$6,765, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2008, primarily relating to the General Fund, is \$2,700.

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Landfill Contract

The City has contracted with the City of Ames for solid waste disposal for all households or residences within the City. The contract began April 1, 1994 and will terminate June 30, 2014. The cost is computed for each calendar year. The annual rate of the contract is determined by multiplying the net per capita cost of the Ames solid waste disposal system by the population of the City of Maxwell.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Urban Renewal Tax Increment	\$ 12,245

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

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Development Agreement

The Owen Tax Increment Development Agreement requires annual payments to the developer equal to two-thirds of the incremental property tax attributable to the Urban Renewal Area under development which have been received by the City. Payments will be made to the developer up to a maximum of \$220,000 and no payments shall be made after July 1, 2014. A payment schedule has not been prepared since the amounts payable each year are dependent upon the tax increment financing received for the area under development. During the year ended June 30, 2008, payments of \$24,623 were made under the development agreement. At June 30, 2008, the amount remaining to be paid under the agreement is \$82,967.

(10) Deficit Balances

The City had the following deficit balances at June 30, 2008:

General Fund	\$201,421
Special Revenue Funds:	
Employee Benefits	6,427
Emergency	769
Debt Service Fund	88,196
Capital Projects Fund	25,309

The City will investigate alternatives to eliminate these deficits to return the funds to a sound financial condition.

City of Maxwell

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 147,332	-	-
Tax increment financing	58,580	-	-
Other city tax	86,398	-	-
Licenses and permits	3,411	-	-
Use of money and property	5,443	-	720
Intergovernmental	117,625	-	1,530
Charges for service	80,678	165,187	-
Special assessments	8,231	-	-
Miscellaneous	26,156	34	20,941
Total receipts	533,854	165,221	23,191
Disbursements:			
Public safety	106,535	-	28,652
Public works	139,271	-	-
Health and social services	8,848	-	-
Culture and recreation	62,945	-	-
Community and economic development	-	-	-
General government	77,638	-	-
Debt service	97,700	-	-
Business type activities	-	162,946	-
Total disbursements	492,937	162,946	28,652
Excess (deficiency) of receipts over (under) disbursements	40,917	2,275	(5,461)
Other financing sources, net	12,256	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	53,173	2,275	(5,461)
Balances beginning of year	(27,755)	202,604	29,921
Balances end of year	\$ 25,418	204,879	24,460

See accompanying independent auditor's report.

Total	Original and Final Budget	Final to Total Variance
147,332	142,837	4,495
58,580	59,210	(630)
86,398	82,179	4,219
3,411	3,000	411
4,723	2,000	2,723
116,095	87,566	28,529
245,865	212,000	33,865
8,231	8,000	231
5,249	3,000	2,249
<u>675,884</u>	<u>599,792</u>	<u>76,092</u>
77,883	87,726	9,843
139,271	146,485	7,214
8,848	13,000	4,152
62,945	83,500	20,555
-	10,000	10,000
77,638	60,000	(17,638)
97,700	93,000	(4,700)
162,946	130,000	(32,946)
<u>627,231</u>	<u>623,711</u>	<u>(3,520)</u>
48,653	(23,919)	72,572
12,256		12,256
60,909	(23,919)	84,828
144,928	103,255	41,673
<u>205,837</u>	<u>79,336</u>	<u>126,501</u>

City of Maxwell

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 except the blended component units. 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 Proprietary Funds. 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 fiscal year.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the general government, debt service and business type activities functions.

Other Supplementary Information

City of Maxwell

City of Maxwell

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

As of and for the year ended June 30, 2008

	Special Revenue		Capital Projects	Total
	Employee Benefits	Emergency		
Total receipts	\$ -	-	-	-
Total disbursements	-	-	-	-
Excess of receipts over disbursements	-	-	-	-
Cash balances beginning of year	(6,427)	(769)	(25,309)	(32,505)
Cash balances end of year	\$ (6,427)	(769)	(25,309)	(32,505)
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ (6,427)	(769)	-	(7,196)
Capital projects fund	-	-	(25,309)	(25,309)
Total cash basis fund balances	\$ (6,427)	(769)	(25,309)	(32,505)

See accompanying independent auditor's report.

City of Maxwell
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Sep 1, 2003	1.75-5.10%	\$ 350,000
Loan agreements:			
Sidewalk	Jan 14, 1998	6.50%	\$ 31,782
Owen Development	Apr 7, 1999	6.00	112,000
Sidewalk repair	Jun 10, 2002	4.50	31,550
Total			
Lease purchase agreement:			
Backhoe	Jul 25, 2005	5.00%	\$ 59,346

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 270,000	-	20,000	250,000	12,455
4,038	-	4,038	-	196
25,362	-	18,060	7,302	940
17,169	-	3,142	14,027	738
\$ 46,569	-	25,240	21,329	1,874
\$ 39,487	-	11,802	27,685	1,706

Schedule 3

City of Maxwell

Note and Loan Agreement Maturities

June 30, 2008

Year Ending June 30,	General Obligation Notes		Loan Agreements					Total
	Corporate Purpose		Owen Development		Sidewalk Repair			
	Issued Sep 1, 2003		Issued Apr 7, 1999		Issued Jun 10, 2002			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2009	3.60%	\$ 20,000	6.00%	\$ 7,302	4.50%	\$ 3,283	10,585	
2010	3.85	20,000	-	-	4.50	3,433	3,433	
2011	4.10	20,000	-	-	4.50	3,589	3,589	
2012	4.30	25,000	-	-	4.50	3,722	3,722	
2013	4.45	25,000	-	-	-	-	-	
2014	4.60	25,000	-	-	-	-	-	
2015	4.75	25,000	-	-	-	-	-	
2016	4.90	30,000	-	-	-	-	-	
2017	5.00	30,000	-	-	-	-	-	
2018	5.10	30,000	-	-	-	-	-	
Total		<u>\$ 250,000</u>		<u>\$ 7,302</u>		<u>\$ 14,027</u>	<u>21,329</u>	

See accompanying independent auditor's report.



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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 Maxwell, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 10, 2009. 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, 2007.

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 Maxwell'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 our opinion on the effectiveness of the City of Maxwell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Maxwell'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Maxwell's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Maxwell's financial statements that is more than inconsequential will not be prevented or detected by the City of Maxwell's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Maxwell's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B) and (C) are material weaknesses.

Compliance and Other Matters

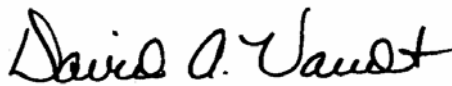
As part of obtaining reasonable assurance about whether the City of Maxwell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 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, 2008 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.

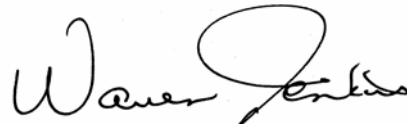
The City of Maxwell's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Maxwell's responses and, accordingly, we express no opinion on them.

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 Maxwell and other parties to whom the City of Maxwell 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 Maxwell 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

June 10, 2009

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person had control over each of the following areas for the City:
- (1) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (2) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (3) Disbursements – processing, recording and reconciling.
 - (4) Payroll – preparing, recording and distributing.
 - (5) Long-term debt – recording and reconciling.
 - (6) Accounting system – performance of all general accounting functions and custody of assets.
 - (7) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (8) Petty cash – performing reconciliation of petty cash, handling cash receipts, custody and replenishment of petty cash fund.

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. Officials should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of review.

Response – We recognize the need for increased segregation of duties.

- (1) The City Clerk will check and sort the mail, record any money received and distribute mail appropriately. The Deputy Clerk deposits the receipts and reconciles it with monthly reconciliation. A council member is now working with the Deputy Clerk to reconcile the monthly bank statement.
- (2) The Deputy Clerk creates the monthly billing and deposits and posts the collections. The City Clerk and Deputy Clerk collect the payments because they are not always in the office at the same time. A procedure for a council member to come in and reconcile monthly is being implemented.
- (3) Disbursements will be prepared by the City Clerk, verified and signed by the Mayor and Mayor Pro-tem, and reconciled by the deputy. The City Council will approve all disbursements.

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

- (4) The Deputy Clerk figures hours, the City Clerk will prepare payroll and verify hours, the Mayor and Mayor Pro-tem verify and sign the checks, and Deputy Clerk will reconcile checks along with monthly bank statement.
- (5) Long-term debt will be recorded by the City Clerk and reconciled by the Deputy Clerk who is also reconciling the checking account to provide a separation of duties.
- (6) The City Clerk is doing all general accounting functions. It is a flawed system, but we have limited employees. The City Council can review at any time.
- (7) Cash receipts are received by the City Clerk or Deputy Clerk. A numbered receipt is created giving one copy to the payee and one to be used for posting, unless it is for utility bill. The utility bills are initiated by the person who received them and a receipt given to the payee.
- (8) The Deputy Clerk will reconcile petty cash bi-weekly and the City Clerk will replenish the funds as needed. The Mayor and Mayor Pro-tem will review the reasons for replenishment.

Conclusion – Response acknowledged. City officials should be utilized to provide additional control through documented review of financial transactions and reconciliations.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

In addition, the utility usage calculated per the utility billing register was not the usage charged on the monthly bill in some instances.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

City personnel should investigate variances between gallons of usage per the billing register and actual usage billed to determine the cause of the variance and resolve the errors.

Response – We are setting in place a utility reconciliation, with a council member and one of the clerks. We are also looking at new software to help with the miscalculations.

Conclusion – Response accepted.

- (C) Bank Reconciliations – The Clerk’s ledger balances were not reconciled monthly to the bank accounts. This was resolved for audit purposes. No independent review of existing bank reconciliations was performed.

Also, there are several checks written on the City’s accounts which have been outstanding for a significant period of time. In addition, one check written prior to June 30, 2008 was still being held as of December 2008.

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

Recommendation – To improve financial accountability and control, the ledger balances should be reconciled monthly to the bank balances. Any variances should be investigated and resolved in a timely manner. An independent person should review the reconciliations and document the review by initialing and dating the monthly reconciliations.

Checks outstanding for an extended period of time should be investigated and resolved. The City should not hold checks. Checks should be distributed to vendors immediately after being written and approved for issuance by the Council.

Response – For the bank reconciliation, we are going to have a council member review the process with the Deputy Clerk monthly. For the outstanding checks, we will check into why they are still on our books and whether they need to be reissued. For future reference, when a check is created, it will be sent to its destination within a reasonable timeframe.

Conclusion – Response accepted.

(D) Electronic Data Processing Systems –

(1) The following weaknesses in the City's computer based systems were noted:

- Software does not require the user to change logins/passwords periodically or to maintain password privacy.
- Employee passwords are not set to a recommended minimum of six characters.
- Password history is not used to prevent re-use of passwords.
- The computer system does not deny access after three failed login attempts.
- Generic passwords are not required to be changed.
- No policy exists instructing users to log off computer terminals prior to leaving them unattended for extended periods of time and the terminals do not use a time out/log off function to protect them if left unattended.
- The City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City's control over computer based systems. A written disaster recovery plan should be developed.

Response – The City will adopt the County disaster recovery plan when it is in place. Each employee with access to the City's major computer programs has their own password for each of the programs. The program also records which employee accesses it at that time. We are looking into new software and hardware. When it is in place the password recommendations should be taken care of at that time.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

- (E) 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 and act as a quick reference for staff members and officials.
- (2) Help streamline accounting operations by achieving 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 similar situation arises.
- (4) Help preserve the key elements in the City's internal control.
- (5) Increase effectiveness and efficiency.

Response – We recognize the importance and need of an accounting policies and procedures manual. It is in the process of being developed and will be approved by the City Council before being put into place.

Conclusion – Response accepted.

- (F) Accounting Records – A separate process for making adjustments to the accounting records was not documented. Also, the adjustments were not identified and recorded in a manner to prevent duplicate correction. In addition, the adjustments were not reviewed and approved by a responsible official.

Interim financial reports are not prepared to compare actual results to prior period results or current budget amounts. Budget variances are not reported and analyzed periodically.

Recommendation – The City should develop a process for adjustments to the accounting records. All adjustments should be adequately explained, supported and identified in a manner to prevent duplicate correction. Adjustments should be reviewed and approved by a responsible official.

City personnel should prepare interim financial reports to compare actual results to prior period results or current budget amounts. Reports should be provided to the City Council monthly. Budget variances should be reported and analyzed periodically.

Response – Since the new fiscal year, the City Clerk has created a monthly spreadsheet showing amount budgeted, expenses and budget amount remaining. The Council has started to look at the process on how to transfer money from one account to another.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

- (G) Long-term Debt and Compensated Absences – The City does not maintain a debt register which summarizes the outstanding debt and payment information. The City did not reconcile debt payments per the agreements to the general ledger.

An independent official does not periodically review the compensated absence records. In addition, prior to the elimination of comp time in 2008, payouts were noted for accumulated comp time balances. No policy exists authorizing comp time payouts.

Recommendation – The City should maintain a debt register for all debt agreements. The debt payments per the register should be reconciled to amounts recorded in the general ledger.

Compensated absence records should be periodically reviewed by an independent person for mathematical accuracy and propriety. The City should have policies authorizing payouts of accumulated compensated absence balances.

Response – Long-term debt will be recorded on a debt register and the supporting debt agreements will be maintained. The debt payments will be reconciled on a current basis and will be reviewed to ensure payments are made from the correct fund. Compensated absence records will be periodically reviewed by an independent person for mathematical accuracy and propriety.

Conclusion – Response accepted.

- (H) Receipts – A list of receipts is not prepared by the mail opener and pre-numbered receipts are not issued for all collections. In addition, receipts are not reviewed by an independent person to ensure proper coding in the accounting records.

Recommendation – The individual who opens mail should prepare a list of receipts. Pre-numbered receipts should be issued for all collections. This list should be reconciled by an independent person to the deposit records to ensure all documented receipts were deposited. In addition, an independent person should review receipts to ensure they are properly recorded in the City's records.

Response – Pre-numbered receipts are now being used for collections except for utility payments which are date stamped and initialed stubs. The City Clerk will make a list of receipts received in the mail. The Deputy Clerk will deposit the receipts. The City Council person who reviews the bank reconciliation will also review the list of receipts to the deposits made to the bank.

Conclusion – Response accepted.

- (I) Maxwell Volunteer First Responders – During our review of internal control, the existing controls were evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Department's financial statement. Generally, one individual has control over collecting, depositing, posting and disbursing for which

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

no compensating controls exist. The independent review of bank reconciliations is not evidenced by the signature or initials of the reviewer.

The individual opening the mail does not prepare an initial listing of collections. In addition, pre-numbered receipts are not issued for all collections.

The bank balances were not reconciled to the Department's ledger balances monthly.

Voided checks were not properly mutilated and retained.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Bank balances should be reconciled to the Department's ledger balances monthly. Officials and other current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.

An independent person should open the mail and prepare an initial listing of collections. The list of collections should be reconciled to bank deposits by an independent person to ensure all documented receipts were deposited. The Department should issue pre-numbered receipts for all collections.

Voided checks should be properly mutilated and retained.

Response – The Fire Chief and Assistant Fire Chief are working with the First Responders to identify ways to correct the deficiencies.

Conclusion – Response accepted.

- (J) Maxwell Volunteer Fire Department – During our review of internal control, the existing controls were evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Department's financial statement. Generally, one individual has control over the collecting, depositing, posting and disbursing for which no compensating controls exist.

Pre-numbered receipts are not issued for all collections. In addition, although a list of incoming receipts is prepared, the list is not compared to deposits by an independent person.

The bank balances were not reconciled to the Department's ledger balances monthly.

Supporting documentation could not be located for certain disbursements.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Officials and other current personnel should be utilized to provide additional control through review of

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.

The Department should issue pre-numbered receipts for all collections. The list of collections should be reconciled to bank deposits by an independent person to ensure all documented receipts were deposited.

To improve financial accountability and control, the ledger balances should be reconciled monthly to the bank balances. Any variances should be investigated and resolved in a timely manner. An independent person should review the reconciliations and document their review by initialing and dating the monthly reconciliations.

Supporting documentation should be maintained for all disbursements.

Response – The Department will appoint one or two members to look at the transactions on a monthly basis. The signature or initials of the reviews and the date of the review will be noted on the review. The Department will order a prenumbered receipt book and issue receipts for all collections. The Department will reconcile the bank balance monthly with an independent member reviewing the reconciliations. We will keep all supporting documentation for disbursements.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the general government, debt service 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 – In accordance with Chapter 384.18 of the Code of Iowa, the budget should have been amended in sufficient amounts before disbursements were allowed to exceed the budget.

Response – The City Council recognizes the budget should have been amended by May 31 in sufficient amount before disbursements were allowed to exceed the budget as required by Chapter 384.18 of the Code of Iowa. Amounts from the original budget should be carried forward and then amended as necessary.

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 – No transactions between the City and City officials and employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. In addition, the City did not publish a summary of receipts as required by the Code of Iowa.

Also, the City did not publish annual gross salaries in accordance with an Attorney General’s opinion dated April 12, 1978.

Further, one transfer during the fiscal year had no evidence of Council approval. In addition, the transfer was recorded to an incorrect fund.

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

Recommendation – The minutes record for Council proceedings and annual salaries should be published as required by the Code of Iowa. Also, transfers should be properly approved by the City Council and a correcting transfer should be made.

Response – Since the beginning of the audit a new system has been put into place. The City Clerk will ensure all minutes for Council meetings are signed and posted within the fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, gross wages for 2008 were published in February 2009. The City Clerk will ensure annual gross wages are published in January of each year from this point forward.

The transfers will be reviewed and approved by the Council to determine if they should be recorded. A transfer will be made to correct the ending fund balances.

Conclusion – Response accepted.

- (7) Deposits and Investments - A resolution naming the official depository has been approved by the City. However, the resolution did not establish a maximum deposit amount. No other instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

Recommendation – The City should update and approve a new resolution to include the maximum deposit amount at the depository institution.

Response – The Council will update and approve a new resolution to include the maximum deposit amount at the depository institution.

Conclusion – Response accepted.

- (8) Annual Financial Report – The 2008 Annual Financial Report contained numerous errors.

Recommendation – The errors in the Annual Financial Report should be corrected and the report should be re-filed.

Response – The annual financial report was completed by an inexperienced clerk with minimal amount of time to complete. Notes were taken to correct errors.

Conclusion – Response accepted.

- (9) Tax Increment Financing – The City erroneously certified TIF debt of \$46,270. In addition, the TIF debt certificate was not filed timely.

Recommendation – The City should file an amendment to the TIF debt certificate to decertify amounts certified in error. The TIF debt certificate should be filed timely.

Response – The Clerk will get some assistance on how to get the changes for the TIF certification corrected.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2008

- (10) Financial Condition and Cash Balance Allocation – The City had the following deficit balances at June 30, 2008:

General Fund	\$ 201,421
Special Revenue Funds:	
Employee Benefits	6,427
Emergency	769
Debt Service Fund	88,196
Capital Projects Fund	25,309

In addition, the water tower project was completed several years ago, but has a significant cash balance which is included in the Enterprise, Water Fund.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the applicable funds to a sound financial condition.

The City should analyze prior years' activity for the Water Tower Account and determine the corrective transfers necessary to close out the Water Tower Account. Corrective transfers should be approved by the City Council.

Response – The City will investigate alternatives to eliminate the deficit in the applicable funds to return the fund to a sound financial condition.

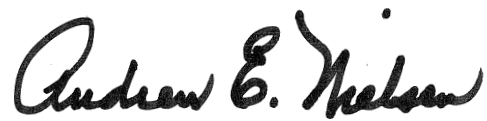
Conclusion – Response accepted.

City of Maxwell

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Janet K. Mortvedt, Staff Auditor
Samantha J. Brincks, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State