

City of Maquoketa

Financial Report

June 30, 2010

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City of Maquoketa

List of Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------------|-------------------|---------------------|
| (Before January 1, 2010) | | |
| Tom Messerli | Mayor | January 1, 2010 |
| Ed Turney | Council Member | January 1, 2012 |
| Neil Morehead | Council Member | January 1, 2012 |
| Eric Pape | Council Member | January 1, 2012 |
| Margo Shouse | Council Member | January 1, 2012 |
| Jason Hute | Council Member | January 1, 2010 |
| Tim Clark | Council Member | January 1, 2010 |
| Galen Saunders | Council Member | January 1, 2010 |
| Brian Wagner | City Manager | Indefinite |
| Judy Carr | Deputy City Clerk | Indefinite |
| Diane Frandsen | City Treasurer | Indefinite |
| Mark Lawson | City Attorney | Indefinite |
| (After January 1, 2010) | | |
| Jason Hute | Mayor | January 1, 2012 |
| Don Schwenker | Council Member | January 1, 2014 |
| Todd Mang | Council Member | January 1, 2014 |
| Amy Moore | Council Member | January 1, 2014 |
| Eric Pape | Council Member | January 1, 2012 |
| Ed Turney | Council Member | January 1, 2012 |
| Neil Morehead | Council Member | January 1, 2012 |
| Margo Shouse | Council Member | January 1, 2012 |
| Brian Wagner | City Manager | Indefinite |
| Judy Carr | Deputy City Clerk | Indefinite |
| Diane Frandsen | City Treasurer | Indefinite |
| Ken Wright | City Attorney | Indefinite |



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Maquoketa
Maquoketa, Iowa

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 Maquoketa, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the management of the City of Maquoketa, Iowa. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Maquoketa Municipal Electric Utility, a discretely presented component unit of the City of Maquoketa. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Maquoketa Municipal Electric Utility, is based solely on the report of other auditors.

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

In our opinion, 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 Maquoketa as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of the City of Maquoketa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 26 through 27 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City of Maquoketa, Iowa, has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Maquoketa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (none of which are presented herein), and expressed unqualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HONKAMP KRUEGER & CO., P.C.

A handwritten signature in cursive script that reads "Honkamp Krueger & Co." The signature is written in black ink and is positioned to the left of the printed company name.

Dubuque, Iowa
December 3, 2010

City of Maquoketa
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2010

| | | Program Receipts | | |
|--|------------------------|---|---|-------------------|
| Disbursements | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest | |
| Functions / Programs: | | | | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Public Safety | \$ 1,090,802 | \$ 4,020 | \$ 236,872 | \$ - |
| Public Works | 1,709,713 | 101,650 | 542,004 | 273,655 |
| Culture and Recreation | 1,754,677 | 600,577 | 109,836 | - |
| Community and Economic Development | 773,117 | 14 | 124,196 | - |
| General Government | 467,813 | 187,796 | 107,559 | - |
| Debt Service | 1,081,752 | - | - | - |
| Capital Projects | 218,783 | - | - | 651,550 |
| Total Governmental Activities | 7,096,657 | 894,057 | 1,120,467 | 925,205 |
| Business Type Activities: | | | | |
| Water Utility | 653,374 | 664,201 | - | - |
| Wastewater Treatment | 955,873 | 878,140 | - | - |
| Stormwater | 1,852 | 122,290 | - | - |
| Total Business Type Activities | 1,611,099 | 1,664,631 | - | - |
| Total Primary Government | \$ 8,707,756 | \$ 2,558,688 | \$ 1,120,467 | \$ 925,205 |
| Component Unit: | | | | |
| Maquoketa Municipal Electric Utility | \$ 9,525,843 | \$ 9,288,934 | \$ - | \$ - |
| General Receipts: | | | | |
| Property Tax Levied for: | | | | |
| General Purposes | | | | |
| Insurance | | | | |
| Employee Benefits | | | | |
| Debt Service | | | | |
| Tax Increment Financing | | | | |
| Local Option Sales Tax | | | | |
| Hotel/Motel Tax | | | | |
| Licenses, Permits, and Franchise Fees | | | | |
| Franchise Tax | | | | |
| Unrestricted Interest on Investments | | | | |
| Bond Proceeds | | | | |
| Miscellaneous | | | | |
| Sale of Assets | | | | |
| Interfund Loans | | | | |
| Transfers In (Out) | | | | |
| 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: | | | | |
| Expendable: | | | | |
| Streets | | | | |
| Urban Renewal Purposes | | | | |
| Debt Service | | | | |
| Other Purposes | | | | |
| Unrestricted | | | | |
| Total Cash Basis Net Assets | | | | |

Exhibit A

| Net (Disbursements) Receipts and Change in Cash Basis Net Assets | | | |
|---|-----------------------------|---------------------|---------------------|
| Governmental Activities | Business Type Activities | Total | Component Unit |
| \$ (849,910) | \$ - | \$ (849,910) | \$ - |
| (792,404) | - | (792,404) | - |
| (1,044,264) | - | (1,044,264) | - |
| (648,907) | - | (648,907) | - |
| (172,458) | - | (172,458) | - |
| (1,081,752) | - | (1,081,752) | - |
| 432,767 | - | 432,767 | - |
| <u>(4,156,928)</u> | <u>-</u> | <u>(4,156,928)</u> | <u>-</u> |
| - | 10,827 | 10,827 | - |
| - | (77,733) | (77,733) | - |
| - | 120,438 | 120,438 | - |
| - | 53,532 | 53,532 | - |
| <u>(4,156,928)</u> | <u>53,532</u> | <u>(4,103,396)</u> | <u>-</u> |
| - | - | - | (236,909) |
| 1,275,155 | - | 1,275,155 | - |
| 65,972 | - | 65,972 | - |
| 454,705 | - | 454,705 | - |
| 169,221 | - | 169,221 | - |
| 1,597,006 | - | 1,597,006 | - |
| 445,578 | - | 445,578 | - |
| 63,504 | - | 63,504 | - |
| 13,276 | - | 13,276 | - |
| 215,459 | - | 215,459 | - |
| 16,910 | 12,927 | 29,837 | 59,398 |
| 330,000 | 142,931 | 472,931 | - |
| 507,014 | 290 | 507,304 | 191,888 |
| 150 | - | 150 | - |
| - | - | - | - |
| 118,828 | (118,828) | - | - |
| <u>5,272,778</u> | <u>37,320</u> | <u>5,310,098</u> | <u>251,286</u> |
| 1,115,850 | 90,852 | 1,206,702 | 14,377 |
| <u>3,899,860</u> | <u>1,466,808</u> | <u>5,366,668</u> | <u>5,028,009</u> |
| <u>\$ 5,015,710</u> | <u>\$ 1,557,660</u> | <u>\$ 6,573,370</u> | <u>\$ 5,042,386</u> |
| \$ 292,041 | \$ - | \$ 292,041 | \$ - |
| 698,270 | - | 698,270 | - |
| 212,234 | 94,464 | 306,698 | - |
| 1,264,287 | - | 1,264,287 | - |
| <u>2,548,878</u> | <u>1,463,196</u> | <u>4,012,074</u> | <u>5,042,386</u> |
| <u>\$ 5,015,710</u> | <u>\$ 1,557,660</u> | <u>\$ 6,573,370</u> | <u>\$ 5,042,386</u> |

See Notes to Financial Statements

City of Maquoketa
Statement of Cash Receipts, Disbursements, and Changes
in Cash Balances - Governmental Funds
As of and for the Year Ended June 30, 2010

| | General * | Capital Projects <u>General</u> |
|---|--------------|---------------------------------------|
| Receipts: | | |
| Property Tax | \$ 1,404,631 | \$ - |
| Tax Increment Financing Collections | - | - |
| Other City Tax | 215,459 | - |
| Licenses and Permits | 13,276 | - |
| Use of Money and Property | 243,723 | 8,413 |
| Intergovernmental | 647,577 | 1,550 |
| Charges for Service | 706,261 | - |
| Miscellaneous | 406,513 | - |
| Total Receipts | 3,637,440 | 9,963 |
| Disbursements: | | |
| Operating: | | |
| Public Safety | 965,874 | - |
| Public Works | 1,248,070 | - |
| Culture and Recreation | 1,630,763 | - |
| Community and Economic Development | 353,954 | - |
| General Government | 414,835 | - |
| Debt Service | - | 6,935 |
| Capital Projects | - | 212,073 |
| Total Disbursements | 4,613,496 | 219,008 |
| Excess (Deficiency) of Receipts over (under) Disbursements | (976,056) | (209,045) |
| Other Financing Sources (Uses) | | |
| Sale of Capital Assets | 150 | - |
| Bond Proceeds | - | 330,000 |
| Operating Transfers In | 457,240 | 450,936 |
| Operating Transfers Out | (262,213) | (673,236) |
| Total Other Financing Sources (Uses) | 195,177 | 107,700 |
| Net Change in Cash Balances | (780,879) | (101,345) |
| Cash Balances, Beginning of Year | 3,191,426 | 1,086,255 |
| Cash Balances, End of Year | \$ 2,410,547 | \$ 984,910 |
| Cash Basis Fund Balances | | |
| Reserved: | | |
| Debt Service | \$ - | \$ - |
| Unreserved: | | |
| General Fund | 2,410,547 | - |
| Special Revenue Funds | - | - |
| Capital Project Funds | - | 984,910 |
| Total Cash Basis Fund Balances | \$ 2,410,547 | \$ 984,910 |

* See Note 16 for a breakdown of individual funds comprising the General Fund

Exhibit B

| Special Revenue | | Debt Service | Other Nonmajor Governmental Funds | Total |
|--------------------------------|-------------------|-------------------|--|---------------------|
| Urban Renewal Tax Increment | Road Use Tax | | | |
| \$ - | \$ - | \$ 169,221 | \$ 454,705 | \$ 2,028,557 |
| 1,597,006 | - | - | - | 1,597,006 |
| - | - | - | 445,578 | 661,037 |
| - | - | - | - | 13,276 |
| - | - | - | 2,364 | 254,500 |
| - | 639,903 | - | - | 1,289,030 |
| - | - | - | - | 706,261 |
| - | - | - | 744,662 | 1,151,175 |
| <u>1,597,006</u> | <u>639,903</u> | <u>169,221</u> | <u>1,647,309</u> | <u>7,700,842</u> |
| - | - | - | 67,426 | 1,033,300 |
| - | 322,069 | - | 49,446 | 1,619,585 |
| - | - | - | 31,416 | 1,662,179 |
| 187,707 | - | - | 190,701 | 732,362 |
| - | - | - | 28,317 | 443,152 |
| - | - | 1,074,817 | - | 1,081,752 |
| - | - | - | 6,710 | 218,783 |
| <u>187,707</u> | <u>322,069</u> | <u>1,074,817</u> | <u>374,016</u> | <u>6,791,113</u> |
| <u>1,409,299</u> | <u>317,834</u> | <u>(905,596)</u> | <u>1,273,293</u> | <u>909,729</u> |
| - | - | - | - | 150 |
| - | - | - | - | 330,000 |
| - | - | 1,072,394 | 364,564 | 2,345,134 |
| <u>(592,058)</u> | <u>(241,228)</u> | <u>-</u> | <u>(706,847)</u> | <u>(2,475,582)</u> |
| <u>(592,058)</u> | <u>(241,228)</u> | <u>1,072,394</u> | <u>(342,283)</u> | <u>199,702</u> |
| 817,241 | 76,606 | 166,798 | 931,010 | 1,109,431 |
| (118,971) | 215,435 | 45,436 | (651,633) | 3,767,948 |
| <u>\$ 698,270</u> | <u>\$ 292,041</u> | <u>\$ 212,234</u> | <u>\$ 279,377</u> | <u>\$ 4,877,379</u> |
| \$ - | \$ - | \$ 212,234 | \$ - | \$ 212,234 |
| - | - | - | - | 2,410,547 |
| 698,270 | 292,041 | - | 121,028 | 1,111,339 |
| - | - | - | 158,349 | 1,143,259 |
| <u>\$ 698,270</u> | <u>\$ 292,041</u> | <u>\$ 212,234</u> | <u>\$ 279,377</u> | <u>\$ 4,877,379</u> |

See Notes to Financial Statements

City of Maquoketa
Reconciliation of the Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances to the Statement of Activities
and Net Assets - Governmental Funds
As of and for the Year Ended June 30, 2010

Total Governmental Funds Cash Balance (page 5) \$ 4,877,379

***Amounts Reported for Governmental Activities in the
Statement of Activities and Net Assets Are Different because:***

The Internal Service Funds are used by management to charge the costs of partial self-funding of the City's health insurance benefit plan and payroll costs to individual funds. The assets of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.

138,331

Cash Basis Net Assets of Governmental Activities (page 4) \$ 5,015,710

Net Change in Cash Balances (page 5) \$ 1,109,431

***Amounts Reported for Governmental Activities in the
Statement of Activities and Net Assets Are Different because:***

The Internal Service Funds are used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

6,419

Change in Cash Balance of Governmental Activities (page 4) \$ 1,115,850

City of Maquoketa
Statement of Cash Receipts, Disbursements, and Changes in
Cash Balances - Proprietary Funds
As of and for the Year Ended June 30, 2010

| | Enterprise Funds | |
|---|------------------|-------------------------|
| | Water Utility | Wastewater Treatment |
| Operating Receipts: | | |
| Use of Money and Property | \$ 7,056 | \$ 5,871 |
| Charges for Service | 654,965 | 864,996 |
| Miscellaneous | - | 13,144 |
| Total Operating Receipts | 662,021 | 884,011 |
| Operating Disbursements: | | |
| Governmental Activities: | | |
| Public Safety | - | - |
| Public Works | - | - |
| Culture and Recreation | - | - |
| Community and Economic Development | - | - |
| General Government | - | - |
| Business Type Activities | 653,374 | 955,873 |
| Total Operating Disbursements | 653,374 | 955,873 |
| Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements | 8,647 | (71,862) |
| Non-Operating Receipts (Disbursements): | | |
| Intergovernmental | - | - |
| Miscellaneous | 9,526 | - |
| General Obligation Bond Proceeds | - | 142,931 |
| Total Non-Operating Receipts (Disbursements) | 9,526 | 142,931 |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | 18,173 | 71,069 |
| Other Financing Sources (Uses) | | |
| Interfund Loans | - | - |
| Operating Transfers In | 5,000 | 111,395 |
| Operating Transfers Out | (213,188) | (252,732) |
| Total Other Financing Sources (Uses) | (208,188) | (141,337) |
| Net Change in Cash Balances | (190,015) | (70,268) |
| Cash Balances Beginning of Year | 855,264 | 921,993 |
| Cash Balances End of Year | \$ 665,249 | \$ 851,725 |
| Cash Basis Fund Balances | | |
| Reserved for Debt Service | \$ - | \$ 94,464 |
| Unreserved | 665,249 | 757,261 |
| Total Cash Basis Fund Balance | \$ 665,249 | \$ 851,725 |

Exhibit D

| Enterprise Funds | | Internal Service Fund |
|------------------|--------------|--------------------------|
| Storm Water | Total | Employee Health |
| \$ - | \$ 12,927 | \$ 380 |
| 122,290 | 1,642,251 | 62,155 |
| - | 13,144 | 152 |
| 122,290 | 1,668,322 | 62,687 |
| - | - | 57,502 |
| - | - | 90,128 |
| - | - | 92,498 |
| - | - | 40,755 |
| - | - | 24,661 |
| 1,852 | 1,611,099 | - |
| 1,852 | 1,611,099 | 305,544 |
| 120,438 | 57,223 | (242,857) |
| - | - | - |
| - | 9,526 | - |
| - | 142,931 | - |
| - | 152,457 | - |
| 120,438 | 209,680 | (242,857) |
| - | - | - |
| 308,672 | 425,067 | 249,276 |
| (77,975) | (543,895) | - |
| 230,697 | (118,828) | 249,276 |
| 351,135 | 90,852 | 6,419 |
| (310,449) | 1,466,808 | 131,912 |
| \$ 40,686 | \$ 1,557,660 | \$ 138,331 |
| - | - | - |
| \$ - | \$ 94,464 | \$ - |
| 40,686 | 1,463,196 | 138,331 |
| \$ 40,686 | \$ 1,557,660 | \$ 138,331 |

See Notes to Financial Statements

City of Maquoketa
Reconciliation of the Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances to the Statement of Activities
and Net Assets - Proprietary Funds
As of and for the Year Ended June 30, 2010

| | |
|---|---------------------|
| Total Enterprise Funds Cash Balance (page 7) | \$ 1,557,660 |
| <i>Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets Are Different because:</i> | |
| None | - |
| Cash Basis Net Assets of Business Type Activities (page 4) | <u>\$ 1,557,660</u> |
| Net Change in Cash Balances (page 7) | \$ 90,852 |
| <i>Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets Are Different because:</i> | |
| None | - |
| Change in Cash Balance of Business Type Activities (page 4) | <u>\$ 90,852</u> |

City of Maquoketa
Statement of Cash Receipts, Disbursements, and Changes
in Cash Balances - Fiduciary Funds
As of and for the Year Ended June 30, 2010

| | <u>Police Retirement System</u> |
|---|---|
| Additions: | |
| Contributions: | |
| Plan Members | \$ 45,550 |
| Total Contributions | <u>45,550</u> |
| Investment Earnings: | |
| Net (Decrease) in Fair Value of Investments | (27,196) |
| Interest | 6,806 |
| Total Investment (Loss) | <u>(20,390)</u> |
| Total Additions | <u>25,160</u> |
| Deductions: | |
| Benefits | <u>70,190</u> |
| Total Deductions | <u>70,190</u> |
| Other Financing Sources (Uses): | |
| Interfund Loan | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>-</u> |
| Net Change in Cash Balances | (45,030) |
| Cash Balances - Beginning of the Year | <u>328,625</u> |
| Cash Balances- End of the Year | <u><u>\$ 283,595</u></u> |

City of Maquoketa

Notes to Financial Statements

NOTE 1. Nature of Organization and Significant Accounting Policies

The City of Maquoketa (the "City") is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1837 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, culture, recreation, public improvements, and general administrative services. The City also provides water and sewer utilities for its citizens.

The significant accounting policies of the City of Maquoketa are as follows:

Reporting Entity

For financial reporting purposes, the City of Maquoketa 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 Maquoketa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately, and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Maquoketa Municipal Electric Utility is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, and its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the Mayor and confirmed by the City Council, and the Utility's operating budget is subject to the approval of the City Council. The utility has a December 31 year-end.

City of Maquoketa

Notes to Financial Statements

NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

Jointly Governed Organizations

The City also 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:

Civil Service Commission
Jackson County Landfill Board
Jackson County E911 Board

Basis of Presentation

Government-Wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all of the non-fiduciary 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 services.

The Statement of Activities and Net Assets – Cash Basis presents the City's non-fiduciary 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 – Cash Basis 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

City of Maquoketa

Notes to Financial Statements

NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

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

Capital Projects:

The General (CIP) Fund is used to account for resources used in the acquisition or construction of major capital facilities and capital assets in the City's general operations.

Special Revenue:

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

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

The Debt Service Fund accounts for the payment of interest and principal on the City's general long-term debt except when authorized or required to be paid from other funds.

The City reports the following major proprietary funds:

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

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

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

City of Maquoketa

Notes to Financial Statements

NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The City also reports fiduciary funds which focus on net assets and changes in net assets. The City's fiduciary funds include the following:

The Police Retirement System Fund is used to account for assets of the police pension plan held by the City in a trustee capacity.

Measurement Focus and Basis of Accounting

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

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

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

Recently Adopted Accounting Pronouncements

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective for the fiscal year ending June 30, 2010. This Statement establishes standards for the measurement, recognition, and display of

City of Maquoketa

Notes to Financial Statements

NOTE 1. Nature of Organization and Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements (Continued)

other postemployment benefit (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers.

In June 2005, the Governmental Accounting Standards Board (GASB) issued Statement No. 47, *Accounting for Termination Benefits*, which established accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement No. 45. For all other termination benefits, this Statement was effective for fiscal year ended June 30, 2006.

Effective June 30, 2010, the City adopted the two pronouncements referred to above. Please refer to Note 6, Other Postemployment Benefits (OPEB), for more information regarding these items.

NOTE 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2010, 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.

At June 30, 2010, the City had the following investments, which are held in the Police Pension and Library Corporation funds:

| Type | Carrying Amount | Fair Value | Maturity |
|--------------|-----------------|------------|----------|
| Mutual Funds | \$ 635,221 | \$ 592,981 | ---- |
| Stocks | 623,783 | 532,957 | ---- |

City of Maquoketa

Notes to Financial Statements

NOTE 2. Cash and Pooled Investments (Continued)

| Type | Carrying Amount | Fair Value | Maturity |
|--------------------------------------|--------------------|---------------|------------|
| Corporate Bonds: | | | |
| General Electric Cap. Corp. | \$ 25,000 | \$ 25,299 | 5/9/2018 |
| General Electric Cap Corp Internotes | 10,000 | 10,499 | 5/15/2015 |
| Consolidated Edison Co. | 30,238 | 33,761 | 12/15/2015 |
| Bank Amer Corp Sub Internotes | 39,116 | 41,782 | 3/15/2016 |
| Mid American Energy Co. | 38,996 | 45,981 | 7/15/2017 |
| Conoco Phillips | 32,973 | 38,838 | 5/15/2018 |
| Walgreen Co. | 14,174 | 15,908 | 1/15/2019 |
| AT&T Corp | 19,871 | 22,556 | 2/15/2019 |
| Provident Bank MD | 30,000 | 30,057 | 7/23/2010 |
| HSBC Fin Corp HSBC Fin Internotes | 44,944 | 45,860 | 4/15/2011 |
| Ameris Bank Moultrie, GA | 45,000 | 45,672 | 12/2/2014 |
| Merrill Lynch & Co Inc | 20,105 | 20,993 | 2/5/2013 |
| JP Morgan Chase Cap XI | 37,589 | 36,768 | 6/15/2033 |
| PNC Capital Trust D | 37,500 | 35,100 | 12/15/2033 |
| JP Morgan Chase Moody AA3 | 29,123 | 30,138 | 3/25/2020 |
| Collingswood NJ Taxable | 26,815 | 26,392 | 6/1/2022 |
| U.S. Government Bonds: | | | |
| Federal Home Ln Bks Deb 6.00% | 25,000 | 26,344 | 7/12/2016 |
| FHLB 6.00% | 25,000 | 27,219 | 8/22/2022 |
| GNMA Pool #493023 6.00% | 879 | 591 | 11/15/2013 |

Certain investments included above that are held by the Police Retirement System Fund (Fiduciary fund) in the amount of \$254,699 are reported at fair value in the financial statements because the original cost of these investments is unknown.

NOTE 3. Bond and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, revenue bonds, and notes payable are as follows:

| Year Ending June 30 | General Obligation Capital Loan Notes | | Capital Lease Obligations | |
|---------------------------|--|------------|---------------------------|----------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 521,884 | \$ 140,235 | \$ 34,106 | \$ 9,497 |
| 2012 | 569,000 | 118,768 | 35,901 | 7,702 |
| 2013 | 586,000 | 97,709 | 37,791 | 5,813 |
| 2014 | 583,000 | 75,628 | 39,780 | 3,824 |
| 2015 | 360,000 | 53,300 | 41,874 | 1,731 |

City of Maquoketa

Notes to Financial Statements

NOTE 3. Bond and Notes Payable (Continued)

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, revenue bonds, and notes payable are as follows:

| Year Ending June 30 | General Obligation Capital Loan Notes | | Capital Lease Obligations | |
|---------------------------|--|-------------------|---------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2016 | \$ 125,000 | \$ 38,937 | \$ 10,809 | \$ 92 |
| 2017 | 125,000 | 33,375 | ---- | ---- |
| 2018 | 125,000 | 27,812 | ---- | ---- |
| 2019 | 125,000 | 22,250 | ---- | ---- |
| 2020 | 125,000 | 16,688 | ---- | ---- |
| 2021 | 125,000 | 11,125 | ---- | ---- |
| 2022 | 125,000 | 5,563 | ---- | ---- |
| 2023 | ---- | ---- | ---- | ---- |
| 2024 | ---- | ---- | ---- | ---- |
| 2025 | ---- | ---- | ---- | ---- |
| 2026 | ---- | ---- | ---- | ---- |
| 2027 | ---- | ---- | ---- | ---- |
| 2028 | ---- | ---- | ---- | ---- |
| 2029 | ---- | ---- | ---- | ---- |
| | <u>\$ 3,494,884</u> | <u>\$ 641,390</u> | <u>\$ 200,261</u> | <u>\$ 28,659</u> |

| Year Ending June 30 | Jet Fuel Tank Contract | | Revenue Bonds | |
|---------------------------|------------------------|------------------|-----------------|----------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 5,127 | \$ 2,873 | \$ 2,000 | \$ ---- |
| 2012 | 5,632 | 2,368 | ---- | ---- |
| 2013 | 6,186 | 1,814 | ---- | ---- |
| 2014 | 6,795 | 1,205 | ---- | ---- |
| 2015 | 10,774 | 2,147 | ---- | ---- |
| 2016 | ---- | ---- | ---- | ---- |
| 2017 | ---- | ---- | ---- | ---- |
| 2018 | ---- | ---- | ---- | ---- |
| 2019 | ---- | ---- | ---- | ---- |
| 2020 | ---- | ---- | ---- | ---- |
| 2021 | ---- | ---- | ---- | ---- |
| 2022 | ---- | ---- | ---- | ---- |
| 2023 | ---- | ---- | ---- | ---- |
| 2024 | ---- | ---- | ---- | ---- |
| 2025 | ---- | ---- | ---- | ---- |
| 2026 | ---- | ---- | ---- | ---- |
| 2027 | ---- | ---- | ---- | ---- |
| 2028 | ---- | ---- | ---- | ---- |
| 2029 | ---- | ---- | ---- | ---- |
| | <u>\$ 34,514</u> | <u>\$ 10,407</u> | <u>\$ 2,000</u> | <u>\$ ----</u> |

City of Maquoketa

Notes to Financial Statements

NOTE 3. Bond and Notes Payable (Continued)

| Year Ending June 30 | General Obligation Notes | | Revenue Notes | | Total | |
|---------------------------|--------------------------|-------------------|---------------------|---------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | \$ 90,000 | \$ 155,165 | \$ 184,000 | \$ 126,987 | \$ 837,117 | \$ 434,757 |
| 2012 | 95,000 | 151,250 | 190,000 | 121,410 | 895,533 | 401,498 |
| 2013 | 95,000 | 146,975 | 196,000 | 115,635 | 920,977 | 367,946 |
| 2014 | 100,000 | 142,605 | 201,000 | 109,680 | 930,575 | 332,942 |
| 2015 | 775,000 | 137,905 | 208,000 | 103,545 | 1,395,648 | 298,628 |
| 2016 | 760,000 | 96,690 | 214,000 | 97,230 | 1,109,809 | 232,949 |
| 2017 | 810,000 | 55,650 | 338,000 | 88,950 | 1,273,000 | 177,975 |
| 2018 | 200,000 | 11,100 | 348,000 | 78,660 | 673,000 | 117,572 |
| 2019 | ---- | ---- | 360,000 | 68,055 | 485,000 | 90,305 |
| 2020 | ---- | ---- | 369,000 | 57,120 | 494,000 | 73,808 |
| 2021 | ---- | ---- | 381,000 | 45,870 | 506,000 | 56,995 |
| 2022 | ---- | ---- | 392,000 | 34,275 | 517,000 | 39,838 |
| 2023 | ---- | ---- | 345,687 | 22,350 | 345,687 | 22,350 |
| 2024 | ---- | ---- | 164,000 | 13,830 | 164,000 | 13,830 |
| 2025 | ---- | ---- | 168,000 | 8,850 | 168,000 | 8,850 |
| 2026 | ---- | ---- | 173,000 | 3,735 | 173,000 | 3,735 |
| 2027 | ---- | ---- | 4,931 | 585 | 4,931 | 585 |
| 2028 | ---- | ---- | 2,000 | 120 | 2,000 | 120 |
| 2029 | ---- | ---- | 3,000 | 60 | 3,000 | 60 |
| | <u>\$ 2,925,000</u> | <u>\$ 897,340</u> | <u>\$ 4,241,618</u> | <u>\$ 1,096,947</u> | <u>\$ 10,898,277</u> | <u>\$ 2,674,743</u> |

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City; however, the debt is subject to the constitutional debt limit of the City.

The resolutions providing for the issuance of the sewer revenue note and the sewer revenue bonds – DNR revolving loan include the following provisions:

- a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- b) Gross revenues of the sewer utility shall be set aside into a sewer revenue account. This account shall be used in maintaining and operating the sewer utility and, after payment of operating expenses, shall be used to pay the principal and interest on the bonds. This account is also used to maintain the several separate accounts required to be set up by the bond resolutions.

City of Maquoketa

Notes to Financial Statements

NOTE 3. Bond and Notes Payable (Continued)

- c) Sufficient monthly transfers shall be made to a sewer revenue bonds sinking account for the purpose of making the bond principal and interest payments when the sewer revenue account does not have the funds available. The monthly amount required for the sewer revenue bonds sinking account shall not be less than one-sixth of the upcoming interest payment plus one-twelfth of the upcoming principal payment.
- d) Monthly transfers shall be made to a sewer revenue bond reserve account of an amount equal to that deposited into the sewer revenue bond sinking account until a specific minimum balance has been accumulated. Any additional amounts over the required sewer revenue bond reserve minimum balance should be deposited into the sewer revenue account. The sewer revenue bond reserve account is restricted for the purpose of paying the principal and interest on the notes and bonds when insufficient money is available in the respective sinking accounts.
- e) All net revenues remaining from the sewer utility after first making the required payments into the sewer sinking account and the sewer reserve account, and after the sewer reserve account contains the required reserve fund balance, shall be transferred to the sewer surplus account. All monies credited to the surplus account shall be transferred and credited to the sinking account or reserve account whenever a deficiency may exist. If both the sinking account and the reserve account have the full amounts required to be deposited, any balance in the surplus account may be available to the City for operation of the sewer utility.

The 2009 equalized valuation of taxable property of the City, as certified by Jackson County, Iowa, is \$298,292,590. The legal debt limit as of June 30, 2010, in accordance with the Iowa Constitution Article XI.3 follows:

| | |
|----------------------------------|----------------------|
| Debt Limit (5% of \$298,292,590) | <u>\$ 14,914,630</u> |
|----------------------------------|----------------------|

NOTE 4. Interfund Loans

During the year ended June 30, 2006, the General Capital Improvements Fund loaned \$354,032 to the Urban Renewal Tax Increment Fund to pay off TIF related debt and save interest costs. The loan bears interest at 8.0% per annum, and will be repaid upon a schedule to be determined by the Maquoketa City Council. At June 30, 2010, the outstanding balance was \$34,442.

City of Maquoketa

Notes to Financial Statements

NOTE 5. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement Systems (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 4.30% of their annual salary, and the City is required to contribute 6.65% of covered salary, except for police employees, in which case the percentages are 6.14% and 9.20%, respectively. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$60,979, \$54,972, and \$51,753, respectively, equal to the required contributions for each year.

The City also contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of their earnable compensation, and the City's contribution rate, based on an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2010, 2009, and 2008, were \$128,112, \$90,722, and \$116,571, respectively, which met the required minimum contribution for each year.

NOTE 6. Other Post Employment Benefits (OPEB)

Plan Description - The City operates a single-employer benefit plan which provides medical/prescription drug benefits for active employees, retirees and their spouses. There are 28 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug, disability and life benefits are provided through a partially self funded insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

City of Maquoketa

Notes to Financial Statements

NOTE 6. Other Post Employment Benefits (OPEB) (Continued)

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$582 for single coverage and \$1,183 for family coverage. The same monthly premiums apply to retirees, and the retiree is responsible for the entire premium. For the year ended June 30, 2010, the City contributed \$254,680 and plan members eligible for benefits contributed \$59,321 to the plan. The City has one retired employee who qualifies as disabled under the Chapter 411 Plan. The City is required to pay for all medical conditions related to his heart condition. In addition to the premium costs listed above, the City paid \$5,117 (health premiums and medication) in medical expenses for this retired employee for the year ended June 30, 2010.

NOTE 7. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, and holiday 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 compensated absences payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-------------------|
| Vacation | \$ 66,202 |
| Sick Leave | 43,302 |
| Total | <u>\$ 109,504</u> |

Sick leave is accumulated and paid out upon separation from the City's employment only to employees hired before July 1, 1990. If sick leave is paid upon termination, retirement, or death, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee. This liability has been computed based on rates of pay as of June 30, 2010.

City of Maquoketa

Notes to Financial Statements

NOTE 8. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

| <u>Transfer To:</u> | <u>Transfer From:</u> | <u>Amount</u> |
|---------------------|-----------------------------|---------------------|
| General | Special Revenue: | |
| | Road Use Tax | \$ 13,756 |
| | Local Option Sales Tax | 325,134 |
| | Employee Benefits | 29,000 |
| | Enterprise: | |
| | Water Utility | 40,828 |
| | Wastewater Utility | 48,522 |
| | | <u>\$ 457,240</u> |
| Capital Projects: | | |
| General | General | \$ 73,035 |
| | Special Revenue: | |
| | Road Use Tax | 189,918 |
| | Urban Renewal Tax Increment | 178,934 |
| | Local Option Sales Tax | 9,049 |
| | | <u>\$ 450,936</u> |
| ARC | Capital Projects: | |
| | General | <u>\$ 364,564</u> |
| Debt Service | Special Revenue: | |
| | Road Use Tax | \$ 37,554 |
| | Urban Renewal Tax Increment | 413,124 |
| | General | 167,171 |
| | Enterprise: | |
| | Water Utility | 172,360 |
| | Wastewater Utility | 204,210 |
| | Storm Water Utility | 77,975 |
| | | <u>\$ 1,072,394</u> |
| Enterprise: | | |
| Water Utility | General | <u>\$ 5,000</u> |
| Wastewater Utility | Special Revenue: | |
| | Local Option Sales Tax | <u>\$ 111,395</u> |
| Storm Water Utility | Capital Projects: | |
| | General | <u>\$ 308,672</u> |

City of Maquoketa

Notes to Financial Statements

NOTE 8. Interfund Transfers (Continued)

| <u>Transfer To:</u> | <u>Transfer From:</u> | <u>Amount</u> |
|---|---------------------------------------|---------------------|
| Internal Service Fund: Employee Health | General | \$ 17,007 |
| | Special Revenue: Employee Benefits | 232,269 |
| | | <u>\$ 249,276</u> |
| | TOTAL | <u>\$ 3,019,477</u> |

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

NOTE 9. Related Party Transactions

The City had business transactions between the City and City officials, totaling \$307 during the year ended June 30, 2010.

NOTE 10. Risk Management

The City of Maquoketa, Iowa, 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.

Health benefits were fully insured through Blue Cross/Blue Shield, with the exception that the City pays a percent of each participant's deductible and co-insurance, which is set forth in the plan documents.

City of Maquoketa

Notes to Financial Statements

NOTE 11. Deficit Fund Balance

The Housing Assistance Program fund had a deficit fund balance in the amount of \$118,506 at June 30, 2010. The City will be receiving grant money, donations, and transfer funds to eliminate this deficit fund balance.

NOTE 12. Construction in Progress

The City has entered into various construction contracts totaling approximately \$4,547,981. The unpaid contract balances as of June 30, 2010, totaled approximately \$534,569, which will be paid as work on the projects progress.

NOTE 13. Economic Development Loan

The City has granted a corporation a ten-year \$200,000 forgivable loan to promote and assist economic growth through the development and expansion of qualified businesses, the creation of jobs, and expansion of the municipal tax base. The loan will be considered fully forgiven provided that the job performance target (500) and the project investment target (\$50,000,000) are met by the contract end date, which shall be ten years from the disbursement of the loan funds. The loan funds were disbursed on December 1, 2000. Any shortfalls to the agreement will become immediately due and payable, and shall bear an interest rate of 6% per annum. The loan is secured by a guaranty from Family Dollar Stores, Inc.

NOTE 14. Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met. Obligations under the agreement are subject to annual appropriation by the City Council. The total paid by the City under the agreements during the year ended June 30, 2010, was \$259,981. The City's obligation under these agreements for the fiscal year 2011 will not exceed \$241,995.

These agreements are not a general obligation of the City. However, the amount payable in the succeeding year is subject to the constitution debt limitation of the City.

City of Maquoketa

Notes to Financial Statements

NOTE 15. Lease Agreements

1. The City is a party to several operating leases. The leases are with various local companies and individuals for T-hangars and B-cap spaces at the municipal airport. The leases are on a month-to-month basis. The City charges \$80 per T-hangar and \$70 per B-cap space per month.
2. The City is a party to an operating lease for the north and south corporate hangars at the municipal airport. The lease runs from July 1, 2009, through June 30, 2012, and requires rental payments of \$293 and \$261 per month, respectively. The tenant is to pay all separately metered utilities, as well as \$20 per month to the City for heating and maintenance for the lobby and public restrooms.

NOTE 16. General Fund Cash Balance

The June 30, 2010 ending cash balance (the balance carried at financial institutions, reconciled for deposits in transit and outstanding checks) for the General Fund was \$2,410,547, as reflected on Exhibit B. Several funds comprise this balance, some of which may not be used for operations, and are as follows:

| <u>Fund Name</u> | | <u>Balance</u> |
|-----------------------|-------|---------------------|
| General | 001 | \$ 241,638 |
| YMCA Operating Acct. | 002 | 1,687 |
| Rehab | 014 | 11,532 |
| Insurance Reserve | 019 | 178,413 |
| Library | 031 | 15,424 |
| Library Corporation | 032 | 2,055,284 |
| Historic Preservation | 067 | 5,008 |
| Historic Preservation | 069 | 7,678 |
| Airport | 660 | (106,117) |
| | TOTAL | <u>\$ 2,410,547</u> |

NOTE 17. Scott County Family Y (YMCA) Agreement and Subsequent Event

During the year ending June 30, 2007, the City began constructing a new indoor pool and recreation center, known as the Area Recreation Center ("ARC"). On June 5, 2007, the City entered into an agreement with the Scott County Family Y (the "YMCA"), whereas the YMCA will act as the exclusive agent of the City to manage, operate, and maintain the ARC. The initial

City of Maquoketa

Notes to Financial Statements

NOTE 17. Scott County Family Y (YMCA) Agreement and Subsequent Event (Continued)

term of this agreement shall be three years commencing July 1, 2007. At the end of the initial term, this agreement may be extended for an additional term of ten years at the option of the YMCA. The City shall provide to the YMCA as support the sum of \$125,000 annually. This sum shall be paid in semi-annual installments of \$62,500 commencing July 1, 2007 and January 2, 2008 and continuing on each July 1 and January 2 thereafter during the term of this agreement. In addition, the City shall provide to the YMCA up to \$75,000 per year in "start-up" operating assistance to the facility for three calendar years commencing January 1, 2007.

Subsequent to June 30, 2010, the City and the YMCA renewed the agreement for a term of an additional five years, with an option to extend the agreement for an additional term of five years at the option of the YMCA. Under the terms of the agreement, the City shall provide to the YMCA support in an amount to be determined annually, and to be mutually agreed upon by both parties.

NOTE 18. Prospective Accounting Change

The Governmental Accounting Standards Board (GASB) has issued a statement not yet implemented by the City of Maquoketa. The statement, which may or may not impact the City of Maquoketa, is as follows:

Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued February 2009, will be effective for the fiscal year ending June 30, 2011. This Statement establishes new standards for fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The City's management has not yet determined the effect the statement will have on the City's financial statements.

NOTE 19. Subsequent Events

Subsequent events have been evaluated through December 3, 2010, which is the date the financial statements were available to be issued.

Required Supplementary Information

City of Maquoketa
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, 2010

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|---|
| | <u> </u> | <u> </u> | <u> </u> |
| Receipts: | | | |
| Property Tax | \$ 2,028,557 | \$ - | \$ - |
| Tax Increment Financing Collections | 1,597,006 | - | - |
| Other City Tax | 661,037 | - | - |
| Licenses and Permits | 13,276 | - | - |
| Use of Money and Property | 254,500 | 13,307 | 380 |
| Intergovernmental | 1,289,030 | - | - |
| Charges for Service | 706,261 | 1,704,406 | 62,155 |
| Miscellaneous | 1,151,175 | 22,822 | 152 |
| Total Receipts | <u>7,700,842</u> | <u>1,740,535</u> | <u>62,687</u> |
| Disbursements: | | | |
| Public Safety | 1,033,300 | 57,502 | 57,502 |
| Public Works | 1,619,585 | 90,128 | 90,128 |
| Culture and Recreation | 1,662,179 | 92,498 | 92,498 |
| Community and Economic Development | 732,362 | 40,755 | 40,755 |
| General Government | 443,152 | 24,661 | 24,661 |
| Debt Service | 1,081,752 | - | - |
| Capital Projects | 218,783 | - | - |
| Business Type Activities | - | 1,611,099 | - |
| Total Disbursements | <u>6,791,113</u> | <u>1,916,643</u> | <u>305,544</u> |
| Excess (Deficiency) of Receipts over (under) Disbursements | 909,729 | (176,108) | (242,857) |
| Other Financing Sources, Net | <u>199,702</u> | <u>273,379</u> | <u>249,276</u> |
| Excess (Deficiency) of Receipts and Other Financing Sources over (under) Disbursements and Other Financing Uses | 1,109,431 | 97,271 | 6,419 |
| Balances, Beginning of Year | <u>3,767,948</u> | <u>1,598,720</u> | <u>131,912</u> |
| Balances, End of Year | <u>\$ 4,877,379</u> | <u>\$ 1,695,991</u> | <u>\$ 138,331</u> |

| Net | Budgeted Amounts | | Final to Net Variance |
|---------------------|---------------------|---------------------|-----------------------|
| | Original | Final | |
| \$ 2,028,557 | \$ 1,957,971 | \$ 1,957,971 | \$ 70,586 |
| 1,597,006 | 1,760,784 | 1,760,784 | (163,778) |
| 661,037 | 662,902 | 690,102 | (29,065) |
| 13,276 | 11,465 | 11,465 | 1,811 |
| 267,427 | 273,661 | 338,561 | (71,134) |
| 1,289,030 | 1,542,865 | 3,031,154 | (1,742,124) |
| 2,348,512 | 2,305,437 | 2,309,137 | 39,375 |
| 1,173,845 | 323,836 | 948,640 | 225,205 |
| <u>9,378,690</u> | <u>8,838,921</u> | <u>11,047,814</u> | <u>(1,669,124)</u> |
| 1,033,300 | 1,035,565 | 1,262,090 | 228,790 |
| 1,619,585 | 1,566,126 | 2,280,926 | 661,341 |
| 1,662,179 | 1,311,938 | 1,757,138 | 94,959 |
| 732,362 | 504,359 | 950,609 | 218,247 |
| 443,152 | 457,494 | 482,994 | 39,842 |
| 1,081,752 | 1,332,755 | 1,346,272 | 264,520 |
| 218,783 | 484,475 | 571,875 | 353,092 |
| 1,611,099 | 1,696,699 | 2,108,239 | 497,140 |
| <u>8,402,212</u> | <u>8,389,411</u> | <u>10,760,143</u> | <u>2,357,931</u> |
| 976,478 | 449,510 | 287,671 | 688,807 |
| <u>223,805</u> | <u>-</u> | <u>495,065</u> | <u>(271,260)</u> |
| 1,200,283 | 449,510 | 782,736 | 417,547 |
| <u>5,234,756</u> | <u>5,219,126</u> | <u>5,366,668</u> | <u>(131,912)</u> |
| <u>\$ 6,435,039</u> | <u>\$ 5,668,636</u> | <u>\$ 6,149,404</u> | <u>\$ 285,635</u> |

See Accompanying Independent Auditor's Report

City of Maquoketa

Notes to Required Supplementary Information – Budgetary Reporting

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and 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 revenues by \$2,208,893 and increased budgeted disbursements by \$2,370,732. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Maquoketa
Statement of Cash Receipts, Disbursements, and
Changes in Cash Balances - Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2010

| | Special Revenue | | |
|---|-----------------|-----------------|--------------------------------------|
| | GREAT | Bi-Centennial | Economic Development Revolving |
| Receipts: | | | |
| Property Tax | \$ - | \$ - | \$ - |
| Tax Increment Financing Collections | - | - | - |
| Other City Tax | - | - | - |
| Use of Money and Property | - | - | 1,519 |
| Intergovernmental | - | - | - |
| Miscellaneous | - | 63 | - |
| Total Receipts | <u>-</u> | <u>63</u> | <u>1,519</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public Safety | 5 | - | - |
| Public Works | - | - | - |
| Culture and Recreation | - | 8 | - |
| Community and Economic Development | - | - | - |
| General Government | - | - | - |
| Debt Service | - | - | - |
| Capital Projects | - | - | - |
| Total Disbursements | <u>5</u> | <u>8</u> | <u>-</u> |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | <u>(5)</u> | <u>55</u> | <u>1,519</u> |
| Other Financing Sources (Uses): | | | |
| Bond Proceeds | - | - | - |
| Operating Transfers In | - | - | - |
| Operating Transfers Out | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Cash Balances | (5) | 55 | 1,519 |
| Cash Balances, Beginning of Year | <u>158</u> | <u>1,563</u> | <u>188,211</u> |
| Cash Balances, End of Year | <u>\$ 153</u> | <u>\$ 1,618</u> | <u>\$ 189,730</u> |
| Cash Basis Fund Balances | | | |
| Unreserved: | | | |
| Special Revenue Funds | \$ 153 | \$ 1,618 | \$ 189,730 |
| Capital Project Fund | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Cash Basis Fund Balance | <u>\$ 153</u> | <u>\$ 1,618</u> | <u>\$ 189,730</u> |

Schedule 1

| <u>Housing Assistance Program</u> | <u>Employee Benefits</u> | <u>Police Forfeiture</u> | <u>Local Option Sales Tax</u> | <u>Hooked on Fishing</u> |
|-----------------------------------|--------------------------|--------------------------|-------------------------------|--------------------------|
| \$ - | \$ 454,705 | \$ - | \$ - | \$ - |
| - | - | - | - | - |
| - | - | - | 445,578 | - |
| - | - | 38 | - | - |
| - | - | - | - | - |
| 84,998 | - | 2,833 | - | 1,175 |
| <u>84,998</u> | <u>454,705</u> | <u>2,871</u> | <u>445,578</u> | <u>1,175</u> |
| - | 58,443 | 8,978 | - | - |
| - | 49,446 | - | - | - |
| - | 31,408 | - | - | - |
| 190,701 | - | - | - | - |
| - | 26,981 | - | - | 1,336 |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>190,701</u> | <u>166,278</u> | <u>8,978</u> | <u>-</u> | <u>1,336</u> |
| <u>(105,703)</u> | <u>288,427</u> | <u>(6,107)</u> | <u>445,578</u> | <u>(161)</u> |
| - | - | - | - | - |
| - | - | - | - | - |
| - | (261,269) | - | (445,578) | - |
| - | (261,269) | - | (445,578) | - |
| (105,703) | 27,158 | (6,107) | - | (161) |
| (12,803) | 15,188 | 11,411 | - | 544 |
| <u>\$ (118,506)</u> | <u>\$ 42,346</u> | <u>\$ 5,304</u> | <u>\$ -</u> | <u>\$ 383</u> |
| \$ (118,506) | \$ 42,346 | \$ 5,304 | \$ - | \$ 383 |
| - | - | - | - | - |
| <u>\$ (118,506)</u> | <u>\$ 42,346</u> | <u>\$ 5,304</u> | <u>\$ -</u> | <u>\$ 383</u> |

(Continued)

City of Maquoketa
Statement of Cash Receipts, Disbursements, and
Changes in Cash Balances - Nonmajor Governmental Funds (Continued)
As of and for the Year Ended June 30, 2010

| | Capital Projects | | | | Total |
|---|------------------|--------------------|--------------|-------------------|-------------------|
| | ARC | Industrial Park | Library | Airport | |
| Receipts: | | | | | |
| Property Tax | \$ - | \$ - | \$ - | \$ - | \$ 454,705 |
| Tax Increment Financing Collections | - | - | - | - | - |
| Other City Tax | - | - | - | - | 445,578 |
| Use of Money and Property | - | - | - | 807 | 2,364 |
| Intergovernmental | - | - | - | - | - |
| Miscellaneous | 650,000 | - | 5,593 | - | 744,662 |
| Total Receipts | <u>650,000</u> | <u>-</u> | <u>5,593</u> | <u>807</u> | <u>1,647,309</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public Safety | - | - | - | - | 67,426 |
| Public Works | - | - | - | - | 49,446 |
| Culture and Recreation | - | - | - | - | 31,416 |
| Community and Economic Development | - | - | - | - | 190,701 |
| General Government | - | - | - | - | 28,317 |
| Debt Service | - | - | - | - | - |
| Capital Projects | 829 | 288 | 5,593 | - | 6,710 |
| Total Disbursements | <u>829</u> | <u>288</u> | <u>5,593</u> | <u>-</u> | <u>374,016</u> |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | <u>649,171</u> | <u>(288)</u> | <u>-</u> | <u>807</u> | <u>1,273,293</u> |
| Other Financing Sources (Uses): | | | | | |
| Bond Proceeds | - | - | - | - | - |
| Operating Transfers In | 364,564 | - | - | - | 364,564 |
| Operating Transfers Out | - | - | - | - | (706,847) |
| Total Other Financing Sources (Uses) | <u>364,564</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(342,283)</u> |
| Net Change in Cash Balances | 1,013,735 | (288) | - | 807 | 931,010 |
| Cash Balances, Beginning of Year | <u>(973,691)</u> | <u>17,786</u> | <u>31</u> | <u>99,969</u> | <u>(651,633)</u> |
| Cash Balances, End of Year | <u>\$ 40,044</u> | <u>\$ 17,498</u> | <u>\$ 31</u> | <u>\$ 100,776</u> | <u>\$ 279,377</u> |
| Cash Basis Fund Balances: | | | | | |
| Unreserved: | | | | | |
| Special Revenue Funds | \$ - | \$ - | \$ - | \$ - | \$ 121,028 |
| Capital Project Fund | <u>40,044</u> | <u>17,498</u> | <u>31</u> | <u>100,776</u> | <u>158,349</u> |
| Total Cash Basis Fund Balance | <u>\$ 40,044</u> | <u>\$ 17,498</u> | <u>\$ 31</u> | <u>\$ 100,776</u> | <u>\$ 279,377</u> |

See Accompanying Independent Auditor's Report

**City of Maquoketa
Schedule of Indebtedness
Year Ended June 30, 2010**

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|------------------------------------|--------------------|----------------|--------------------------|
| General Obligation Notes: | | | |
| 2005A Refunding Capital Loan Notes | August 10, 2005 | 2.75% - 3.90% | \$ 2,095,000 |
| 2006A Capital Loan Notes | March 1, 2006 | 3.55% - 4.00% | 515,000 |
| Capital Loan Notes | August 1, 2007 | 4.45% | 1,600,000 |
| Capital Loan Notes | October 15, 2009 | 3.10% | 330,000 |
| Total | | | <u>\$ 4,540,000</u> |
| Revenue Bonds: | | | |
| Parking Lot | December 1, 1967 | 3.50% | \$ 221,000 |
| Total | | | <u>\$ 221,000</u> |
| General Obligation Notes: | | | |
| Corporate Purpose | February 1, 1996 | 4.30% - 5.60% | \$ 2,200,000 |
| Corporate Purpose | June 1, 2001 | 5.35% - 5.55% | 2,500,000 |
| Corporate Purpose | October 1, 2002 | 3.00% - 4.80% | 890,000 |
| Total | | | <u>\$ 5,590,000</u> |
| Revenue Notes: | | | |
| Sewer | May 3, 2002 | 3.00% | \$ 2,500,000 |
| Water | June 13, 2005 | 3.00% | 2,500,000 |
| Sewer | February 10, 2010 | 3.00% | 138,000 |
| Sewer | February 10, 2010 | 3.00% | 34,000 |
| Total | | | <u>\$ 5,172,000</u> |
| Jet Fuel Tank Contract | July 1, 2007 | 9.50% | <u>\$ 45,789</u> |
| Equipment Capital Lease | September 15, 2008 | 5.14% | <u>\$ 255,897</u> |

Schedule 2

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|------------------------|-------------------|-------------------------------|
| \$ 1,885,000 | \$ - | \$ 95,000 | \$ 1,790,000 | \$ 23,487 | \$ - |
| 135,000 | - | 90,000 | 45,000 | 5,085 | - |
| 1,500,000 | - | 170,116 | 1,329,884 | 62,183 | - |
| - | 330,000 | - | 330,000 | 6,422 | - |
| <u>\$ 3,520,000</u> | <u>\$ 330,000</u> | <u>\$ 355,116</u> | <u>\$ 3,494,884</u> | <u>\$ 97,177</u> | <u>\$ -</u> |
| | | | | | |
| \$ 2,000 | \$ - | \$ - | \$ 2,000 | \$ - | \$ - |
| <u>\$ 2,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,000</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | | | |
| \$ 135,000 | \$ - | \$ 135,000 | \$ - | \$ 68,810 | \$ - |
| 2,500,000 | - | - | 2,500,000 | 135,745 | - |
| 510,000 | - | 85,000 | 425,000 | 22,990 | - |
| <u>\$ 3,145,000</u> | <u>\$ -</u> | <u>\$ 220,000</u> | <u>\$ 2,925,000</u> | <u>\$ 227,545</u> | <u>\$ -</u> |
| | | | | | |
| \$ 2,059,687 | \$ - | \$ 71,000 | \$ 1,988,687 | \$ 60,726 | \$ - |
| 2,212,000 | - | 102,000 | 2,110,000 | 64,830 | - |
| - | 108,931 | - | 108,931 | 13 | - |
| - | 34,000 | - | 34,000 | - | - |
| <u>\$ 4,271,687</u> | <u>\$ 142,931</u> | <u>\$ 173,000</u> | <u>\$ 4,241,618</u> | <u>\$ 125,569</u> | <u>\$ -</u> |
| | | | | | |
| \$ 36,793 | \$ - | \$ 2,279 | \$ 34,514 | \$ 1,721 | \$ - |
| <u>\$ 232,663</u> | <u>\$ -</u> | <u>\$ 32,402</u> | <u>\$ 200,261</u> | <u>\$ 11,203</u> | <u>\$ -</u> |

See Accompanying Independent Auditor's Report

City of Maquoketa
Schedule of Bond and Note Maturities
Year Ended June 30, 2010

| Year Ending June 30, | General Obligation Notes | | | | | |
|----------------------------|--------------------------|---------------------|----------------------|------------------|-----------------------|---------------------|
| | 2005A Refunding CLN | | 2006A CLN | | CLN | |
| | Issued August 10, 2005 | | Issued March 1, 2006 | | Issued August 1, 2007 | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2011 | 3.50% | \$ 415,000 | 3.80% | \$ 15,000 | 4.45% | \$ 29,884 |
| 2012 | 3.60% | 390,000 | 3.90% | 15,000 | 4.45% | 100,000 |
| 2013 | 3.70% | 405,000 | 4.00% | 15,000 | 4.45% | 100,000 |
| 2014 | 3.80% | 415,000 | - | - | 4.45% | 100,000 |
| 2015 | 3.90% | 165,000 | - | - | 4.45% | 125,000 |
| 2016 | - | - | - | - | 4.45% | 125,000 |
| 2017 | - | - | - | - | 4.45% | 125,000 |
| 2018 | - | - | - | - | 4.45% | 125,000 |
| 2019 | - | - | - | - | 4.45% | 125,000 |
| 2020 | - | - | - | - | 4.45% | 125,000 |
| 2021 | - | - | - | - | 4.45% | 125,000 |
| 2022 | - | - | - | - | 4.45% | 125,000 |
| 2023 | - | - | - | - | - | - |
| 2024 | - | - | - | - | - | - |
| 2025 | - | - | - | - | - | - |
| 2026 | - | - | - | - | - | - |
| 2027 | - | - | - | - | - | - |
| 2028 | - | - | - | - | - | - |
| 2029 | - | - | - | - | - | - |
| Total | | <u>\$ 1,790,000</u> | | <u>\$ 45,000</u> | | <u>\$ 1,329,884</u> |

| Year Ending June 30, | Revenue Notes | | | | | |
|----------------------------|--------------------|---------------------|----------------------|---------------------|--------------------------|-------------------|
| | Sewer | | Water | | Sewer | |
| | Issued May 3, 2002 | | Issued June 13, 2005 | | Issued February 10, 2010 | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2011 | 3.00% | \$ 73,000 | 3.00% | \$ 105,000 | 3.00% | \$ 5,000 |
| 2012 | 3.00% | 76,000 | 3.00% | 108,000 | 3.00% | 5,000 |
| 2013 | 3.00% | 78,000 | 3.00% | 111,000 | 3.00% | 6,000 |
| 2014 | 3.00% | 80,000 | 3.00% | 114,000 | 3.00% | 6,000 |
| 2015 | 3.00% | 83,000 | 3.00% | 118,000 | 3.00% | 6,000 |
| 2016 | 3.00% | 85,000 | 3.00% | 121,000 | 3.00% | 6,000 |
| 2017 | 3.00% | 205,000 | 3.00% | 125,000 | 3.00% | 6,000 |
| 2018 | 3.00% | 211,000 | 3.00% | 129,000 | 3.00% | 6,000 |
| 2019 | 3.00% | 218,000 | 3.00% | 133,000 | 3.00% | 7,000 |
| 2020 | 3.00% | 224,000 | 3.00% | 136,000 | 3.00% | 7,000 |
| 2021 | 3.00% | 231,000 | 3.00% | 141,000 | 3.00% | 7,000 |
| 2022 | 3.00% | 238,000 | 3.00% | 145,000 | 3.00% | 7,000 |
| 2023 | 3.00% | 186,687 | 3.00% | 149,000 | 3.00% | 8,000 |
| 2024 | - | - | 3.00% | 154,000 | 3.00% | 8,000 |
| 2025 | - | - | 3.00% | 158,000 | 3.00% | 8,000 |
| 2026 | - | - | 3.00% | 163,000 | 3.00% | 8,000 |
| 2027 | - | - | - | - | 3.00% | 2,931 |
| 2028 | - | - | - | - | - | - |
| 2029 | - | - | - | - | - | - |
| Total | | <u>\$ 1,988,687</u> | | <u>\$ 2,110,000</u> | | <u>\$ 108,931</u> |

City of Maquoketa
Schedule of Bond and Note Maturities (Continued)
Year Ended June 30, 2010

| General Obligation Notes | | | | | |
|-------------------------------------|-------------------------------|-------------------|----------------------------|---------------------|---------------------|
| Year Ending June 30, | Corporate Purpose | | Corporate Purpose | | Total |
| | Issued October 1, 2002 | | Issued June 1, 2001 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2011 | 4.35% | \$ 90,000 | | \$ - | \$ 90,000 |
| 2012 | 4.50% | 95,000 | | - | 95,000 |
| 2013 | 4.60% | 95,000 | | - | 95,000 |
| 2014 | 4.70% | 100,000 | | - | 100,000 |
| 2015 | 4.80% | 45,000 | 5.35% | 730,000 | 775,000 |
| 2016 | | - | 5.40% | 760,000 | 760,000 |
| 2017 | | - | 5.50% | 810,000 | 810,000 |
| 2018 | | - | 5.55% | 200,000 | 200,000 |
| 2019 | | - | | - | - |
| 2020 | | - | | - | - |
| 2021 | | - | | - | - |
| 2022 | | - | | - | - |
| 2023 | | - | | - | - |
| 2024 | | - | | - | - |
| 2025 | | - | | - | - |
| 2026 | | - | | - | - |
| 2027 | | - | | - | - |
| 2028 | | - | | - | - |
| 2029 | | - | | - | - |
| Total | | \$ 425,000 | | \$ 2,500,000 | \$ 2,925,000 |

| Year Ending June 30, | Equipment Capital Lease | | Jet Fuel Tank Contract | |
|-------------------------------------|----------------------------------|-------------------|-------------------------------|------------------|
| | Issued September 15, 2008 | | Issued July 1, 2007 | |
| | Interest Rates | Amount | Interest Rates | Amount |
| 2011 | 5.14% | \$ 34,106 | 9.50% | \$ 5,127 |
| 2012 | 5.14% | 35,901 | 9.50% | 5,632 |
| 2013 | 5.14% | 37,791 | 9.50% | 6,186 |
| 2014 | 5.14% | 39,780 | 9.50% | 6,795 |
| 2015 | 5.14% | 41,874 | 9.50% | 10,774 |
| 2016 | 5.14% | 10,809 | | - |
| 2017 | | - | | - |
| 2018 | | - | | - |
| 2019 | | - | | - |
| 2020 | | - | | - |
| 2021 | | - | | - |
| 2022 | | - | | - |
| 2023 | | - | | - |
| 2024 | | - | | - |
| 2025 | | - | | - |
| 2026 | | - | | - |
| 2027 | | - | | - |
| 2028 | | - | | - |
| 2029 | | - | | - |
| Total | | \$ 200,261 | | \$ 34,514 |

| Revenue Bond | | |
|-------------------------------------|---------------------------|-----------------|
| Parking Lot | | |
| Issued December 1, 1967 | | |
| Year Ending June 30, | Interest Rates | Amount |
| 2011 | 3.50% | \$ 2,000 |
| 2012 | | - |
| 2013 | | - |
| 2014 | | - |
| 2015 | | - |
| 2016 | | - |
| 2017 | | - |
| 2018 | | - |
| 2019 | | - |
| 2020 | | - |
| 2021 | | - |
| 2022 | | - |
| 2023 | | - |
| 2024 | | - |
| 2025 | | - |
| 2026 | | - |
| 2027 | | - |
| 2028 | | - |
| 2029 | | - |
| Total | | <u>\$ 2,000</u> |

| Year Ending June 30, | Total Maturities |
|-------------------------------------|-----------------------------|
| 2011 | \$ 837,117 |
| 2012 | 895,533 |
| 2013 | 920,977 |
| 2014 | 930,575 |
| 2015 | 1,395,648 |
| 2016 | 1,109,809 |
| 2017 | 1,273,000 |
| 2018 | 673,000 |
| 2019 | 485,000 |
| 2020 | 494,000 |
| 2021 | 506,000 |
| 2022 | 517,000 |
| 2023 | 345,687 |
| 2024 | 164,000 |
| 2025 | 168,000 |
| 2026 | 173,000 |
| 2027 | 4,931 |
| 2028 | 2,000 |
| 2029 | 3,000 |
| Total | <u>\$ 10,898,277</u> |

See Accompanying Independent Auditor's Report

City of Maquoketa
Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds
For the Last Seven Years

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------------------------|---------------------|---------------------|---------------------|
| Receipts: | | | |
| Property Tax | \$ 2,028,557 | \$ 1,972,089 | \$ 1,587,970 |
| Tax Increment Financing Collections | 1,597,006 | 526,248 | 557,245 |
| Other City Tax | 661,037 | 652,976 | 645,247 |
| Licenses and Permits | 13,276 | 11,456 | 11,836 |
| Use of Money and Property | 254,500 | 323,226 | 322,262 |
| Intergovernmental | 1,289,030 | 1,797,377 | 1,168,127 |
| Charges for Services | 706,261 | 658,759 | 615,265 |
| Miscellaneous | 1,151,175 | 1,668,067 | 944,943 |
| Total | <u>\$ 7,700,842</u> | <u>\$ 7,610,198</u> | <u>\$ 5,852,895</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public Safety | \$ 1,033,300 | \$ 1,165,820 | \$ 2,190,757 |
| Public Works | 1,619,585 | 1,084,200 | 2,337,283 |
| Culture and Recreation | 1,662,179 | 1,601,928 | 1,309,770 |
| Community and Economic Development | 732,362 | 499,295 | 161,683 |
| General Government | 443,152 | 438,564 | 723,448 |
| Debt Service | 1,081,752 | 2,346,690 | 999,929 |
| Capital Projects | 218,783 | 668,763 | 2,126,877 |
| Total | <u>\$ 6,791,113</u> | <u>\$ 7,805,260</u> | <u>\$ 9,849,747</u> |

(1) Fiscal year 2004 was the first year of reporting the City's operations under GASB 34 and by function.

Schedule 4

| 2007 | 2006 | 2005 | 2004 ⁽¹⁾ |
|--------------|--------------|--------------|---------------------|
| \$ 1,561,520 | \$ 1,570,993 | \$ 1,363,341 | \$ 1,387,111 |
| 537,118 | 385,423 | 394,665 | 397,422 |
| 630,453 | 568,625 | 448,731 | 493,801 |
| 12,715 | 9,456 | 11,440 | 12,392 |
| 253,697 | 190,391 | 98,006 | 188,252 |
| 2,316,568 | 1,357,464 | 1,127,836 | 1,541,942 |
| 192,288 | 162,455 | 180,297 | 173,511 |
| 2,034,139 | 533,621 | 851,524 | 489,140 |
| \$ 7,538,498 | \$ 4,778,428 | \$ 4,475,840 | \$ 4,683,571 |
| \$ 1,069,364 | \$ 1,154,914 | \$ 880,321 | \$ 1,127,686 |
| 1,423,881 | 840,013 | 827,605 | 704,339 |
| 495,333 | 537,154 | 534,748 | 518,365 |
| 408,563 | 808,912 | 324,020 | 487,139 |
| 408,756 | 420,039 | 608,647 | 420,332 |
| 936,785 | 814,281 | 661,767 | 609,193 |
| 4,596,185 | 833,503 | 258,254 | 317,252 |
| \$ 9,338,867 | \$ 5,408,816 | \$ 4,095,362 | \$ 4,184,306 |

See Accompanying Independent Auditor's Report

City of Maquoketa
Additional Information Required by the
Sewer Revenue Bond Resolution
June 30, 2010
(Unaudited)

Insurance - the City has the following insurance coverage.

| Insurance Company Address and Policy Number | Insurance Coverage | Amount of Coverage | Expiration Date of Policy |
|--|--|-------------------------------|--|
| Employers Mutual Companies Des Moines, Iowa Package Policy Policy #8A5-19-34-11 | Property | \$ 41,663,006 | 4/1/2011 |
| | Inland Marine | 976,908 | 4/1/2011 |
| | General Liability | 1,000,000 | 4/1/2011 |
| | Business Auto | 1,000,000 | 4/1/2011 |
| | Umbrella Excess | 4,000,000 | 4/1/2011 |
| | Employee Dishonesty | 310,000 | 4/1/2011 |
| | Linebacker | 1,000,000 | 4/1/2011 |
| | Crime | 30,000 | 4/1/2011 |
| | Commercial Output | 35,148,290 | 4/1/2011 |
| | Law Enforcement Liability | 1,000,000 | 4/1/2011 |
| Travelers Group Hartford, Connecticut Policy # M5J-BME1-702X7309-TIL-10 | Sewage & Water Treatment & Distribution | \$ 10,000,000 | 1/1/2011 |
| Old Republic Insurance Company Greensburg, Pennsylvania Policy # PR 227807 | Airport Owners and Liability | \$ 2,000,000 | 1/1/2011 |
| Nationwide Bethesda, Maryland Policy #5050326247, #5050326239, #5050326254 | Flood Insurance Program | \$ 143,100 | 4/4/2011 |
| VFIS A Division of Glatfelter Insurance Group York, Pennsylvania Policy #VFP 4316-3502D-0 | Maquoketa Volunteer Fire Dept. & Rescue Squad | \$ 100,000 | 1/1/2011 |
| Iowa Municipalities Workers' Compensation Assoc. Des Moines, Iowa Policy #1075-1011 | Workers' Compensation Coverage | \$ 2,000,000 | 7/1/2010 |

Rate and Number of Users of the System:

User Charges - The minimum sewer charge per month shall be \$22.08 up to 300 cubic feet.

Over 300 cubic feet the charge is \$1.44 per 100 cubic feet as determined in ordinance 867.

Number of Users - The City has approximately 2,500 users.

City of Maquoketa
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

| <u>Grantor/Program</u> | <u>CFDA Number</u> | <u>Agency Pass- Through Number</u> | <u>Program Expenditures</u> |
|--|------------------------|--|---------------------------------|
| Direct: | | | |
| Federal Aviation Administration: | | | |
| Airport Improvement Program | 20.106 | AIP #3-19-0055-02 | \$ 57,809 |
| Airport Improvement Program | 20.106 | AIP #3-19-0055-03 | 13,051 |
| | | | <u>70,860</u> |
| U.S. Environmental Protection Agency: | | | |
| Brownsfield Assessment and Cleanup Cooperative Agreements | 66.818 | 2B-97708301-0 | 200,000 |
| Total Direct | | | <u>270,860</u> |
| Indirect: | | | |
| Department of Housing and Urban Development: | | | |
| Iowa Department of Economic Development: | | | |
| HOME Investment Partnership Programs | 14.239 | 08-HM-113-69 | 190,701 |
| Department of Homeland Security: | | | |
| Iowa Homeland Security and Emergency Management Division: | | | |
| Disaster Grants - Public Assistance | 97.036 | 097-79215-00 | 142,680 |
| U.S. Environmental Protection Agency: | | | |
| Iowa Department of Natural Resources: | | | |
| Clean Water State Revolving Fund Loans | 66.458 | CS-192476-01 | 146,291 |
| Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction | 20.205 | 06-09-ESP-19 | 244,514 |
| Highway Planning and Construction | 20.205 | STP-ES-TREE(12)-81-00 | 5,597 |
| Highway Planning and Construction | 20.205 | 6-09-USTEP-01 | 77,207 |
| Total Department of Transportation | | | <u>327,318</u> |
| Total Indirect | | | <u>806,990</u> |
| Total | | | <u>\$ 1,077,850</u> |

City of Maquoketa

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

NOTE 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Maquoketa, Iowa, and is presented in conformity with another comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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
City of Maquoketa
Maquoketa, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Maquoketa, Iowa, as of and for the year ended June 30, 2010, which collectively comprises the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 3, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Maquoketa'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, and not for the purpose of expressing our opinion on the effectiveness of the City of Maquoketa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Maquoketa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, 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 and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned

functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Maquoketa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.

A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Maquoketa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010, 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 Maquoketa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Maquoketa'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 Maquoketa and other parties to whom the City of Maquoketa may report, including federal awarding agencies and pass-through entities. 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 Maquoketa 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.

HONKAMP KRUEGER & CO., P.C.

Honkamp Krueger & Co.

Dubuque, Iowa
December 3, 2010



Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Maquoketa
Maquoketa, Iowa

Compliance

We have audited the compliance of the City of Maquoketa, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2010. The City of Maquoketa's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal programs is the responsibility of the City of Maquoketa's management. Our responsibility is to express an opinion on the City of Maquoketa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Maquoketa's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Maquoketa's compliance with those requirements.

In our opinion, the City of Maquoketa complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Maquoketa is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Maquoketa's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Maquoketa's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control 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 discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of the control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

The City of Maquoketa's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City'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 Maquoketa, and other parties to whom the City of Maquoketa may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HONKAMP KRUEGER & CO., P.C.



Dubuque, Iowa
December 3, 2010

City of Maquoketa

Schedule of Findings and Questioned Costs Year Ended June 30, 2010

Part I. Summary of the Independent Auditors' Results

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- f. The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major programs were as follows:
 - CFDA Number 20.205 – Highway Planning and Construction
 - CFDA Number 66.818 - Brownsfield Assessment and Cleanup Cooperative Agreements
 - CFDA Number 14.239 - HOME Investment Partnership Programs
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Maquoketa did not qualify as a low-risk auditee.

Part II. Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

City of Maquoketa

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Internal Control Deficiencies:

II-A-10 **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. We noted one employee has the ability to enter cash receipts, collect cash, make deposits, make entries to the general ledger, and sign checks.

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

Response: We would like to provide the recommended level of financial oversight, but are unable to do so. Like many cities our size, the economics of our situation prohibits us from hiring more office staff to provide for this function.

Conclusion: Response acknowledged.

II-B-10 **Preparation of Financial Statements:** Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City of Maquoketa does not have an internal system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. While this circumstance is not uncommon, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk with this condition because of cost or other considerations.

Recommendation: We realize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly prepare financial statements for external financial reporting is difficult. However, we recommend that City officials continue to review operating procedures and obtain the internal expertise needed to handle all aspects of external financial reporting, rather than rely on external assistance.

Response: We would like to provide the recommended level of financial oversight and internal expertise, but are unable to do so. Like many cities our size, the economics of our situation prohibits us from hiring more office staff to provide for this function.

Conclusion: Response acknowledged.

City of Maquoketa

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Part III. Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

CFDA Number 20.205: Highway Planning and Construction
Pass-through Agency Number: 06-09-ESP-19
Department of Transportation
Passed through the Iowa Department of Transportation

CFDA Number 66.818: Brownsfield Assessment and Cleanup Cooperative Agreements
Pass-through Agency Number: 2B-97709301-0
U.S. Environmental Protection Agency

CFDA Number 14.239: HOME Investment and Partnership Programs
Pass-through Agency Number: 08-HMI-113-69
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-10 **Segregation of Duties over Federal Receipts**: A lack of segregation of duties over receipts and disbursements, including those related to federal programs, exist in the City's finance department. See audit finding II-A-10.

Part IV: Other Findings Related to Statutory Reporting

IV-A-10 **Certified Budget**: Disbursements did not exceed budget for the year ended June 30, 2010, which is in compliance with Chapter 384.20 of the Code of Iowa.

IV-B-10 **Questionable Disbursements**: We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-10 **Travel Expense**: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-10 **Business Transactions**: Business transactions between the City and City officials or employees are detailed on the next page:

City of Maquoketa

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Part IV: Other Findings Related to Statutory Reporting (Continued)

IV-D-10 Business Transactions (Continued):

| <u>Name, Title, and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Tim Clark, Council Member Part Owner of Clark Saw Center | Supplies | \$ 307 |

In accordance with Chapter 362.5(10) of the Code of Iowa, individual transactions with the City officials and employees less than \$1,500 during the fiscal year do not represent conflicts of interest.

IV-E-10 **Bond Coverage:** Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 **Council Minutes:** No transactions were found that we believe should have been approved in the Council minutes, but were not.

IV-G-10 **Deposits and Investments:** We noted no instances of deposits in other than allowable depositories. We did note the City did not update the listing of authorized check signers with a local bank with the change in board/committee members during the course of the fiscal year.

Recommendation: The City should file new signature cards with the local bank each time board or committee members change, and review authorized check signers on each account annually.

Response: The City will update the signature card for the account in question, and will review authorized check signers on each account annually.

Conclusion: Response accepted.

IV-H-10 **Revenue Bonds:** We noted no instances of noncompliance with the provisions of the City's revenue bond resolutions.

IV-I-10 **Payment of General Obligation Bonds:** All general obligation bond and note payments were paid from the Debt Service Fund in accordance with Chapter 384.4 of the Code of Iowa.

City of Maquoketa

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Part IV: Other Findings Related to Statutory Reporting (Continued)

IV-J-10 **Financial Condition:** The Housing Assistance Program fund had a deficit balance at June 30, 2010 totaling \$118,506.

Recommendation: The City should investigate alternatives to eliminate this deficit in order to return this fund to sound financial position.

Response: The City will receive grant money, donations, and transfer funds to eliminate these fund balances.

Conclusion: Response accepted.



To the City Council
City of Maquoketa
Maquoketa, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Maquoketa (the "City") for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 28, 2010. Professional standards also require that we communicate to you the following information related to our audit:

Review of Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Maquoketa (the "City") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Maquoketa's internal control over financial reporting (internal control) 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 Maquoketa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Maquoketa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 controls, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies in the City of Maquoketa's internal control to be material weaknesses.

Segregation of Duties

A limited number of the City's personnel perform many of the accounting and financial functions. Therefore, many of the aspects of an ideal internal accounting control structure

are missing in the City due to an inadequate segregation of duties. We recognize that the hiring of additional personnel may not be the most cost-effective method to maximize the segregation of accounting duties. However, the City should be aware of this condition and realize that the concentration of duties and responsibilities given to a limited number of City personnel is not ideal with respect to the internal control structure.

Preparation of Financial Statements

The City does not have an internal system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk with this condition because of cost or other considerations.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Maquoketa are described in Note 1 to the financial statements. As described in Note 1, the City adopted GASB Numbers 45 and 47 in 2010, which establish guidelines for disclosure of Other Postemployment Benefits (OPEB). We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City of Maquoketa's financial statements was:

Management's estimate of the approximate liability for earned compensated absences, which is based on management's calculation using current pay rates and past experience. We evaluated the key factors and assumptions used to develop the approximate liability for earned compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of bond and notes payable in Note 3 to the financial statements. Lending agencies tend to rely on the information for future debt issues.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 3, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Maquoketa and is not intended to be and should not be used by anyone other than these specified parties.

HONKAMP KRUEGER & CO., P.C.



Dubuque, Iowa
December 3, 2010

City of Maquoketa
Corrective Action Plan for Federal Audit Findings
For the Year Ended June 30, 2010

Finding III-A-10. Lack of Segregation of Duties

Contact person responsible for corrective action: Diane Frandsen (563) 652-2484

Corrective Action

Response: The City concurs with the recommendations, however, believes the supervision by management and City Council members are considered mitigating factors in the lack of segregation of duties. The City recognizes that it would not be cost-effective to hire additional personnel to maximize the segregation of accounting duties due to the size of the City. The City is aware of the condition and will continue to monitor and implement compensating controls.

Date of Completion

Ongoing.