



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

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**NEWS RELEASE**

FOR RELEASE

\_\_\_\_\_ May 1, 2013 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$775,056 for the year ended June 30, 2012. The receipts included \$180,114 in property tax, \$289,239 from charges for service, \$196,167 from operating grants, contributions and restricted interest, \$101,006 from local option sales tax, \$1,330 from unrestricted interest on investments and \$7,200 from wireless communication rent.

Disbursements for the year totaled \$705,094, and included \$167,683 for public works, \$146,450 for public safety and \$110,588 for culture and recreation. Also, disbursements for business type activities totaled \$153,798.

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/1221-0818-B00F.pdf>.

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

**JUNE 30, 2012**

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**City of Maxwell**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
Justin Wonders	Mayor	Jan 2012
Mark Leonard	Mayor Pro tem	Jan 2012
Stacy Applegate	Council Member	Jan 2012
Darrin Williams	Council Member	Jan 2012
Mike Gustafson	Council Member	Jan 2014
Leota Hudson	Council Member	Jan 2014
Deb Hayes	Clerk	Indefinite
Heather Handley-Cherry	Attorney	Indefinite
<b>(After January 2012)</b>		
Marcus Fricke	Mayor	Jan 2014
Joelyn Gast	Mayor Pro tem	Jan 2016
Mike Gustafson	Council Member	Jan 2014
Leota Hudson	Council Member	Jan 2014
Susan Livesay	Council Member	Jan 2016
Shannon Robertson	Council Member	Jan 2016
Deb Hayes	Clerk	Indefinite
Randal B. Caldwell	Attorney	Indefinite

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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, 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 Maxwell's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

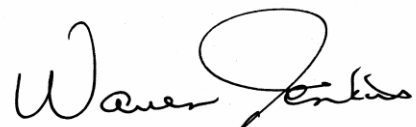
The City's General Fund unassigned deficit increased to \$344,944 at June 30, 2012, an increase of \$143,523 during the four year period since the City was last audited for the year ended June 30, 2008. The deficit is approximately 117% of the City's General Fund receipts of \$295,071 for the year ended June 30, 2012. The City's Debt Service Fund cash balance decreased during the year to a deficit of \$133,308 at June 30, 2012. The deficit is approximately 368% of the City's Debt Service Fund receipts and transfers from the Enterprise, Water Fund during the year ended June 30, 2012, which total \$36,177. 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 March 18, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 30 are presented for purposes of additional analysis and are 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.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 18, 2013



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$23,800, due primarily to local option sales tax receipts which were not disbursed during the fiscal year. 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 \$46,150. Receipts exceeded the disbursements due to the City undertaking no significant repair or improvement projects during the fiscal year.

### **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 financial 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.

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

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, community and economic development, 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, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise 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.

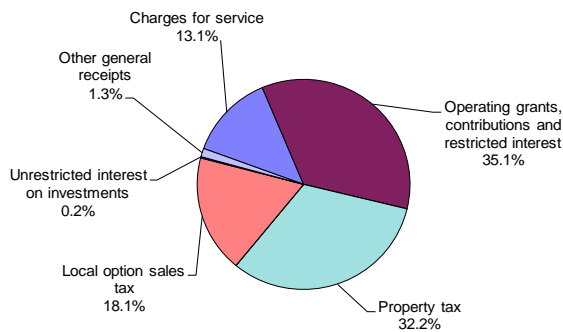
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

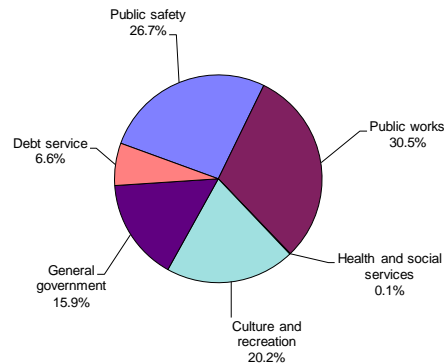
Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, from \$261,990 to \$285,799. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 72,968
Operating grants, contributions and restricted interest	196,167
General receipts:	
Property tax	180,114
Local option sales tax	101,006
Unrestricted interest on investments	1,330
Other general receipts	7,200
Total receipts	558,785
Disbursements:	
Public safety	146,450
Public works	167,683
Health and social services	148
Culture and recreation	110,588
Community and economic development	3,063
General government	87,151
Debt service	36,213
Total disbursements	551,296
Change in cash basis net assets before transfers	7,489
Transfers, net	16,320
Change in cash basis net assets	23,809
Cash basis net assets beginning of year	261,990
Cash basis net assets end of year	\$ 285,799

**Receipts by Source**



**Disbursements by Function**



The increase in cash basis net assets was due primarily to local option sales tax receipts which were not disbursed during the fiscal year. These receipts were offset by increased spending in the General Fund.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 129,031
Sewer	87,240
Total receipts	<u>216,271</u>
Disbursements:	
Water	81,896
Sewer	71,902
Total disbursements	<u>153,798</u>
Change in cash basis net assets before transfers	62,473
Transfers, net	<u>(16,320)</u>
Change in cash basis net assets	46,153
Cash basis net assets beginning of year	<u>324,740</u>
Cash basis net assets end of year	<u><u>\$ 370,893</u></u>

The cash basis net assets of the City's business type activities increased \$46,153 to \$370,893. Receipts exceeded the disbursements due to the City undertaking no significant repair or improvement projects during the fiscal year.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Maxwell completed the year, its governmental funds reported a combined fund balance of \$285,799, an increase of approximately \$23,800 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 increased \$40,550 over the prior year to a deficit of \$344,944. This increase is attributable to a transfer from the Special Revenue, Urban Renewal Tax Increment Fund offset by an increase in operating disbursements and equipment purchases for fire equipment, a mower, a truck and a warning siren.
- The Special Revenue, Road Use Tax Fund cash balance increased \$10,827 to \$14,807 during the fiscal year. This increase was attributable to the City receiving approximately \$7,800 more in road use tax receipts. However, disbursements remained at the same level as the prior year, thus increasing the cash balance.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$128,023 from the prior year to \$122,381. The decrease in cash balance is due to a transfer made to the General Fund to correct transfers made in fiscal years 2010 and 2011.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$101,006 over the prior year to \$572,597. The increase in cash balance is due to the City not spending any of the local option sales tax receipts in the current year.

- The Debt Service Fund cash balance decreased \$36 to a deficit of \$133,308 during the fiscal year, which was not a significant change.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$30,815 to \$296,116 with an increase in water penalties assessed and collected. Disbursements decreased from the prior year due to the City adding on to the shed in fiscal year 2011 and other repairs and maintenance which were performed. These decreases were somewhat offset by higher chemical costs and the purchase of a truck in the current fiscal year.
- The Enterprise, Sewer Fund cash balance increased \$15,338 to \$74,777 with no significant changes in the operation of the fund.

**BUDGETARY HIGHLIGHTS**

During the fiscal year, the City amended its budget once. The amendment was approved on May 21, 2012 and resulted in an increase in operating disbursements of \$86,505, due primarily to costs for cleanup of windstorm damage and the purchase of a truck to be shared between several City departments.

The City collected \$10,942 less in receipts than the budgeted amount of \$766,106, primarily due to budgeting for tax increment receipts not received because all urban renewal tax increment debt had been paid by the end of the prior fiscal year. This decrease was offset by intergovernmental receipts in the General Fund which exceeded budgeted amounts, such as contributions from townships for fire protection and for operation of the library. The City also budgeted approximately \$20,000 less than was received in road use tax receipts during fiscal year 2012.

Total disbursements for the year were \$6,060 less than budgeted. The City exceeded the amounts budgeted in the culture and recreation and debt service functions for the year ended June 30, 2012 due to equipment purchases and other disbursements not included in the budget amendment.

**DEBT ADMINISTRATION**

At June 30, 2012, the City had \$178,787 of notes and other long-term debt outstanding, compared to \$212,568 last year.

Outstanding Debt at Year-End	
	June 30, 2012
General obligation notes	\$ 165,000
Loan agreements	13,787
Total	<u>\$ 178,787</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 \$178,787 is significantly below its constitutional debt limit of approximately \$2 million. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Maxwell's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. The City's fiscal year 2013 assessed value has decreased approximately \$685,000 from the fiscal year 2012 level.

The fiscal year 2013 budget contains total receipts of \$698,241 and disbursements of \$724,248. If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$26,000 by the close of fiscal year 2013.

## **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, 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, 2012

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 146,450	5,627	86,907
Public works	167,683	60,761	89,495
Health and social services	148	-	-
Culture and recreation	110,588	3,165	11,910
Community and economic development	3,063	-	7,341
General government	87,151	1,094	514
Debt service	36,213	2,321	-
Total governmental activities	551,296	72,968	196,167
Business type activities:			
Water	81,896	129,031	-
Sewer	71,902	87,240	-
Total business type activities	153,798	216,271	-
Total	\$ 705,094	289,239	196,167
<b>General Receipts and Transfers:</b>			
Property tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Rent			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Expendable:			
Streets			
Urban renewal purposes			
Local option sales tax			
Other purposes			
Unrestricted			
<b>Total cash basis net assets</b>			

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(53,916)	-	(53,916)
(17,427)	-	(17,427)
(148)	-	(148)
(95,513)	-	(95,513)
4,278	-	4,278
(85,543)	-	(85,543)
(33,892)	-	(33,892)
(282,161)	-	(282,161)
-	47,135	47,135
-	15,338	15,338
-	62,473	62,473
(282,161)	62,473	(219,688)
162,578	-	162,578
17,536	-	17,536
101,006	-	101,006
1,330	-	1,330
7,200	-	7,200
16,320	(16,320)	-
305,970	(16,320)	289,650
23,809	46,153	69,962
261,990	324,740	586,730
\$ 285,799	370,893	656,692
\$ 14,807	-	14,807
122,381	-	122,381
572,597	-	572,597
54,266	-	54,266
(478,252)	370,893	(107,359)
\$ 285,799	370,893	656,692

City of Maxwell

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

As of and for the year ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
<b>Receipts:</b>				
Property tax	\$ 159,131	-	-	-
Other city tax	3,447	-	-	101,006
Licenses and permits	6,721	-	-	-
Use of money and property	8,895	-	-	-
Intergovernmental	50,935	87,263	-	-
Charges for service	62,961	-	-	-
Special assessments	-	-	-	-
Miscellaneous	2,981	-	-	-
Total receipts	295,071	87,263	-	101,006
<b>Disbursements:</b>				
Operating:				
Public safety	93,410	-	-	-
Public works	91,247	76,436	-	-
Health and social services	148	-	-	-
Culture and recreation	110,588	-	-	-
Community and economic development	-	-	-	-
General government	87,151	-	-	-
Debt service	-	-	-	-
Total disbursements	382,544	76,436	-	-
Excess (deficiency) of receipts over (under) disbursements	(87,473)	10,827	-	101,006
<b>Other financing sources (uses):</b>				
Operating transfers in	128,023	-	-	-
Operating transfers out	-	-	(128,023)	-
Total other financing sources (uses)	128,023	-	(128,023)	-
Change in cash balances	40,550	10,827	(128,023)	101,006
Cash balances beginning of year	(385,494)	3,980	250,404	471,591
Cash balances end of year	\$ (344,944)	14,807	122,381	572,597
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ -	14,807	-	-
Urban renewal purposes	-	-	122,381	-
Local option sales tax	-	-	-	572,597
Other purposes	-	-	-	-
Unassigned	(344,944)	-	-	-
Total cash basis fund balances	\$ (344,944)	14,807	122,381	572,597

See notes to financial statements.

Debt Service	Nonmajor	Total
17,536	-	176,667
-	-	104,453
-	-	6,721
-	70	8,965
-	36,831	175,029
-	-	62,961
2,321	-	2,321
-	18,687	21,668
19,857	55,588	558,785
-	53,040	146,450
-	-	167,683
-	-	148
-	-	110,588
-	3,063	3,063
-	-	87,151
36,213	-	36,213
36,213	56,103	551,296
(16,356)	(515)	7,489
16,320	-	144,343
-	-	(128,023)
16,320	-	16,320
(36)	(515)	23,809
(133,272)	54,781	261,990
(133,308)	54,266	285,799
-	-	14,807
-	-	122,381
-	-	572,597
-	54,266	54,266
(133,308)	-	(478,252)
(133,308)	54,266	285,799

**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, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 128,833	87,240	216,073
Miscellaneous	198	-	198
Total operating receipts	129,031	87,240	216,271
Operating disbursements:			
Business type activities	75,194	65,200	140,394
Excess of operating receipts over operating disbursements	53,837	22,040	75,877
Non-operating disbursements:			
Capital outlay	6,702	6,702	13,404
Excess of receipts over disbursements	47,135	15,338	62,473
Transfers out	(16,320)	-	(16,320)
Change in cash balances	30,815	15,338	46,153
Cash balances beginning of year	265,301	59,439	324,740
Cash balances end of year	\$ 296,116	74,777	370,893
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 296,116	74,777	370,893

See notes to financial statements.

City of Maxwell

Notes to Financial Statements

June 30, 2012

**(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.

The Maxwell Area Renewal Committee was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Committee is reported as part of the City and blended as a Special Revenue Fund. The Committee receives donations for the benefit of the City and the surrounding rural area. These donations are to be used to enhance community ties within the City and the surrounding rural area through projects which support existing and new businesses and services.

#### 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 Assessor's Conference Board, 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 the following categories/components:

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.

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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

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

The City reports the following major proprietary funds:

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

The Enterprise, 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 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.



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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions. In addition, disbursements exceeded the amount budgeted in the public safety function before the budget was amended.

**(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 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		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 25,000	7,950	6,287	17	31,287	7,967	39,254
2014	25,000	6,838	5,000	-	30,000	6,838	36,838
2015	25,000	5,687	2,500	-	27,500	5,687	33,187
2016	30,000	4,500	-	-	30,000	4,500	34,500
2017	30,000	3,030	-	-	30,000	3,030	33,030
2018	30,000	1,530	-	-	30,000	1,530	31,530
Total	\$ 165,000	29,535	13,787	17	178,787	29,552	208,339

Loan Agreements

A loan agreement with the Iowa Department of Public Safety for \$50,000 was executed in December 2004 for the purpose of defraying a portion of the costs to purchase turnout gear for the City's fire fighters. The loan is a no interest loan and is to be repaid by December 2014. Payments under the loan agreement totaled \$5,000 during the year ended June 30, 2012. The outstanding principal balance at June 30, 2012 was \$12,500.

A loan agreement with Maxwell State Bank for \$10,000 was executed in January 2010 for the purpose of defraying the costs to purchase Jaws of Life equipment for the City's fire department. The loan bears interest at 4.5% per annum. Payments under the loan agreement totaled \$2,240 during the year ended June 30, 2012. The outstanding principal balance at June 30, 2012 was \$1,287.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$9,966, 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, 2012, primarily relating to the General Fund, is \$3,300.

This liability has been computed based on rates of pay in effect at June 30, 2012.

**(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, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 128,023
Debt Service	Enterprise:	
	Water	16,320
Total		<u>\$ 144,343</u>

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) Deficit Balances**

At June 30, 2012, the City had deficit balances in the following funds:

General	\$ 344,944
Debt Service	133,308

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

**(10) Subsequent Event**

In December 2012, the City entered into a construction agreement with the Iowa Department of Transportation (IDOT). The IDOT is responsible for making improvements to State Highway 210 and, in accordance with the agreement, the IDOT will pave parking areas along Highway 210. In return, the City will pay the actual costs for the parking improvements, estimated at \$105,175. The costs will be paid in three equal annual installments. The initial installment will be due upon completion of the project and billing by the IDOT. The final two payments will be billed one and two years subsequent to the date of the first billing. Annual payments are estimated to be \$35,058.

**City of Maxwell**

**Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 176,667	-	-
Tax increment financing	-	-	-
Other city tax	104,453	-	-
Licenses and permits	6,721	-	-
Use of money and property	8,965	-	70
Intergovernmental	175,029	-	1,135
Charges for service	62,961	216,073	-
Special assessments	2,321	-	-
Miscellaneous	21,668	198	18,687
Total receipts	<u>558,785</u>	<u>216,271</u>	<u>19,892</u>
<b>Disbursements:</b>			
Public safety	146,450	-	12,148
Public works	167,683	-	-
Health and social services	148	-	-
Culture and recreation	110,588	-	-
Community and economic development	3,063	-	3,063
General government	87,151	-	-
Debt service	36,213	-	-
Business type activities	-	153,798	-
Total disbursements	<u>551,296</u>	<u>153,798</u>	<u>15,211</u>
Excess (deficiency) of receipts over (under) disbursements	7,489	62,473	4,681
Other financing sources, net	16,320	(16,320)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	23,809	46,153	4,681
Balances beginning of year	261,990	324,740	25,591
Balances end of year	<u>\$ 285,799</u>	<u>370,893</u>	<u>30,272</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
176,667	177,683	177,683	(1,016)
-	85,751	85,751	(85,751)
104,453	89,487	89,487	14,966
6,721	3,000	3,000	3,721
8,895	8,500	8,500	395
173,894	98,000	133,609	40,285
279,034	258,000	258,000	21,034
2,321	-	5,076	(2,755)
3,179	4,000	5,000	(1,821)
755,164	724,421	766,106	(10,942)
134,302	89,538	137,384	3,082
167,683	167,000	173,800	6,117
148	12,600	12,600	12,452
110,588	87,300	105,759	(4,829)
-	5,000	5,000	5,000
87,151	91,000	91,000	3,849
36,213	-	-	(36,213)
153,798	157,000	170,400	16,602
689,883	609,438	695,943	6,060
65,281	114,983	70,163	(4,882)
-	-	-	-
65,281	114,983	70,163	(4,882)
561,139	480,910	480,910	80,229
626,420	595,893	551,073	75,347

City of Maxwell

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the 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 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. During the year, one budget amendment increased budgeted disbursements by \$86,505. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions. In addition, disbursements exceeded the amount budgeted in the public safety function before the budget was amended.



**City of Maxwell**

## **Supplementary Information**

## 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, 2012

	Special Revenue					Total
	I-Jobs	FEMA	Maxwell Volunteer First Responders	Maxwell Volunteer Fire Department	Maxwell Area Renewal Committee	
Receipts:						
Operating:						-
Use of money and property	\$ -	-	56	14	-	70
Intergovernmental	-	35,696	-	1,135	-	36,831
Miscellaneous	-	-	4,630	6,716	7,341	18,687
Total receipts	-	35,696	4,686	7,865	7,341	55,588
Disbursements:						
Public safety	-	40,892	3,749	8,399	-	53,040
Community and economic development	-	-	-	-	3,063	3,063
Total disbursements	-	40,892	3,749	8,399	3,063	56,103
Excess (deficiency) of receipts over (under) disbursements	-	(5,196)	937	(534)	4,278	(515)
Cash balances beginning of year	1,114	28,076	14,950	10,641	-	54,781
Cash balances end of year	\$ 1,114	22,880	15,887	10,107	4,278	54,266
<b>Cash Basis Fund Balances</b>						
Restricted for other purposes	\$ 1,114	22,880	15,887	10,107	4,278	54,266

See accompanying independent auditor's report.

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City of Maxwell  
Schedule of Indebtedness  
Year ended June 30, 2012

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 repair	Jun 10, 2002	4.50%	\$ 31,550
Firefighter revolving	Dec 1, 2004	0.00	50,000
Jaws of Life	Jan 26, 2010	4.50	10,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
190,000	-	25,000	165,000	9,025	-
1,651	-	1,651	-	36	-
17,500	-	5,000	12,500	-	-
3,417	-	2,130	1,287	110	-
<b>\$ 22,568</b>	-	<b>8,781</b>	<b>13,787</b>	<b>146</b>	-

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**Schedule 3**

## City of Maxwell

## Note and Loan Agreement Maturities

June 30, 2012

Year Ending June 30,	General Obligation Notes		Loan Agreements				Total
	Corporate Purpose		Firefighter Revolving		Jaws of Life		
	Issued Sep 1, 2003		Issued Dec 1, 2004		Issued Jan 26, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	4.45 %	\$ 25,000	0.00%	\$ 5,000	4.50%	\$ 1,287	6,287
2014	4.60	25,000	0.00	5,000		-	5,000
2015	4.75	25,000	0.00	2,500		-	2,500
2016	4.90	30,000		-		-	-
2017	5.00	30,000		-		-	-
2018	5.10	30,000		-		-	-
Total		<u>\$ 165,000</u>		<u>\$ 12,500</u>		<u>\$ 1,287</u>	<u>13,787</u>

See accompanying independent auditor's report.



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

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Auditor of State

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Maxwell, 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 March 18, 2013. 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, 2011. 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

The management of the City of Maxwell is responsible for establishing and maintaining effective 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 an 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 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 a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Maxwell's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (H) to be material weaknesses.

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

## Compliance and Other Matters

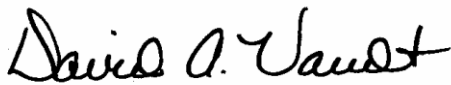
As part of obtaining reasonable assurance about whether the City of Maxwell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

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

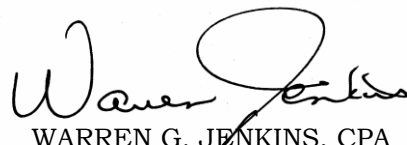
The City of Maxwell's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Maxwell's responses and, accordingly, we express no opinion on them.

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 and 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

March 18, 2013



City of Maxwell

Schedule of Findings

Year ended June 30, 2012

**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:
- (1) Accounting system – performance of all general accounting functions and custody of assets.
  - (2) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
  - (3) Petty cash – reconciling petty cash, handling cash receipts, custody and replenishment of petty cash fund.
  - (4) Receipts – opening mail, collecting, depositing, posting and reconciling.
  - (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
  - (6) Disbursements – purchasing, check preparation, signing, access to credit cards, recording and reconciling.
  - (7) Payroll – preparing checks, recording transactions, signing and distributing. In addition, the same individual tracks compensated absences.
  - (8) Long-term debt – recording and reconciling.

In addition, an independent person does not enter payroll rates or enter new personnel in the computer system.

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. Currently available personnel, including elected 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 the signature or initials of the reviewer and the date of review.

Response – The City recognizes the need for segregation of duties. In the future, we will strive to involve Council Members in reviewing the Clerks' duties.

Conclusion – Response accepted.

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

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

In addition, the City does not have a formal policy to approve write-offs of uncollectible accounts and account write-offs are not periodically reviewed for subsequent collectability.

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

The City should develop a formal policy for the write-off of uncollectible accounts and account write-offs should be periodically reviewed for subsequent collectability.

Response – Procedures will be looked at and formally addressed. A Council Member will be assigned to look at reconciliations and monitor delinquent accounts.

Conclusion – Response accepted.

- (C) Financial Reporting – During the audit, we identified material receipts and disbursements recorded in error to incorrect funds, an unrecorded transfer and material activity of a component unit of the City omitted from the financial statements. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Recommendation – The City should implement procedures to ensure receipts, disbursements and transfers are properly recorded in the City's financial statements. All component units should be included in the financial statements for reporting purposes.

Response – The City will implement procedures to ensure all City financial statements are correct and all component units are reported.

Conclusion – Response accepted.

- (D) Bank Reconciliations – The City Clerk's ledger balances were not reconciled monthly to the bank accounts. This was resolved for audit purposes. An independent review of the bank reconciliations was not performed.

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 bank reconciliations and document the review by signing or initialing and dating the monthly bank reconciliations.

Response – The ledger balance will be reconciled monthly and a Council Member will review, initial and date the reconciliations.

Conclusion – Response accepted.

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

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

Recommendation – The City should develop a process for making 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.

Response – A binder will be created to document all adjustments. It will be available to Council Members for review. Adjustments will be brought to the City Council for approval.

Conclusion – Response accepted.

- (F) Maxwell Volunteer First Responders – During our review of internal control, the existing controls were evaluated 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 financial statements. Generally, one individual has control over collecting, depositing, posting and disbursing for which no compensating controls exist.

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 ledger balances were not reconciled to the bank balances monthly.

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. Ledger balances should be reconciled to the bank balances monthly. Officials or other 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 the signature or initials of the independent 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. Pre-numbered receipts should be issued for all collections.

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 signing or initialing and dating the monthly reconciliations.

Response – In response to the recommendations to the Maxwell First Responders, we have concluded changes in our current procedures need to be made to provide better segregation of duties and maximize internal control. The First Responders will appoint an individual person to open the mail and prepare an initial listing of collections. A pre-numbered receipt book will be used to issue receipts for all collections. The list of collections will be reconciled to bank deposits to ensure all documented receipts were deposited. The ledger balances will be reconciled monthly to bank balances and any variances will be investigated. A review of

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

financial transactions and reconciliations will be performed by an independent person and will be evidenced by initials.

Conclusion – Response accepted.

- (G) Maxwell Volunteer Fire Department – During our review of internal control, the existing controls were evaluated 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 financial statements. Generally, one individual has control over collecting, depositing, posting and disbursing for which no compensating controls exist.

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 ledger balances were not reconciled to the bank balances monthly.

Supporting documentation was not maintained 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 or other 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 the signature or initials of the independent 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. Pre-numbered receipts should be issued for all collections.

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 signing or initialing and dating the monthly reconciliations.

Supporting documentation should be maintained for all disbursements.

Response – In response to the recommendations to the Maxwell Fire Department, we have concluded changes in our current procedures need to be made to provide better segregation of duties and maximize internal control. The Fire Department will appoint an individual person to open the mail and prepare an initial listing of collections. A pre-numbered receipt book will be used to issue receipts for all collections. The list of collections will be reconciled to bank deposits to ensure all documented receipts were deposited. The ledger balances will be reconciled monthly to the bank balances and any variances will be investigated. All supporting documentation will be kept on file.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

- (H) Maxwell Area Renewal Committee – During our review of internal control, the existing controls were evaluated 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 Committee’s financial statements. Generally, one individual has control over the collecting, depositing, posting and disbursing for which no compensating controls exist.

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 ledger balances are not reconciled to the Committee’s bank balances monthly.

Checks are not used in numerical order.

One invoice tested was not cancelled to prevent reuse.

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 or other 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 the signature or initials of the independent 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. Pre-numbered receipts should be issued for all collections.

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 signing or initialing and dating the monthly reconciliations.

Checks should be used in numerical order and the numerical sequence of checks should be accounted for.

Invoices should be cancelled to prevent reuse.

Response – Officials and other current personnel will be utilized to provide additional control through review of financial transactions and reconciliations. Reviews will be performed by an independent person who will initial or sign for their review and the date of the review. In addition, the numerical order of checks will be accounted for.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

(I) Computer Systems –

The following weaknesses in the City's computer systems were noted:

- Software does not require the user to change logins/passwords periodically.
- Employee passwords are not set to a recommended minimum of eight characters.
- Password history is not used to prevent re-use of passwords.
- 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 its computer systems. A written disaster recovery plan should be developed.

Response – The City will develop written policies as well as a written disaster recovery plan.

Conclusion – Response accepted.

(J) 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 a similar situation arises.
- (4) Help preserve the key elements in the City's internal control.
- (5) Increase effectiveness and efficiency.

Response – The City Clerk and Deputy City Clerk are in the process of creating a procedures manual.

Conclusion – Response accepted.

(K) 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.

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

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 – The mail opener will create a list of all receipts. If the receipt is not recorded through the receipt management program then it will be issued a pre-numbered receipt. A Council Member will review the receipts to ensure they are properly recorded.

Conclusion – Response accepted.

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the culture and recreation and debt service functions. In addition, disbursements exceeded the amounts budgeted in the public safety function before the budget was amended.

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 budget will be reviewed frequently and 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) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

Although minutes of City 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 or the reason for the claim as required by the Code of Iowa.

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

In addition, one transfer during the fiscal year had no evidence of City Council approval.

Recommendation – The minutes record for City Council proceedings should be published as required by the Code of Iowa. Also, transfers should be properly approved by the City Council.

Response – The Clerk will make a conscious effort to have the minutes published on time. Transfers will be put before the City Council for approval.

Conclusion – Response accepted.

(7) Deposits and Investments - No 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.

(8) Annual Financial Report – The 2012 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 will be corrected and re-filed.

Conclusion – Response accepted.

(9) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The following were noted concerning the City's TIF:

- At June 30, 2012, the City had a cash balance of \$122,381 in the Special Revenue, Tax Increment Financing Fund. However, the City had no outstanding TIF debt at year end.
- The audit report for the year ended June 30, 2008 noted the City had erroneously certified TIF debt of \$46,270. The City has not decertified the debt as recommended.

Recommendation – The City should consult TIF legal counsel to determine the propriety of the City's TIF certifications, the current year transfer to the General Fund and the remaining fund balance at June 30, 2012.



City of Maxwell

Schedule of Findings

Year ended June 30, 2012

Effective July 1, 2012, House File 2460 requires any balance remaining in a TIF Fund created under section 403.19 of the Code of Iowa to be transferred to the County for reapportionment to the funds of the respective taxing districts.

Response - The City will consult TIF legal counsel to determine the propriety of the City's TIF Certification. The City will then correct any overage paid to the City.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the Special Revenue, Local Option Sales Tax Fund. The LOST ballot requires the receipts to be allocated 100% for cultural and community betterment.

During the fiscal year, no disbursements were made directly from the Local Option Sales Tax Fund. In addition, the City did not track eligible disbursements incurred in other funds which meet the specified criteria of cultural and community betterment as stated on the LOST ballot.

Recommendation – The City should track disbursements which may qualify as cultural and community betterment. These disbursements should be made from the Special Revenue, Local Option Sales Tax Fund, or monies should be transferred, subsequent to approval by the City Council, to the funds which made the qualifying disbursements.

Response – After consulting with the City Attorney, the Clerk will track the disbursements as well as correcting past disbursements which qualify to be paid from the local option sales tax and present them to the City Council for approval.

Conclusion – Response accepted.

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

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

Response – The City will request the image of both the front and back of each cancelled check from the bank.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2012

- (12) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each governmental entity to report and remit obligations, including checks, outstanding for more than two years to the State Treasurer’s Office annually. The City did not remit these obligations as required.

Recommendation – The outstanding checks should be reviewed annually and checks over two years old should be remitted to the State Treasurer’s Office as required.

Response – The Clerk will review the outstanding checks and submit any checks over 2 years to the State Treasurer’s Office.

Conclusion – Response accepted.

- (13) Financial Condition – At June 30, 2012, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
General	\$ 344,944
Debt Service	133,308

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

Response – The City will work on eliminating these deficits to the best of its ability.

Conclusion - Response accepted.


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City of Maxwell

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager  
Lesley R. Geary, CPA, Senior Auditor II  
Leanna J. Showman, Staff Auditor  
Jessica L. Barloon, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State