



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____ May 20, 2005 _____

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 has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,168,132 for the year ended June 30, 2004. The receipts included \$122,700 in property tax, \$26,384 from tax increment financing, \$222,953 from charges for service, \$118,513 from operating grants, contributions and restricted interest, \$209,070 from capital grants, contributions and restricted interest, \$79,846 from local option sales tax, \$7,770 from unrestricted interest on investments, \$363,035 from note and loan proceeds and \$17,861 from other general receipts.

Disbursements for the year totaled \$938,944, and included \$137,292 for public works, \$104,694 for culture and recreation and \$96,495 for debt service. Also, disbursements for business type activities totaled \$471,221.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF MAXWELL

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

JUNE 30, 2004

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City of Maxwell

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Alvin Coles	Mayor	Jan 2004
Rod Jones	Mayor Pro tem	Jan 2004
Harriet Erickson	Council Member	Jan 2004
Justin Wonders	Council Member	Jan 2004
Robert Bacon	Council Member	Jan 2006
Leota Hudson	Council Member	Jan 2006
(After January 2004)		
Roger Pointer	Mayor	Jan 2006
Justin Wonders	Mayor Pro tem	Jan 2008
Robert Bacon	Council Member	Jan 2006
Leota Hudson	Council Member	Jan 2006
Alvin Coles	Council Member	Jan 2008
Rhonda Elmore	Council Member	Jan 2008
Nancy Vasey	Clerk	Indefinite
Michael Lewis	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, 2004, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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, 2003.

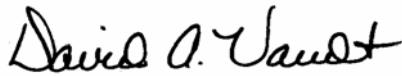
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present 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, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2005 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering 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 applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed 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, 2003, 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

January 20, 2005

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by approximately \$39,000 due to REAP grant receipts that were unexpended at year end and a decreased level of spending during the year which was offset by increased debt service disbursements.
- The cash basis net assets of the City's business type activities increased by approximately \$190,000 due to the receipt of note proceeds for the City's share of the water tower construction project, a portion of which was unspent at year end.

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.

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, the reader 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, culture and recreation, community and economic development, general government, debt service and capital projects. 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 Local Option Sales Tax, 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.

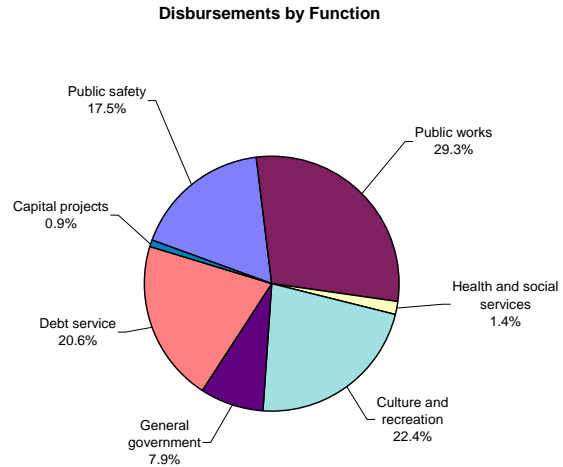
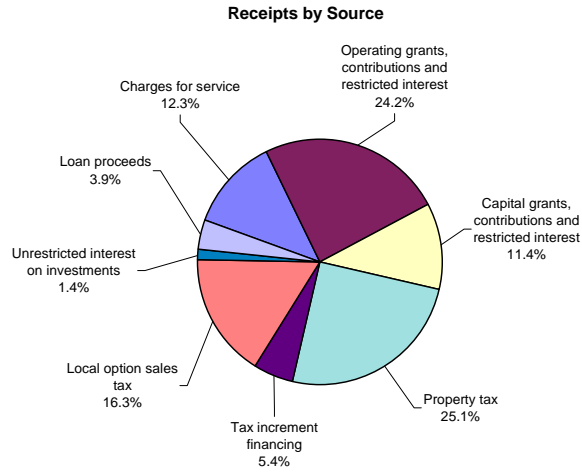
2) Proprietary funds account for the City's Enterprise Funds which are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 the beginning of the year, increasing from \$92,825 to \$132,171. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	<u>Year ended June 30, 2004</u>
Receipts:	
Program receipts:	
Charges for service	\$ 60,198
Operating grants, contributions and restricted interest	118,513
Capital grants, contributions and restricted interest	55,753
General receipts:	
Property tax	122,700
Tax increment financing	26,384
Local option sales tax	79,846
Unrestricted interest on investments	6,960
Loan proceeds	19,510
Other general receipts	17,205
Total receipts	<u>507,069</u>
Disbursements:	
Public safety	81,835
Public works	137,292
Health and social services	6,350
Culture and recreation	104,694
General government	36,762
Debt service	96,495
Capital projects	4,295
Total disbursements	<u>467,723</u>
Increase in cash basis net assets	39,346
Cash basis net assets beginning of year	<u>92,825</u>
Cash basis net assets end of year	<u>\$ 132,171</u>



The increase in cash basis net assets for the City's governmental funds is due REAP grant receipts that were unexpended at year end and a general decrease in spending which was offset by an increase in debt service disbursements.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 99,532
Sewer	62,923
Capital grants, contributions and restricted interest	153,317
General receipts:	
Unrestricted interest on investments	810
Note proceeds	343,525
Accrued interest on sale of notes	656
Other general receipts	300
Total receipts	<u>661,063</u>
Disbursements:	
Water	417,671
Sewer	53,550
Total disbursements	<u>471,221</u>
Increase in cash basis net assets	189,842
Cash basis net assets beginning of year	<u>49,130</u>
Cash basis net assets end of year	<u><u>\$ 238,972</u></u>

The City's cash balance for business type activities increased from the beginning of the year from \$49,130 to \$238,972. This significant increase was due primarily to the receipt of \$343,525 in general obligation note proceeds. The cash balance increased from the prior year because a portion of the note proceeds received will not be spent until next fiscal year for the approved water tower construction project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Maxwell completed the year, its governmental funds reported a combined fund balance of \$132,171, an increase of approximately \$39,000 over the prior year. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$37,373 from the prior year to \$63,836. This increase is attributable to the City receiving a \$45,000 REAP grant for construction of the Heart of Iowa Nature Trail, a large portion of which was unspent at year-end.
- The Road Use Tax Fund cash balance increased by \$16,789 to \$32,885 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 Local Option Sales Tax Fund cash balance increased \$40,044 from the prior year to \$93,058. 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 2004 and made disbursements for the library out of the General Fund. In the prior year, these disbursements were made out of the Local Option Sales Tax Fund.
- The Maxwell Volunteer Fire Department Fund cash basis balance increased \$1,519, which was not a significant change.
- The Debt Service Fund cash balance decreased to (\$51,813) during the fiscal year. This decrease was due to a debt service levy that was insufficient to cover the required payments on the current year debt. Note principal and interest payments increased in fiscal 2004 due to the issuance of \$350,000 in general obligation capital loan notes. The debt service levy for this note issuance does not go into effect until fiscal year 2005. The negative cash balance will be eliminated through transfers from a variety of funds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$180,289 to \$215,133, due primarily to the issuance of \$350,000 in general obligation capital loan notes, a portion of which was unspent at year end.
- The Sewer Fund cash balance increased by \$9,553 to \$23,839, with no significant changes in the operation of the fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 7, 2004 and resulted in an increase in operating disbursements primarily related to the construction of a new water tower.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$503,501 in notes and other long-term debt outstanding as compared to \$208,459 outstanding at June 30, 2003.

<u>Outstanding Debt at Year-End</u>	
	<u>June 30,</u> <u>2004</u>
General obligation notes	\$ 367,429
Loan agreements	<u>136,072</u>
Total	<u>\$ 503,501</u>

Debt increased as a result of issuing general obligation notes for a water tower construction project. In addition, the City entered into a loan agreement for the purpose of purchasing new playground equipment for Maxwell Park.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Maxwell's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities. At the time these financial statements were prepared and audited, there were no known conditions which would significantly impact the City's financial health in the future.

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 Melissa Johannes, 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, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 81,835	1,150	42,772	-
Public works	137,292	50,537	70,576	-
Health and social services	6,350	-	-	-
Culture and recreation	104,694	1,280	4,563	48,691
General government	36,762	7,231	560	-
Debt service	96,495	-	42	7,062
Capital projects	4,295	-	-	-
Total governmental activities	467,723	60,198	118,513	55,753
Business type activities:				
Water	417,671	99,832	656	153,317
Sewer	53,550	62,923	-	-
Total business type activities	471,221	162,755	656	153,317
Total	\$ 938,944	222,953	119,169	209,070
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Note and loan agreement proceeds				
Sale of capital assets				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
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
(37,913)	-	(37,913)
(16,179)	-	(16,179)
(6,350)	-	(6,350)
(50,160)	-	(50,160)
(28,971)	-	(28,971)
(89,391)	-	(89,391)
(4,295)	-	-
(233,259)	-	(233,259)
-	(163,866)	(163,866)
-	9,373	9,373
-	(154,493)	(154,493)
(233,259)	(154,493)	(387,752)
113,734	-	113,734
26,384	-	26,384
8,966	-	8,966
79,846	-	79,846
6,960	810	7,770
19,510	343,525	363,035
17,205	-	17,205
272,605	344,335	616,940
39,346	189,842	229,188
92,825	49,130	141,955
\$ 132,171	238,972	371,143
\$ 32,885	-	32,885
93,058	-	93,058
20,154	-	20,154
39,362	-	39,362
(53,288)	238,972	185,684
\$ 132,171	238,972	371,143

City of Maxwell

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

As of and for the year ended June 30, 2004

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Maxwell Volunteer Fire Department
Receipts:				
Property tax	\$ 113,734	-	-	-
Tax increment financing	-	-	-	-
Other city tax	-	-	79,846	-
Licenses and permits	3,956	-	-	-
Use of money and property	8,290	-	-	289
Intergovernmental	73,126	67,213	-	2,945
Charges for service	51,191	-	-	-
Special assessments	-	-	-	-
Miscellaneous	1,035	60	3,691	18,776
Total receipts	251,332	67,273	83,537	22,010
Disbursements:				
Operating:				
Public safety	55,962	-	1,318	20,491
Public works	78,059	50,484	7,115	-
Health and social services	-	-	6,350	-
Culture and recreation	62,078	-	39,408	-
General government	35,065	-	-	-
Debt service	-	-	8,812	-
Capital projects	-	-	-	-
Total disbursements	231,164	50,484	63,003	20,491
Excess (deficiency) of receipts over (under) disbursements	20,168	16,789	20,534	1,519
Other financing sources:				
Sale of capital assets	17,205	-	-	-
Proceeds from loan agreements	-	-	19,510	-
Total other financing sources	17,205	-	19,510	-
Net change in cash balances	37,373	16,789	40,044	1,519
Cash balances beginning of year	26,463	16,096	53,014	18,635
Cash balances end of year	\$ 63,836	32,885	93,058	20,154
Cash Basis Fund Balances				
Reserved:				
Other purposes	\$ 28,798	-	-	-
Unreserved:				
General fund	35,038	-	-	-
Special revenue funds	-	32,885	93,058	20,154
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 63,836	32,885	93,058	20,154

See notes to financial statements.

Debt Service	Nonmajor Governmental	Total
8,966	-	122,700
-	26,384	26,384
-	-	79,846
-	-	3,956
42	77	8,698
-	2,275	145,559
-	-	51,191
7,062	-	7,062
-	1,396	24,958
<u>16,070</u>	<u>30,132</u>	<u>470,354</u>
-	4,064	81,835
-	1,634	137,292
-	-	6,350
-	3,208	104,694
-	1,697	36,762
67,883	19,800	96,495
-	4,295	4,295
<u>67,883</u>	<u>34,698</u>	<u>467,723</u>
<u>(51,813)</u>	<u>(4,566)</u>	<u>2,631</u>
-	-	17,205
-	-	19,510
-	-	36,715
<u>(51,813)</u>	<u>(4,566)</u>	<u>39,346</u>
-	(21,383)	92,825
<u>(51,813)</u>	<u>(25,949)</u>	<u>132,171</u>
-	-	28,798
-	-	35,038
-	(21,654)	124,443
(51,813)	-	(51,813)
-	(4,295)	(4,295)
<u>(51,813)</u>	<u>(25,949)</u>	<u>132,171</u>

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, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 99,532	62,923	162,455
Miscellaneous	300	-	300
Total operating receipts	99,832	62,923	162,755
Operating disbursements:			
Business type activities	84,043	53,550	137,593
Excess of operating receipts over operating disbursements	15,789	9,373	25,162
Non-operating receipts (disbursements):			
Intergovernmental	153,317	-	153,317
Note proceeds (net of \$6,475 discount)	343,525	-	343,525
Accrued interest on sale of notes	656	-	656
Capital asset purchases	(333,628)	-	(333,628)
Interest on investments	630	180	810
Total non-operating receipts (disbursements)	164,500	180	164,680
Excess (deficiency) of receipts over (under) disbursements	180,289	9,553	189,842
Cash balances beginning of year	34,844	14,286	49,130
Cash balances end of year	\$ 215,133	23,839	238,972
Cash Basis Fund Balances			
Unreserved	\$ 215,133	23,839	238,972

See notes to financial statements.

City of Maxwell

Notes to Financial Statements

June 30, 2004

(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 Fire Department was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. 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 Volunteer First Responders was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The First Responders are legally separate from the City but are so intertwined with the City that it is, in substance, the same as the City. 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.

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, City 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. 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 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 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 waste water 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.

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, 2004, disbursements exceeded the amounts budgeted in the public works, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Notes Payable and Loan Agreements

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
2005	\$ 51,628	14,907	27,043	5,922	78,671	20,829
2006	25,801	13,616	28,247	4,707	54,048	18,323
2007	20,000	12,605	23,739	3,512	43,739	16,117
2008	20,000	12,005	24,801	2,351	44,801	14,356
2009	20,000	11,335	21,470	1,210	41,470	12,545
2010 - 2014	115,000	44,272	10,772	864	125,772	45,136
2015 - 2018	115,000	14,748	-	-	115,000	14,748
Total	\$ 367,429	123,488	136,072	18,566	503,501	142,054

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

A loan agreement totaling \$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.

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$4,556, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours 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 and compensatory time payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 3,500
Compensatory time	<u>800</u>
Total	<u>\$ 4,300</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Contractual Commitments

The City has entered into various construction contracts totaling approximately \$653,000 for construction of a new water tower and a nature trail. The unpaid contract balances as of June 30, 2004 totaled approximately \$333,000, which will be paid as work on the projects progresses.

(7) 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.

(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

The City had the following deficit balances at June 30, 2004:

Special Revenue Funds:	
Employee Benefits	\$ 6,539
Emergency	769
Urban Renewal Tax Increment	24,910
Debt Service Fund	51,813
Capital Projects Fund	4,295

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

(10) 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 prior to that date. 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 collections received for the area under development. During the year ended June 30, 2004, no payments were made under the development agreement.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

City of 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, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 122,700	-	-
Tax increment financing	26,384	-	-
Other city tax	79,846	-	-
Licenses and permits	3,956	-	-
Use of money and property	8,698	1,466	366
Intergovernmental	145,559	153,317	5,220
Charges for service	51,191	162,455	-
Special assessments	7,062	-	-
Miscellaneous	24,958	300	20,172
Total receipts	470,354	317,538	25,758
Disbursements:			
Public safety	81,835	-	21,001
Public works	137,292	-	-
Health and social services	6,350	-	-
Culture and recreation	104,694	-	-
Community and economic development	-	-	-
General government	36,762	-	-
Debt service	96,495	-	-
Capital projects	4,295	-	-
Business type activities	-	471,221	-
Total disbursements	467,723	471,221	21,001
Excess (deficiency) of receipts over (under) disbursements	2,631	(153,683)	4,757
Other financing sources, net	36,715	343,525	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	39,346	189,842	4,757
Balances beginning of year	92,825	49,130	25,961
Balances end of year	\$ 132,171	238,972	30,718

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
122,700	122,690	126,698	(3,998)
26,384	27,400	29,600	(3,216)
79,846	69,500	75,075	4,771
3,956	1,350	1,050	2,906
9,798	2,550	1,620	8,178
293,656	303,020	246,107	47,549
213,646	226,520	224,030	(10,384)
7,062	17,061	7,181	(119)
5,086	3,455	5,700	(614)
<u>762,134</u>	<u>773,546</u>	<u>717,061</u>	<u>45,073</u>
60,834	94,305	66,823	5,989
137,292	122,300	118,600	(18,692)
6,350	6,350	6,350	-
104,694	94,455	153,705	49,011
-	27,800	6,600	6,600
36,762	40,689	39,050	2,288
96,495	44,647	26,242	(70,253)
4,295	-	355,384	351,089
471,221	368,000	152,800	(318,421)
<u>917,943</u>	<u>798,546</u>	<u>925,554</u>	<u>7,611</u>
(155,809)	(25,000)	(208,493)	52,684
<u>380,240</u>	<u>(19,647)</u>	<u>(19,647)</u>	<u>399,887</u>
224,431	(44,647)	(228,140)	452,571
115,994	502,801	560,604	(444,610)
<u>340,425</u>	<u>458,154</u>	<u>332,464</u>	<u>7,961</u>

City of Maxwell

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, 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. During the year, one budget amendment increased budgeted disbursements by \$127,008. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, debt service and business type activities functions.

Other Supplementary Information

City of Maxwell

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

As of and for the year ended June 30, 2004

	Special	
	Employee Benefits	Emergency
Receipts:		
Tax increment financing	\$ -	-
Use of money and property	-	-
Intergovernmental	-	-
Miscellaneous	-	-
Total receipts	-	-
Disbursements:		
Operating:		
Public safety	-	3,554
Public works	1,634	-
Culture and recreation	3,208	-
General government	1,697	-
Debt service	-	-
Capital projects	-	-
Total disbursements	6,539	3,554
Excess (deficiency) of receipts over (under) disbursements	(6,539)	(3,554)
Cash balances beginning of year	-	2,785
Cash balances end of year	\$ (6,539)	(769)
Cash Basis Fund Balances		
Unreserved:		
Special revenue funds	(6,539)	(769)
Capital projects	-	-
Total cash basis fund balances	\$ (6,539)	(769)

See accompanying independent auditor's report.

Revenue				
Urban Renewal Tax Increment	Maxwell Volunteer First Responders	Capital Projects		Total
26,384	-	-		26,384
-	77	-		77
-	2,275	-		2,275
-	1,396	-		1,396
26,384	3,748	-		30,132
-	510	-		4,064
-	-	-		1,634
-	-	-		3,208
-	-	-		1,697
19,800	-	-		19,800
-	-	4,295		4,295
19,800	510	4,295		34,698
6,584	3,238	(4,295)		(4,566)
(31,494)	7,326	-		(21,383)
(24,910)	10,564	(4,295)		(25,949)
(24,910)	10,564	-		(21,654)
-	-	(4,295)		(4,295)
(24,910)	10,564	(4,295)		(25,949)

City of Maxwell
 Schedule of Indebtedness
 Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Jan 1, 1996	4.60%	\$ 140,000
Corporate purpose	Sep 1, 2003	1.75-5.10	350,000
Total			
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
Playground equipment	Oct 8, 2003	3.50	19,510
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
63,626	-	26,197	37,429	2,713
-	350,000	20,000	330,000	10,421
<u>\$ 63,626</u>	<u>350,000</u>	<u>46,197</u>	<u>367,429</u>	<u>13,134</u>
18,339	-	3,232	15,107	1,140
98,045	-	13,976	84,069	5,824
28,449	-	2,628	25,821	1,251
-	19,510	8,435	11,075	377
<u>\$ 144,833</u>	<u>19,510</u>	<u>28,271</u>	<u>136,072</u>	<u>8,592</u>

City of Maxwell
 Note and Loan Agreement Maturities
 June 30, 2004

Year Ending June 30,	General Obligation Notes					Total
	Corporate Purpose		Corporate Purpose			
	Issued Jan 1, 1996		Issued Sep 1, 2003			
	Interest Rates	Amount	Interest Rates	Amount		
2005	4.60%	\$ 31,628	2.15%	\$ 20,000	51,628	
2006	4.60	5,801	2.55	20,000	25,801	
2007		-	3.00	20,000	20,000	
2008		-	3.35	20,000	20,000	
2009		-	3.60	20,000	20,000	
2010		-	3.85	20,000	20,000	
2011		-	4.10	20,000	20,000	
2012		-	4.30	25,000	25,000	
2013		-	4.45	25,000	25,000	
2014		-	4.60	25,000	25,000	
2015		-	4.75	25,000	25,000	
2016		-	4.90	30,000	30,000	
2017		-	5.00	30,000	30,000	
2018		-	5.10	30,000	30,000	
Total		<u>\$ 37,429</u>		<u>\$ 330,000</u>	<u>367,429</u>	

See accompanying independent auditor's report.

Loan Agreements

<u>Sidewalk</u>		<u>Owen Development</u>		<u>Sidewalk Repair</u>		<u>Playground Equipment</u>		Total
<u>Issued Jan 14, 1998</u>		<u>Issued Apr 7, 1999</u>		<u>Issued Jun 10, 2002</u>		<u>Issued Oct 8, 2003</u>		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
6.50%	\$ 3,445	6.00%	\$ 15,388	4.50%	\$ 2,748	3.50%	\$ 5,462	27,043
6.50	3,673	6.00	16,088	4.50	2,873	3.50	5,613	28,247
6.50	3,915	6.00	16,820	4.50	3,004	-	-	23,739
6.50	4,074	6.00	17,586	4.50	3,141	-	-	24,801
-	-	6.00	18,187	4.50	3,283	-	-	21,470
-	-	-	-	4.50	3,433	-	-	3,433
-	-	-	-	4.50	3,589	-	-	3,589
-	-	-	-	4.50	3,750	-	-	3,750
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>\$ 15,107</u>		<u>\$ 84,069</u>		<u>\$ 25,821</u>		<u>\$ 11,075</u>		<u>136,072</u>

City of Maxwell



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Maxwell, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 20, 2005. 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, 2003.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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. Prior audit statutory comments have been resolved except for items (2), (7) and (12).

Internal Control Over Financial Reporting

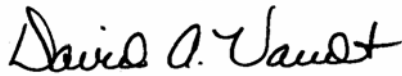
In planning and performing our audit, we considered the City of Maxwell's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.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

consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

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

January 20, 2005

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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 receipts and disbursement transactions, and handling and recording cash.

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. We have been trying to implement a new system where both the Clerk and Deputy Clerk do not have equal access on the computer software. This new system would help the accounting system by having a person not capable of writing/creating checks reconcile the bank statements. This could further be increased by periodic reviews of the reconciliation done by a council member. The long term debt would be recorded by the person creating the checks and reconciled by the person that is also reconciling the checking account to provide a separation of duties. The City Clerk will check and sort the mail, record any money received, and distribute mail appropriately. The Deputy Clerk will reconcile deposits. Most money received from the City is direct deposited or from utility collections. Because times exist where both clerks are not present at the same time, it is unavoidable for just one person to receive money for utility collections. With utility billings we are attempting to have the deputy create the utility bills, both persons collect monies, Clerk deposits money and posts the money onto the accounts, Deputy reconciles the deposits, and the

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

Clerk would then create the list of delinquent accounts to begin collection and shut-off as needed, the Deputy would reconcile the overall account to have delinquent balances plus money received to equal total billed. Although the system is not without fault, with the limited number of employees it is the best suggestion found at this time. Disbursements will be prepared by the Clerk, verified and signed by the Deputy and Mayor, and reconciled by the Deputy. Council will approve all disbursements. The Clerk will prepare payroll, Deputy Clerk and Mayor will verify hours and sign checks, and Deputy will reconcile checks along with monthly bank statement. Additional reviews by council at random may be performed. Initials and date will evidence all reviews. We are in the process of implementing monthly bank reconciliations which will be reviewed and signed off by the Council.

Conclusion – Response accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Listings of delinquent accounts were not retained for all billing periods and delinquent accounts were not adequately tracked and resolved by City personnel.

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.

A listing of delinquent accounts should be maintained for all billing periods and City personnel should investigate all delinquencies and resolve through collection or through established shut-off and write-off procedures.

Response – Procedures will be put in place to reconcile utility billings, collections and delinquent accounts monthly. A system has been put into place to have the Clerk create a delinquent accounts listing each month. All delinquent accounts are documented and are acted on monthly to be resolved. The delinquent account list is also updated daily from the time of creation until all accounts are resolved. Council will be asked to review the reconciliation and monitor delinquencies.

Conclusion – Response accepted.

- (C) Bank Reconciliations – The Clerk’s ledger balances were not reconciled monthly to the bank accounts. At June 30, 2004, an unexplained variance of \$2,379 existed between the bank and the ledger balances. Also, there are numerous checks written on the City’s accounts that have been outstanding for a significant period of time.

Two former City employees are listed as authorized signers on the City’s bank accounts.

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. A listing of outstanding checks should be prepared each month and retained. Checks that have been outstanding for a period of time should be investigated and resolved.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

The bank signature cards should be updated to reflect current City employees who are authorized to access the City's accounts.

Response – The person that is not issuing the checks or making the deposits will complete bank reconciliations monthly. Ledger balances will be compared to the bank balance monthly and any variances will be investigated and resolved in a timely manner. A listing of outstanding checks will be prepared each month at the time of reconciliation and maintained. Checks outstanding for a significant amount of time will be investigated and resolved. The bank signature cards are updated to reflect current City employees who are authorized to access the City's accounts. As changes in authorized people occur, a procedure to change the card within 24 hours will be put into effect.

Conclusion – Response accepted.

(D) Electronic Data Processing Systems –

(1) The City does not have written policies or procedures for:

- personal use of computer and software.
- usage of the internet.
- requiring password changes because software does not require the user to change logins/passwords periodically or to maintain password privacy. In addition, a generic login is used for the accounting software.

(2) The City does not perform daily or weekly backups of computer data and programs. Tapes maintained for the monthly backup are not stored at an off site location.

(3) The City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City's control over computer based systems. The City should perform daily or weekly backups and the backup tapes should be stored in an off site location in a fire proof vault or safe. A written disaster recovery plan should be developed.

Response – The City is working on developing written procedures for personal use of computer and software, internet, and password requirements. Currently, the City is performing daily backups, as well as weekly backups that are being stored in an offsite location. The City will develop a written disaster recovery plan.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

- (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 council before being put into place.

Conclusion – Response accepted.

- (F) Accounting Records – The City does not maintain the accounting records on a current basis. In addition, certain accounting records were not retained for a sufficient amount of time.

A separate process was not documented for adjustments to the accounting records and adjustments to the records were not adequately explained and supported. In addition, the adjustments were not identified and recorded in a manner to prevent duplicate correction.

Recommendation – The City should maintain all accounting records on a current basis and retain the records for the necessary amount of time.

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.

Response – Since the beginning of the audit, all accounting records are being updated and will be maintained on a current basis. All records will be retained for the sufficient amount of time. The City is developing a process for adjustments to the accounting records including the need for explanations and support and will be included in the accounting policies and procedures manual.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

- (G) Petty Cash/Change Funds – The City has established an ordinance regarding petty cash/change fund maximum amounts. However, the ordinance is unclear how many funds were established. The City maintains five petty cash/change funds, but none of these funds are reconciled to an established amount. Two of the funds tested had receipts and vouchers which exceeded the amount established by ordinance.

Recommendation – The City should review petty cash/change funds for propriety and should establish an ordinance which clearly states what funds will be maintained in addition to the purpose and authorized amount for each fund. Petty cash/change funds should be periodically reconciled by independent personnel to amounts authorized by the Council and operated on an imprest basis.

Response – Since the beginning of the audit the various petty cash funds have been eliminated and reduced to one petty cash fund with a set balance of \$100. Council has been asked to periodically reconcile amounts on hand to authorized amounts.

Conclusion – Response accepted.

- (H) Long-Term Debt and Compensated Absences – The City does not maintain a note register that summarizes the outstanding debt and payment information. In addition, the City could not locate any of the debt agreements in effect for the current fiscal year. The agreements were obtained from outside sources. The City did not reconcile debt payments per the agreements to the general ledger. During testing, we noted seven of the ten debt payments were recorded in an incorrect fund. These errors have been corrected for reporting purposes.

Compensated absence records contained several mathematical errors and were not computed on a consistent basis. An independent official does not periodically review the compensated absence records.

Recommendation – The City should maintain a note register and the supporting debt agreements. The debt payments per the register should be reconciled to amounts recorded in the general ledger. Officials should review debt payments and determine payments were made out of the correct fund.

Compensated absence records should be periodically reviewed by an independent person for mathematical accuracy and propriety.

Response – Long-term debt will be recorded in a note 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.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

- (I) Receipts – A list of receipts is not prepared by the mail opener. In addition, incoming checks are not restrictively endorsed immediately upon receipt.

Recommendation – The individual who opens mail should prepare a list of receipts. This list should be reconciled by an independent person to the deposit records to ensure all documented receipts were deposited. In addition, City personnel should restrictively endorse all checks immediately upon receipt.

Response – Any monies received in the mail will be recorded by the person receiving the mail and reconciled by the person not receiving the mail to ensure all documented receipts were deposited. City personnel will restrictively endorse all checks immediately upon receipt.

Conclusion – Response accepted.

- (J) Disbursements – Disbursements are not reviewed and approved by department heads prior to submission of the claim for payment. Certain disbursements were not properly classified in the financial records. Also, supporting documentation and cancelled checks could not be located for certain disbursements from the Water Tower bank account. In addition, control is not maintained over the City's supply of blank checks.

Recommendation – Disbursements should be reviewed and approved by department heads before they are processed for payment. Disbursements should be properly classified and supporting documentation and cancelled checks should be retained for all disbursements. Blank checks should be properly controlled.

Response – Disbursements are being reviewed and initialed by department heads before payment is issued. All disbursements are being properly classified and supporting documentation and cancelled checks are being retained for all disbursements. Since the beginning of the audit all blank checks have been properly controlled.

Conclusion – Response accepted.

- (K) Payroll – Council approval of wage rates could not be located for two individuals tested. Employee files did not contain the required W-4 forms for tax withholding. In addition, contributions to IPERS did not agree with amounts calculated on the quarterly reports.

Recommendation – The Council should approve wage rates for all city employees and personnel files should be reviewed to determine the proper withholding forms have been completed. The City should review IPERS contributions for the current year and resolve any variances.

Response – Council has approved wage rates for all current employees. Employee files are in the process of being updated to ensure proper documentation for all employees. These files will include application/resume, training, W-4 forms, IPERS enrollment papers and any documentation for missed days such as doctors notes, warnings received, etc. Variances in IPERS contributions have been resolved.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

Conclusion – Response accepted.

- (L) Transfers – The Council approved transfers for the current year. However, the transfers were reversed, resulting in no transfers being recorded in the financial statements. Transfers were not properly recorded and were recorded as receipts and disbursements rather than transfers between funds.

Recommendation – The transfers should be reviewed by the Council to determine if they should be recorded and, if so, the transfers should be properly classified and recorded in the accounting records.

Response – The transfers will be classified and recorded as transfers between funds.

Conclusion – Response accepted.

- (M) Separately Maintained Records – The bookkeeping and custody of the Maxwell Library Funds are under the control of individuals in a location separate from the Clerk's office. These transactions and the resulting balances are not reflected in the City's financial reports or annual budget. This matter was resolved for audit purposes and the financial activity of the Library is included in the General Fund.

Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response – The financial activity and balances of all City accounts will be recorded in the Clerk's records. The bookkeeping and custody of the Maxwell Library Funds will be incorporated in the City's records.

Conclusion – Response accepted

- (N) 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, disbursing and bank reconciliations for which no compensating controls exist.

Pre-numbered receipts are not issued for all collections.

Supporting documentation could not be located for certain disbursements. We also noted several personal items were purchased from the Department's account. Reimbursement for the purchase of those items could not be located in the accounting records.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

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 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.

Supporting documentation should be maintained for all disbursements. The Department should seek reimbursement for the personal items purchased out of the Department's accounts.

Response – The Department will appoint one or two members to review transactions monthly. This independent review will be evidenced by the signature or initials of the reviewer and the date of the review.

The Department will order a pre-numbered receipt book and issue receipts for all collections.

Supporting documentation will be maintained for all disbursements. The Department has been reimbursed for personal items purchased out of the Department's accounts.

Conclusion – Response accepted.

- (O) 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 the collecting, depositing, posting, and disbursing for which no compensating controls exist. The independent review of bank reconciliations is not evidenced by the signature or initials of the reviewer.

Pre-numbered receipts are not issued for all collections.

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 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.

Supporting documentation should be maintained for all disbursements.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

Response – The Department will appoint one or two members to review transactions on a monthly basis. The signature or initials of the reviewer and the date of the review will evidence this independent review. The Department will order a pre-numbered receipt book and issue receipts for all collections. Supporting documentation will be maintained for all disbursements.

Conclusion – Response accepted.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. However, the resolution did not establish a maximum deposit amount.

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.

- (2) Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amount budgeted in the public works, 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.”

The City amended the budget in June 2004. Certain amounts from the original budget were not carried forward correctly to the amended budget.

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. Amounts from the original budget should be carried forward correctly to the amended budget, as necessary.

Response – In accordance with Chapter 384.18 of the Code of Iowa, budget will be amended by May 31 in sufficient amount before disbursements are allowed to exceed the budget. Amounts from the original budget will be carried forward correctly to the amended budget as necessary.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No transactions between the City and City officials and employees were noted.
- (6) 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.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

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. The minutes record was not signed for all meetings.

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

Recommendation – The minutes record of Council proceedings should be signed for all meetings. The minutes record for Council proceedings and annual salaries should be published as required by the Code of Iowa.

Response – Since the beginning of the audit a new system has been put into place. The Clerk will ensure that 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 2004 were published in March 2005. The Clerk will ensure that annual gross wages are published in January of each year from this point forward.

Conclusion – Response accepted.

- (8) Deposits and Investments – Except as noted above, 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.
- (9) Annual Financial Report – The 2004 Annual Financial Report was not filed by December 1 as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The Annual Financial Report should be completed and filed in accordance with Chapter 384.22 of the Code of Iowa.

Response – The annual financial report will be completed and filed in accordance with Chapter 384.22 of the Code of Iowa.

Conclusion – Response accepted.

- (10) Loan Agreements – The City's loan agreements do not state the authority under which the City entered into the debt.

There was no evidence of a public hearing prior to authorization of the loan agreement for playground equipment. In accordance with Chapter 384.24A of the Code of Iowa, a public hearing should have been held prior to the City entering into a debt agreement. In addition, the Mayor signed the loan agreement prior to Council approval of the transaction.

Recommendation – The City's loan agreements should clearly state the authority under which the City is entering into debt.

The City should comply with requirements in the Code of Iowa for issuing debt.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

Response – The City’s loan agreements will clearly state the authority under which the City is entering into debt and will comply with the requirements in the Code of Iowa for issuing debt.

Conclusion – Response accepted.

- (11) Development Agreement – The Owen Tax Increment Development Agreement requires annual payments equal to two-thirds of the incremental property tax attributable to the Urban Renewal Area under development which have been received by the City prior to that date. During the year ended June 30, 2004, the required payment was not made.

Recommendation – The City should make the payment as required by the development agreement.

Response – The City will make the payment required by the development agreement.

Conclusion – Response accepted. The City made the payment in July 2004.

- (12) Financial Condition – The City had the following deficit balances at June 30, 2004:

Special Revenue Funds:	
Employee Benefits	\$ 6,539
Emergency	769
Urban Renewal Tax Increment	24,910
Debt Service Fund	51,813
Capital Projects Fund	4,295

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

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

Conclusion – Response accepted.

- (13) Rebates – A City resolution provides for a rebate on the purchase price of a three-acre lot in Rock Creek Heights subdivision when a minimum construction cost is attained. The rebate results in a downward adjustment of \$2,000 in lot price for every \$10,000 in principal structure construction costs over \$110,000, such that the lot cost is never less than \$10,050. We examined the applications and assessed values of the properties which received rebates. Two rebates paid at the maximum of \$8,000 should have been paid at \$4,000 based on supporting documentation.

Recommendation – The City should consult with legal counsel to resolve this matter.

City of Maxwell

Schedule of Findings

Year ended June 30, 2004

Response – The City will consider having the City Attorney look further into this matter to see if a resolution is available.

Conclusion – Response acknowledged. The City should consult legal counsel.

- (14) Worker's Compensation – A former City employee received worker's compensation benefits during fiscal year 2001 due to two separate injuries. As allowed by law, the employee used accumulated sick leave, vacation and comp time balances while receiving temporary total disability benefits paid through worker's compensation. During our audit, we noted the City paid vacation and comp time benefits to the employee in excess of earned balances.

Recommendation – The City should consult with legal counsel to resolve this matter.

Response – The City will consider having the City Attorney look further into this matter to see if a resolution is available.

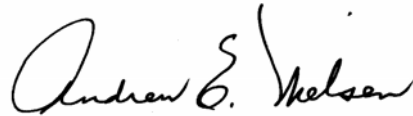
Conclusion – Response acknowledged. The City should consult legal counsel.

City of Maxwell

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Lesley R. Geary, CPA Senior Auditor II
Jennifer R. Edgar, 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