

City of Maquoketa

Financial Report

June 30, 2012

Table of Contents

Page(s)

List of Officials		1
Independent Auditor's Report		2 – 3
Basic Financial Statements	<u>Exhibit</u>	
Government-wide Financial Statement: Statement of Activities and Net Assets – Cash Basis	A	4
Governmental Fund Financial Statements: Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B	5
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	C	6
Proprietary Fund Financial Statements: Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	D	7
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	E	8
Fiduciary Fund Financial Statement: Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	F	9
Notes to Financial Statements		10 – 27
Other Information		
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28
Notes to Other Information – Budgetary Reporting		29
Supplementary Information	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Governmental Funds	1	30 – 31
Schedule of Indebtedness	2	32

Table of Contents

Page(s)

	<u>Schedule</u>	
Schedule of Bond and Note Maturities	3	33 – 34
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	35
Additional Information Required by the Sewer Revenue Bond Resolution (Unaudited)	5	36
Schedule of Expenditures of Federal Awards	6	37 – 38
Notes to the Schedule of Expenditures of Federal Awards		39
 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards		 40 – 42
 Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		 43 – 44
 Schedule of Findings and Questioned Costs		 45 – 49

City of Maquoketa

List of Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 1, 2012)		
Jason Hute	Mayor	January 1, 2012
Don Schwenker	Council Member	January 1, 2014
Cory Simonson	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
(After January 1, 2012)		
Don Schwenker	Mayor	January 1, 2014
Cory Simonson	Council Member	January 1, 2014
Amy Moore	Council Member	January 1, 2014
Eric Pape	Council Member	January 1, 2016
Jerry Bowen	Council Member	January 1, 2016
Josh Collister	Council Member	January 1, 2014
Chad Steffen	Council Member	January 1, 2016
Troy Thede	Council Member	January 1, 2016
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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Maquoketa, Iowa, as of June 30, 2012, and for the year then ended, which collectively comprise the City of Maquoketa's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Maquoketa's management. 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 financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Maquoketa Municipal Electric Utility, is based on the report of the other auditors.

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. 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 the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the City of Maquoketa prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Maquoketa, as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2013, 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.

The City of Maquoketa 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 six years ended June 30, 2011 (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. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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. The budgetary comparison information on pages 28 through 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

HONKAMP KRUEGER & CO., P.C.



Dubuque, Iowa
February 19, 2013

City of Maquoketa
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions / Programs:				
Primary Government:				
Governmental Activities:				
Public Safety	\$ 1,273,743	\$ -	\$ 293,840	\$ 14,454
Public Works	2,399,510	101,004	596,728	145,928
Culture and Recreation	1,264,419	474,194	101,605	-
Community and Economic Development	558,494	3	403,706	-
General Government	535,766	47,889	244,098	-
Debt Service	1,140,132	-	-	-
Capital Projects	70,662	-	-	56,707
Total Governmental Activities	<u>7,242,726</u>	<u>623,090</u>	<u>1,639,977</u>	<u>217,089</u>
Business Type Activities:				
Water Utility	428,479	673,760	-	-
Wastewater Treatment	821,380	887,366	-	-
Stormwater	27,483	121,873	-	-
Total Business Type Activities	<u>1,277,342</u>	<u>1,682,999</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 8,520,068</u>	<u>\$ 2,306,089</u>	<u>\$ 1,639,977</u>	<u>\$ 217,089</u>
Component Unit:				
Maquoketa Municipal Electric Utility	<u>\$ 9,711,465</u>	<u>\$ 10,553,233</u>	<u>\$ -</u>	<u>\$ -</u>
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
\$ (965,449)	\$ -	\$ (965,449)	\$ -
(1,555,850)	-	(1,555,850)	-
(688,620)	-	(688,620)	-
(154,785)	-	(154,785)	-
(243,779)	-	(243,779)	-
(1,140,132)	-	(1,140,132)	-
(13,955)	-	(13,955)	-
(4,762,570)	-	(4,762,570)	-
-	245,281	245,281	-
-	65,986	65,986	-
-	94,390	94,390	-
-	405,657	405,657	-
(4,762,570)	405,657	(4,356,913)	-
-	-	-	841,768
1,305,468	-	1,305,468	-
62,455	-	62,455	-
478,287	-	478,287	-
159,153	-	159,153	-
1,653,143	-	1,653,143	-
474,799	-	474,799	-
70,484	-	70,484	-
11,478	-	11,478	-
248,318	-	248,318	-
11,232	7,030	18,262	75,310
-	-	-	-
785,553	26,852	812,405	208,444
15,500	-	15,500	-
-	-	-	-
345,382	(345,382)	-	-
5,621,252	(311,500)	5,309,752	283,754
858,682	94,157	952,839	1,125,522
6,222,411	1,663,132	7,885,543	5,217,188
\$ 7,081,093	\$ 1,757,289	\$ 8,838,382	\$ 6,342,710
\$ 348,177	\$ -	\$ 348,177	\$ -
2,239,271	-	2,239,271	-
317,682	98,245	415,927	-
186,147	-	186,147	-
3,989,816	1,659,044	5,648,860	6,342,710
\$ 7,081,093	\$ 1,757,289	\$ 8,838,382	\$ 6,342,710

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, 2012

	General *	Capital Projects <u>General</u>
Receipts:		
Property Tax	\$ 1,438,407	\$ -
Tax Increment Financing Collections	-	-
Other City Tax	248,318	-
Licenses and Permits	11,478	-
Use of Money and Property	152,026	7,458
Intergovernmental	934,663	-
Charges for Service	575,201	-
Miscellaneous	668,940	-
Total Receipts	4,029,033	7,458
Disbursements:		
Operating:		
Public Safety	1,127,105	-
Public Works	1,869,651	-
Culture and Recreation	1,164,092	-
Community and Economic Development	77,976	-
General Government	470,374	-
Debt Service	-	-
Capital Projects	-	65,548
Total Disbursements	4,709,198	65,548
Excess (Deficiency) of Receipts over (under) Disbursements	(680,165)	(58,090)
Other Financing Sources (Uses)		
Sale of Capital Assets	15,500	-
Interfund Loans	-	-
General Obligation Bond Proceeds	-	-
Operating Transfers In	515,570	259,692
Operating Transfers Out	(142,760)	-
Total Other Financing Sources (Uses)	388,310	259,692
Net Change in Cash Balances	(291,855)	201,602
Cash Balances, Beginning of Year	2,918,401	932,626
Cash Balances, End of Year	\$ 2,626,546	\$ 1,134,228
Cash Basis Fund Balances		
Restricted:		
Debt Service	\$ -	\$ -
Urban Renewal Purposes	-	-
Streets	-	-
Other Purposes	-	-
Unassigned	2,626,546	1,134,228
Total Cash Basis Fund Balances	\$ 2,626,546	\$ 1,134,228

* 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			
\$ -	\$ -	\$ 159,153	\$ 478,287	\$ 2,075,847
1,653,143	-	-	-	1,653,143
-	-	-	474,799	723,117
-	-	-	-	11,478
-	-	-	1,185	160,669
-	582,728	-	238,148	1,755,539
-	-	-	-	575,201
-	-	-	68,181	737,121
<u>1,653,143</u>	<u>582,728</u>	<u>159,153</u>	<u>1,260,600</u>	<u>7,692,115</u>
-	-	-	76,429	1,203,534
-	338,279	-	59,318	2,267,248
-	-	-	30,632	1,194,724
134,455	-	-	315,279	527,710
-	-	-	35,860	506,234
-	43,604	1,096,528	-	1,140,132
-	-	-	5,114	70,662
<u>134,455</u>	<u>381,883</u>	<u>1,096,528</u>	<u>522,632</u>	<u>6,910,244</u>
<u>1,518,688</u>	<u>200,845</u>	<u>(937,375)</u>	<u>737,968</u>	<u>781,871</u>
-	-	-	-	15,500
-	-	-	-	-
-	-	-	-	-
-	-	958,489	-	1,733,751
<u>(610,496)</u>	<u>(157,680)</u>	<u>-</u>	<u>(723,708)</u>	<u>(1,634,644)</u>
<u>(610,496)</u>	<u>(157,680)</u>	<u>958,489</u>	<u>(723,708)</u>	<u>114,607</u>
908,192	43,165	21,114	14,260	896,478
1,331,079	305,012	296,568	303,947	6,087,633
<u>\$ 2,239,271</u>	<u>\$ 348,177</u>	<u>\$ 317,682</u>	<u>\$ 318,207</u>	<u>\$ 6,984,111</u>
\$ -	\$ -	\$ 317,682	\$ -	\$ 317,682
2,239,271	-	-	-	2,239,271
-	348,177	-	-	348,177
-	-	-	186,147	186,147
-	-	-	132,060	3,892,834
<u>\$ 2,239,271</u>	<u>\$ 348,177</u>	<u>\$ 317,682</u>	<u>\$ 318,207</u>	<u>\$ 6,984,111</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, 2012

Total Governmental Funds Cash Balance (page 5)	\$ 6,984,111
 <i>Amounts Reported for Governmental Activities in the Statement of Activities and Net Assets Are Different because:</i>	
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.	<u>96,982</u>
Cash Basis Net Assets of Governmental Activities (page 4)	<u><u>\$ 7,081,093</u></u>
 Net Change in Cash Balances (page 5)	 \$ 896,478
 <i>Amounts Reported for Governmental Activities in the Statement of Activities and Net Assets Are Different because:</i>	
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.	<u>(37,796)</u>
Change in Cash Balance of Governmental Activities (page 4)	<u><u>\$ 858,682</u></u>

City of Maquoketa
Statement of Cash Receipts, Disbursements, and Changes in
Cash Balances - Proprietary Funds
As of and for the Year Ended June 30, 2012

	Enterprise Funds	
	Water Utility	Wastewater Treatment
Operating Receipts:		
Use of Money and Property	\$ 3,485	\$ 3,545
Charges for Service	673,760	887,366
Miscellaneous	-	21,917
Total Operating Receipts	<u>677,245</u>	<u>912,828</u>
Operating Disbursements:		
Governmental Activities:		
Public Safety	-	-
Public Works	-	-
Culture and Recreation	-	-
Community and Economic Development	-	-
General Government	-	-
Business Type Activities	428,479	821,380
Total Operating Disbursements	<u>428,479</u>	<u>821,380</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>248,766</u>	<u>91,448</u>
Non-Operating Receipts (Disbursements):		
Intergovernmental	-	-
Miscellaneous	5,015	(80)
General Obligation Bond Proceeds	-	-
Total Non-Operating Receipts (Disbursements)	<u>5,015</u>	<u>(80)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>253,781</u>	<u>91,368</u>
Other Financing Sources (Uses)		
Interfund Loans	-	-
Operating Transfers In	-	118,700
Operating Transfers Out	(220,678)	(243,404)
Total Other Financing Sources (Uses)	<u>(220,678)</u>	<u>(124,704)</u>
Net Change in Cash Balances	33,103	(33,336)
Cash Balances Beginning of Year	712,802	856,830
Cash Balances End of Year	<u>\$ 745,905</u>	<u>\$ 823,494</u>
Cash Basis Fund Balances		
Restricted for Debt Service	\$ -	\$ 98,245
Unrestricted	745,905	725,249
Total Cash Basis Fund Balance	<u>\$ 745,905</u>	<u>\$ 823,494</u>

Exhibit D

Enterprise Funds		Internal Service Fund
Storm Water	Total	Employee Health
\$ -	\$ 7,030	\$ 226
121,873	1,682,999	47,889
-	21,917	296
121,873	1,711,946	48,411
-	-	70,209
-	-	132,262
-	-	69,695
-	-	30,784
-	-	29,532
27,483	1,277,342	-
27,483	1,277,342	332,482
94,390	434,604	(284,071)
-	-	-
-	4,935	-
-	-	-
-	4,935	-
94,390	439,539	(284,071)
-	-	-
-	118,700	246,275
-	(464,082)	-
-	(345,382)	246,275
94,390	94,157	(37,796)
93,500	1,663,132	134,778
\$ 187,890	\$ 1,757,289	\$ 96,982
\$ -	\$ 98,245	\$ -
187,890	1,659,044	96,982
\$ 187,890	\$ 1,757,289	\$ 96,982

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, 2012

Total Enterprise Funds Cash Balance (page 7)	\$ 1,757,289
 <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><u>\$ 1,757,289</u></u>
 Net Change in Cash Balances (page 7)	 \$ 94,157
 <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><u>\$ 94,157</u></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, 2012

	<u>Police Retirement System</u>
Additions:	
Contributions:	
Plan Members	\$ 158,100
Total Contributions	<u>158,100</u>
Investment Earnings:	
Net (Decrease) in Fair Value of Investments	(114,562)
Interest	4,168
Total Investment (Loss)	<u>(110,394)</u>
Total Additions	<u>47,706</u>
Deductions:	
Benefits	165,770
Total Deductions	<u>165,770</u>
Net Change in Cash Balances	(118,064)
Cash Balances - Beginning of the Year	<u>313,572</u>
Cash Balances- End of the Year	<u><u>\$ 195,508</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 the categories/components:

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

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

The Statement of Activities and Net Assets – 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.

City of Maquoketa

Notes to Financial Statements

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

Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

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

The City reports the following major proprietary funds:

The 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:

City of Maquoketa

Notes to Financial Statements

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

Basis of Presentation (Continued)

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.

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.

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

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

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

City of Maquoketa

Notes to Financial Statements

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

Governmental Cash Basis Fund Balances (Continued)

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

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

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

Unassigned – All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

NOTE 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2012, were entirely covered by Federal Depository Insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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, 2012, the City had the following investments, which are held in the Police Pension and Library Corporation funds:

City of Maquoketa

Notes to Financial Statements

NOTE 2. Cash and Pooled Investments (Continued)

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 686,140	\$ 707,047	-----
Stocks	624,745	687,190	-----
Corporate Bonds:			
General Electric Cap Corp Internotes	10,000	10,598	5/15/2015
Archer Daniels Midland Co.	20,481	23,080	3/1/2021
Bank Amer Corp Sub Internotes	39,116	41,357	3/15/2016
Mid American Energy Co.	38,996	47,794	7/15/2017
Conoco Phillips	32,973	41,375	5/15/2018
Walgreen Co.	14,141	15,926	1/15/2019
AT&T Corp	19,871	24,393	2/15/2019
Berkshire Hathaway Fin Corp	25,449	27,514	1/15/2021
Blackrock, Inc.	34,350	37,182	5/24/2021
Ameris Bank Moultrie, GA	45,000	46,885	12/2/2014
Merrill Lynch & Co Inc	20,030	20,402	2/5/2013
General Electric Cap. Corp.	30,000	30,351	7/15/2018
Wells Fargo and Co.	40,755	41,158	3/8/2022
JP Morgan Chase Moody AA3	29,103	31,967	3/25/2020
Collingswood NJ Taxable	26,816	28,720	6/1/2022
Goldman Sachs Group Inc.	24,968	24,175	5/16/2019
National Rural Utils Corp Fin	20,000	21,139	3/15/2020
U.S. Government Bonds:			
FHLB 6.00%	25,000	25,175	8/22/2022

Certain investments included above that are held by the Police Retirement System Fund (Fiduciary fund) in the amount of \$177,149 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:

City of Maquoketa

Notes to Financial Statements

NOTE 3. Bond and Notes Payable (Continued)

Year Ending June 30	General Obligation Capital Loan Notes		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2013	\$ 686,000	\$ 79,124	\$ 37,791	\$ 5,813
2014	683,000	62,278	39,780	3,824
2015	390,000	48,620	41,874	1,731
2016	125,000	38,937	10,807	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>\$ 2,634,000</u>	<u>\$ 345,772</u>	<u>\$ 130,252</u>	<u>\$ 11,460</u>

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	Revenue Bonds		General Obligation Notes	
	Principal	Interest	Principal	Interest
2013	\$ 2,000	\$ -	\$ -	\$ 135,745
2014	-	-	-	135,745
2015	-	-	730,000	135,745
2016	-	-	760,000	96,690
2017	-	-	810,000	55,650
2018	-	-	200,000	11,100
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-
	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 570,675</u>

City of Maquoketa

Notes to Financial Statements

NOTE 3. Bond and Notes Payable (Continued)

Year Ending June 30	Revenue Notes		Total	
	Principal	Interest	Principal	Interest
2013	\$ 195,000	\$ 114,705	\$ 920,791	\$ 335,387
2014	200,000	108,780	922,780	310,627
2015	207,000	102,675	1,368,874	288,771
2016	212,000	96,390	1,107,807	232,109
2017	336,000	88,170	1,271,000	177,195
2018	346,000	77,940	671,000	116,852
2019	358,000	67,395	483,000	89,645
2020	367,000	56,520	492,000	73,208
2021	379,000	45,330	504,000	56,455
2022	390,000	33,795	515,000	39,358
2023	344,000	21,930	344,000	21,930
2024	162,000	13,470	162,000	13,470
2025	166,000	8,550	166,000	8,550
2026	171,000	3,495	171,000	3,495
2027	11,000	405	11,000	405
2028	-	-	-	-
2029	-	-	-	-
	<u>\$ 3,844,000</u>	<u>\$ 839,550</u>	<u>\$ 9,110,252</u>	<u>\$ 1,767,457</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 2011 equalized valuation of taxable property of the City, as certified by Jackson County, Iowa, is \$296,765,939. The legal debt limit as of June 30, 2012, in accordance with the Iowa Constitution Article XI.3 follows:

Debt Limit (5% of \$296,765,939)	<u>\$ 14,838,297</u>
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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, 2012, the outstanding balance was \$64,230.

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 5.38% of their annual salary, and the City is required to contribute 8.07% of covered salary, except for police employees, in which case the percentages are 6.65% and 9.97%, 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, 2012, 2011, and 2010, were \$74,575, \$67,052, and \$60,979, 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, 2012, 2011, and 2010, were \$171,013, \$135,006, and \$128,112, respectively, which met (exceeded) 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 31 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

City of Maquoketa

Notes to Financial Statements

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

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.

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 \$563 for single coverage and \$1,216 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, 2012, the City contributed \$245,405 and plan members eligible for benefits contributed \$46,726 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 \$5,585 (health premiums and medication) in medical expenses for this retired employee for the year ended June 30, 2012.

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, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 71,746
Sick Leave	45,118
Total	<u>\$ 116,864</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, 2012.

City of Maquoketa

Notes to Financial Statements

NOTE 8. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012, is as follows:

Transfer To:	Transfer From:	Amount
General	Special Revenue:	
	Road Use Tax	\$ 29,223
	Local Option Sales Tax	356,099
	Employee Benefits	20,750
	Urban Renewal Tax Increment	20,895
	Enterprise:	
	Water Utility	49,135
	Wastewater Utility	53,862
		529,964
Special Revenue: Urban Renewal Tax	General	45,473
Capital Projects: General	General	93,565
	Special Revenue:	
	Road Use Tax	56,149
	Urban Renewal Tax Increment	109,978
		259,692
Debt Service	Special Revenue:	
	Road Use Tax	72,308
	Urban Renewal Tax Increment	525,096
	Enterprise:	
	Water Utility	171,543
	Wastewater Utility	189,542
		958,489
Wastewater Utility	Special Revenue:	
	Local Option Sales Tax	118,700
Internal Service Fund: Employee Health	General	18,366
	Special Revenue:	
	Employee Benefits	227,909
		246,275
		\$ 2,158,593

City of Maquoketa

Notes to Financial Statements

NOTE 8. Interfund Transfers (Continued)

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

During the year ended June 30, 2012, the City had no business transactions between the City and City officials.

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.

NOTE 11. Deficit Fund Balance

The Housing Assistance Program fund had a deficit fund balance in the amount of \$122,366 at June 30, 2012. The City will be receiving grant money, donations, and transfer funds to eliminate this deficit fund balance.

City of Maquoketa

Notes to Financial Statements

NOTE 12. Construction in Progress

The City has entered into various construction contracts totaling approximately \$1,165,702. The unpaid contract balances as of June 30, 2012, totaled approximately \$207,501, 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. The loan was forgiven during the year ended June 30, 2012.

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, 2012, was \$131,478. The City's obligation under these agreements for the fiscal year 2013 will not exceed \$132,096.

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, 2012, through June 30, 2015, and requires rental payments of \$297 and \$264 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.
3. The City is party to an operating lease for 19.81 acres of farmland. The lease runs from March 1, 2012 through February 28, 2013, and requires an annual rent payment of \$6,460, paid in two installments.
4. The City is party to an operating lease for 2.8 acres of farmland. The lease runs from March 1, 2011 through February 28, 2014, and requires an annual rent payment of \$225 paid on March 1.

NOTE 16. General Fund Cash Balance

The June 30, 2012 ending cash balance (the balance carried at financial institutions, reconciled for deposits in transit and outstanding checks) for the General Fund was \$2,626,546, 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	\$ 646,827
YMCA Operating Acct	002	31,952
K-9 Fund	006	385
Rehab	014	11,531
Insurance Reserve	019	180,405
Library	031	197,127
Library Corporation	032	1,996,660
Historic Preservation	067	5,063
Historic Preservation	069	5,779
Airport	660	(449,183)
	TOTAL	<u>\$ 2,626,546</u>

City of Maquoketa

Notes to Financial Statements

NOTE 17. Scott County Family Y (YMCA) Agreement

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 term of this agreement was three years commencing July 1, 2007. The City and the YMCA renewed the agreement on July 1, 2010, 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. New Governmental Accounting Standards Board (GASB) Standards

GASB has issued several statements not yet implemented by the City that will affect the City's financial statements, as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010 will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for governmental financial reporting entities by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial entity.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the City beginning with its year ending June 30, 2013. This statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could on be found in certain FASB and AICPA pronouncements.

Statement No. 66, *Technical Corrections*, issued March 2012, will be effective for the fiscal year ending June 30, 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

City of Maquoketa

Notes to Financial Statements

NOTE 18. New Governmental Accounting Standards Board (GASB) Standards (Continued)

Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will be effective for the fiscal year ending June 30, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

Statement No. 68, *Accounting and Financial Reporting for Pension Plans*, issued June 2012, will be effective for the fiscal year ending June 30, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Disclosure and required supplementary information requirements about pensions are also addressed.

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

NOTE 19. Date of Management's Review

Subsequent events have been evaluated through February 19, 2013, which is the date the financial statements were available to be issued.

Other 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, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property Tax	\$ 2,075,847	\$ -	\$ -
Tax Increment Financing Collections	1,653,143	-	-
Other City Tax	723,117	-	-
Licenses and Permits	11,478	-	-
Use of Money and Property	160,669	7,256	226
Intergovernmental	1,755,539	-	-
Charges for Service	575,201	1,730,888	47,889
Miscellaneous	737,121	27,148	296
Total Receipts	<u>7,692,115</u>	<u>1,765,292</u>	<u>48,411</u>
Disbursements:			
Public Safety	1,203,534	70,209	70,209
Public Works	2,267,248	132,262	132,262
Culture and Recreation	1,194,724	69,695	69,695
Community and Economic Development	527,710	30,784	30,784
General Government	506,234	29,532	29,532
Debt Service	1,140,132	-	-
Capital Projects	70,662	-	-
Business Type Activities	-	1,277,342	-
Total Disbursements	<u>6,910,244</u>	<u>1,609,824</u>	<u>332,482</u>
Excess (Deficiency) of Receipts over (under) Disbursements	781,871	155,468	(284,071)
Other Financing Sources, Net	114,607	(99,107)	246,275
Excess (Deficiency) of Receipts and Other Financing Sources over (under) Disbursements and Other Financing Uses	896,478	56,361	(37,796)
Balances, Beginning of Year	<u>6,087,633</u>	<u>1,797,910</u>	<u>134,778</u>
Balances, End of Year	<u>\$ 6,984,111</u>	<u>\$ 1,854,271</u>	<u>\$ 96,982</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 2,075,847	\$ 1,988,486	\$ 1,988,486	\$ 87,361
1,653,143	1,766,609	1,766,609	(113,466)
723,117	682,814	700,143	22,974
11,478	11,465	11,465	13
167,699	240,966	242,966	(75,267)
1,755,539	1,447,024	2,423,385	(667,846)
2,258,200	2,318,037	2,322,887	(64,687)
763,973	907,228	1,162,828	(398,855)
<u>9,408,996</u>	<u>9,362,629</u>	<u>10,618,769</u>	<u>(1,209,773)</u>
1,203,534	1,210,036	1,317,736	114,202
2,267,248	1,420,298	2,823,048	555,800
1,194,724	1,544,154	1,814,406	619,682
527,710	505,871	728,171	200,461
506,234	460,189	583,689	77,455
1,140,132	1,116,339	1,116,339	(23,793)
70,662	525,091	644,250	573,588
1,277,342	1,576,737	2,389,040	1,111,698
<u>8,187,586</u>	<u>8,358,715</u>	<u>11,416,679</u>	<u>3,229,093</u>
1,221,410	1,003,914	(797,910)	2,019,320
(230,775)	-	909,591	(1,140,366)
990,635	1,003,914	111,681	878,954
7,750,765	7,919,138	7,919,138	(168,373)
<u>\$ 8,741,400</u>	<u>\$ 8,923,052</u>	<u>\$ 8,030,819</u>	<u>\$ 710,581</u>

See Accompanying Independent Auditor's Report

City of Maquoketa

Notes to Other Information – Budgetary Reporting

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except 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 Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$1,256,140 and increased budgeted disbursements by \$3,057,964. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

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, 2012

	Special Revenue		
	GREAT	Bi-Centennial	Economic Development Revolving
Receipts:			
Property Tax	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	-	-	-
Use of Money and Property	-	-	902
Intergovernmental	-	-	-
Miscellaneous	-	-	-
Total Receipts	<u>-</u>	<u>-</u>	<u>902</u>
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>-</u>	<u>-</u>	<u>902</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	-	-	902
Cash Balances, Beginning of Year	153	1,702	190,946
Cash Balances, End of Year	<u>\$ 153</u>	<u>\$ 1,702</u>	<u>\$ 191,848</u>
Cash Basis Fund Balances			
Restricted for Other Purposes	\$ 153	\$ 1,702	\$ 191,848
Unassigned	-	-	-
Total Cash Basis Fund Balance	<u>\$ 153</u>	<u>\$ 1,702</u>	<u>\$ 191,848</u>

Schedule 1

Housing Assistance Program	Employee Benefits	Police Forfeiture	Local Option Sales Tax	Hooked on Fishing
\$ -	\$ 478,287	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	474,799	-
-	-	8	-	-
238,148	-	-	-	-
6,109	-	225	-	324
<u>244,257</u>	<u>478,287</u>	<u>233</u>	<u>474,799</u>	<u>324</u>
-	74,292	2,137	-	-
-	59,318	-	-	-
-	30,632	-	-	-
315,279	-	-	-	-
-	35,330	-	-	530
-	-	-	-	-
-	-	-	-	-
<u>315,279</u>	<u>199,572</u>	<u>2,137</u>	<u>-</u>	<u>530</u>
<u>(71,022)</u>	<u>278,715</u>	<u>(1,904)</u>	<u>474,799</u>	<u>(206)</u>
-	-	-	-	-
-	-	-	-	-
-	(248,659)	-	(474,799)	(250)
-	(248,659)	-	(474,799)	(250)
(71,022)	30,056	(1,904)	-	(456)
(51,344)	81,901	4,529	-	684
<u>\$ (122,366)</u>	<u>\$ 111,957</u>	<u>\$ 2,625</u>	<u>\$ -</u>	<u>\$ 228</u>
\$ (122,366)	\$ 111,957	\$ 2,625	\$ -	\$ 228
-	-	-	-	-
<u>\$ (122,366)</u>	<u>\$ 111,957</u>	<u>\$ 2,625</u>	<u>\$ -</u>	<u>\$ 228</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, 2012

	Capital Projects				Total
	ARC	Industrial Park	Library	Airport	
Receipts:					
Property Tax	\$ -	\$ -	\$ -	\$ -	\$ 478,287
Tax Increment Financing Collections	-	-	-	-	-
Other City Tax	-	-	-	-	474,799
Use of Money and Property	-	-	-	275	1,185
Intergovernmental	-	-	-	-	238,148
Miscellaneous	56,707	-	4,816	-	68,181
Total Receipts	<u>56,707</u>	<u>-</u>	<u>4,816</u>	<u>275</u>	<u>1,260,600</u>
Disbursements:					
Operating:					
Public Safety	-	-	-	-	76,429
Public Works	-	-	-	-	59,318
Culture and Recreation	-	-	-	-	30,632
Community and Economic Development	-	-	-	-	315,279
General Government	-	-	-	-	35,860
Debt Service	-	-	-	-	-
Capital Projects	-	298	4,816	-	5,114
Total Disbursements	<u>-</u>	<u>298</u>	<u>4,816</u>	<u>-</u>	<u>522,632</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>56,707</u>	<u>(298)</u>	<u>-</u>	<u>275</u>	<u>737,968</u>
Other Financing Sources (Uses):					
Bond Proceeds	-	-	-	-	-
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	-	-	(723,708)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(723,708)</u>
Net Change in Cash Balances	56,707	(298)	-	275	14,260
Cash Balances, Beginning of Year	-	17,208	31	58,137	303,947
Cash Balances, End of Year	<u>\$ 56,707</u>	<u>\$ 16,910</u>	<u>\$ 31</u>	<u>\$ 58,412</u>	<u>\$ 318,207</u>
Cash Basis Fund Balances:					
Restricted for Other Purposes	\$ -	\$ -	\$ -	\$ -	\$ 186,147
Unassigned	56,707	16,910	31	58,412	132,060
Total Cash Basis Fund Balance	<u>\$ 56,707</u>	<u>\$ 16,910</u>	<u>\$ 31</u>	<u>\$ 58,412</u>	<u>\$ 318,207</u>

City of Maquoketa
Schedule of Indebtedness
Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
2011A Capital Loan Notes	April 1, 2011	2.00%	\$ 1,740,000
Capital Loan Notes	August 1, 2007	4.45%	1,600,000
Capital Loan Notes	October 15, 2009	3.10%	330,000
Total			<u>\$ 3,670,000</u>
Revenue Bonds:			
Parking Lot	December 1, 1967	3.50%	\$ 221,000
Total			<u>\$ 221,000</u>
General Obligation Notes:			
Corporate Purpose	June 1, 2001	5.35% - 5.55%	\$ 2,500,000
Total			<u>\$ 2,500,000</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
Total			<u>\$ 5,138,000</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
\$ 1,740,000	\$ -	\$ 510,000	\$ 1,230,000	\$ 40,600	\$ -
1,300,000	-	100,000	1,200,000	57,751	-
268,000	-	64,000	204,000	8,308	-
<u>\$ 3,308,000</u>	<u>\$ -</u>	<u>\$ 674,000</u>	<u>\$ 2,634,000</u>	<u>\$ 106,659</u>	<u>\$ -</u>
\$ 2,000	\$ -	\$ -	\$ 2,000	\$ -	\$ -
<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,500,000	\$ -	\$ -	\$ 2,500,000	\$ 135,745	\$ -
<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 135,745</u>	<u>\$ -</u>
\$ 1,916,000	\$ -	\$ 76,000	\$ 1,840,000	\$ 56,340	\$ -
2,005,000	-	108,000	1,897,000	58,530	-
111,000	-	4,000	107,000	3,325	-
<u>\$ 4,032,000</u>	<u>\$ -</u>	<u>\$ 188,000</u>	<u>\$ 3,844,000</u>	<u>\$ 118,195</u>	<u>\$ -</u>
<u>\$ 166,154</u>	<u>\$ -</u>	<u>\$ 35,902</u>	<u>\$ 130,252</u>	<u>\$ 7,702</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report

City of Maquoketa
Schedule of Bond and Note Maturities
Year Ended June 30, 2012

Year Ending June 30,	General Obligation Notes			
	2011A Refunding CLN		CLN	
	Issued April 1, 2011		Issued August 1, 2007	
	Interest Rates	Amount	Interest Rates	Amount
2013	2.00%	\$ 520,000	4.45%	\$ 100,000
2014	2.00%	515,000	4.45%	100,000
2015	2.00%	195,000	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>\$1,230,000</u>		<u>\$ 1,200,000</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
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%	187,000	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%	11,000
2028		-		-		-
2029		-		-		-
Total		<u>\$ 1,840,000</u>		<u>\$ 1,897,000</u>		<u>\$ 107,000</u>

City of Maquoketa
Schedule of Bond and Note Maturities (Continued)
Year Ended June 30, 2012

Year Ending June 30,	General Obligation Notes			Revenue Bond	
	Corporate Purpose			Parking Lot	
	Issued June 1, 2001			Issued December 1, 1967	
	Interest Rates	Amount	Total	Interest Rates	Amount
2013		\$ -	\$ -	3.50%	\$ 2,000
2014		-	-		-
2015	5.35%	730,000	730,000		-
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		<u>\$2,500,000</u>	<u>\$ 2,500,000</u>		<u>\$ 2,000</u>
	<u>Equipment Capital Lease</u>				
	<u>Issued September 15, 2008</u>				
Year Ending June 30,	Interest Rates	Amount		Year Ending June 30,	Total Maturities
2013	5.14%	\$ 37,791		2013	\$ 920,791
2014	5.14%	39,780		2014	922,780
2015	5.14%	41,874		2015	1,368,874
2016	5.14%	10,807		2016	1,107,807
2017		-		2017	1,271,000
2018		-		2018	671,000
2019		-		2019	483,000
2020		-		2020	492,000
2021		-		2021	504,000
2022		-		2022	515,000
2023		-		2023	344,000
2024		-		2024	162,000
2025		-		2025	166,000
2026		-		2026	171,000
2027		-		2027	11,000
2028		-		2028	-
2029		-		2029	-
Total		<u>\$ 130,252</u>		Total	<u>\$ 9,110,252</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>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:			
Property Tax	\$ 2,075,847	\$ 2,084,517	\$ 2,028,557
Tax Increment Financing Collections	1,653,143	1,497,040	1,597,006
Other City Tax	723,117	680,920	661,037
Licenses and Permits	11,478	21,828	13,276
Use of Money and Property	160,669	291,836	254,500
Intergovernmental	1,755,539	1,490,636	1,289,030
Charges for Services	575,201	506,896	706,261
Miscellaneous	737,121	1,008,873	1,151,175
Total	<u>\$ 7,692,115</u>	<u>\$ 7,582,546</u>	<u>\$ 7,700,842</u>
Disbursements:			
Operating:			
Public Safety	\$ 1,203,534	\$ 1,097,404	\$ 1,033,300
Public Works	2,267,248	1,630,059	1,619,585
Culture and Recreation	1,194,724	1,262,872	1,662,179
Community and Economic Development	527,710	570,734	732,362
General Government	506,234	576,463	443,152
Debt Service	1,140,132	2,876,002	1,081,752
Capital Projects	70,662	255,875	218,783
Total	<u>\$ 6,910,244</u>	<u>\$ 8,269,409</u>	<u>\$ 6,791,113</u>

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,972,089	\$ 1,587,970	\$ 1,561,520	\$ 1,570,993
526,248	557,245	537,118	385,423
652,976	645,247	630,453	568,625
11,456	11,836	12,715	9,456
323,226	322,262	253,697	190,391
1,797,377	1,168,127	2,316,568	1,357,464
658,759	615,265	192,288	162,455
1,668,067	944,943	2,034,139	533,621
<u>\$ 7,610,198</u>	<u>\$ 5,852,895</u>	<u>\$ 7,538,498</u>	<u>\$ 4,778,428</u>
\$ 1,165,820	\$ 2,190,757	\$ 1,069,364	\$ 1,154,914
1,084,200	2,337,283	1,423,881	840,013
1,601,928	1,309,770	495,333	537,154
499,295	161,683	408,563	808,912
438,564	723,448	408,756	420,039
2,346,690	999,929	936,785	814,281
668,763	2,126,877	4,596,185	833,503
<u>\$ 7,805,260</u>	<u>\$ 9,849,747</u>	<u>\$ 9,338,867</u>	<u>\$ 5,408,816</u>

See Accompanying Independent Auditor's Report

City of Maquoketa
Additional Information Required by the
Sewer Revenue Bond Resolution
June 30, 2012
(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 Inland Marine General Liability Business Auto Umbrella Excess Employee Dishonesty Linebacker Crime Commercial Output Law Enforcement Liability	\$ 43,570,143 869,608 1,000,000 1,000,000 4,000,000 310,000 1,000,000 30,000 37,643,819 1,000,000	4/1/2013 4/1/2013 4/1/2013 4/1/2013 4/1/2013 4/1/2013 4/1/2013 4/1/2013 4/1/2013 4/1/2013
Travelers Group Hartford, Connecticut Policy # M5J-BME1-702X7309-TIL-10	Sewage & Water Treatment & Distribution	\$ 8,895,756	1/1/2013
Old Republic Insurance Company Greensburg, Pennsylvania Policy # PR 227807	Airport Owners and Liability	\$ 2,000,000	1/1/2013
Nationwide Bethesda, Maryland Policy #5050326247, #5050326239, #5050326254	Flood Insurance Program	\$ 313,900	4/4/2013
VFIS A Division of Glatfelter Insurance Group York, Pennsylvania Policy #VFP 4316-3502D-0	Maquoketa Volunteer Fire Dept. & Rescue Squad	\$ 100,000	1/1/2013
Iowa Municipalities Workers' Compensation Assoc. Des Moines, Iowa Policy #1075-1011	Workers' Compensation Coverage	\$ 2,000,000	7/1/2012

Rate and Number of Users of the System:

User Charges - The minimum sewer charge per month shall be \$21.75 up to 300 cubic feet.

Over 300 cubic feet the charge is \$1.42 per 100 cubic feet as determined in ordinance 867.

Number of Users - The City has approximately 2,480 users.

City of Maquoketa
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

<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 #3-19-0055-04	\$ 461,515 <u>461,515</u>
U.S. Environmental Protection Agency: Local Government Reimbursement Program	66.814		<u>2,575</u>
Total Direct			<u>464,090</u>
Indirect:			
Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants	14.228	10-HSG-069	311,107 <u>311,107</u>
Department of Homeland Security: Iowa Homeland Security and Emergency Management Division: Disaster Grants - Public Assistance	97.036	097-79215-00	13,770 <u>13,770</u>
U.S. Department of Energy: Office of Energy Independence: ARRA - State Energy Program	81.041	SEP 11-34053	234,020 <u>234,020</u>

(Continued)

City of Maquoketa
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass- Through Number</u>	<u>Program Expenditures</u>
Indirect (Continued):			
Iowa Department of Public Safety/Governor's Traffic Safety Bureau:			
Occupant Protection	20.602	PAP 12-03, Task 212	4,500
			<u>4,500</u>
Total Indirect			<u>563,397</u>
Total			<u><u>\$ 1,027,487</u></u>

City of Maquoketa

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

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 an other 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 basic financial statements of the City of Maquoketa as of and for the year ended June 30, 2012, and have issued our report thereon dated February 19, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with 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

Management of the City of Maquoketa is responsible for establishing and maintaining effective 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, but not for the purpose of expressing an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that 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 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 combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City'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-12 and II-B-12 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, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Maquoketa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusion 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
February 19, 2013



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 could have a direct and material effect of the City's major federal programs for the year ended June 30, 2012. 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 could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

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 was not designed to 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-12 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. While we have expressed our conclusions on the City's responses, 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.

A handwritten signature in cursive script that reads "Honkamp Krueger & Co.".

Dubuque, Iowa
February 19, 2013

City of Maquoketa

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

Part I. Summary of the Independent Auditors' Results

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. 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 20.106 – Airport Improvement Program
 - CFDA Number 14.228 – Community Development Block Grants
- 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, 2012

Part II. Findings Related to the Financial Statements (Continued)

Internal Control Deficiencies:

II-A-12 **Segregation of Duties:** One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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. During the year, we implemented enhanced controls over check signing and payroll functions with our limited number of personnel.

Conclusion: Response acknowledged.

II-B-12 **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

City of Maquoketa

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

Part II. Findings Related to the Financial Statements (Continued)

Internal Control Deficiencies (Continued):

size, the economics of our situation prohibits us from hiring more office staff to provide for this function.

Conclusion: Response acknowledged.

Part III. Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Number: AIP #3-19-0055-04; AIP 3-19-0055-05-2010
Federal Aviation Administration

CFDA Number 14.228: Community Development Block Grants
Pass-through Agency Number: 10-HSG-069
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-12 **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-12.

Part IV: Other Findings Related to Statutory Reporting

IV-A-12 **Certified Budget:** Disbursements exceeded budget for the year ended June 30, 2012 in the debt service function, which is not in compliance with Chapter 384.20 of the Code of Iowa.

City of Maquoketa

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

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

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

Response: The City will amend the budget in the future, if applicable.

Conclusion: Response accepted.

- IV-B-12 **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-12 **Travel Expense:** No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-12 **Business Transactions:** No business transactions between the City and City officials or employees were noted.
- IV-E-12 **Bond Coverage:** Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-12 **Council Minutes:** No transactions were found that we believe should have been approved in the Council minutes, but were not.
- IV-G-12 **Deposits and Investments:** We noted no instances of deposits in other than allowable depositories.
- IV-H-12 **Revenue Bonds:** We noted no instances of noncompliance with the provisions of the City's revenue bond resolutions.
- IV-I-12 **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.
- IV-J-12 **Financial Condition:** The Housing Assistance Program fund had a deficit balance at June 30, 2012, totaling \$122,366.

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

City of Maquoketa

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

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

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 basic financial statements of City of Maquoketa as of and for the year ended June 30, 2012, and have issued our report thereon dated February 19, 2013. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As communicated in our engagement letter dated June 12, 2012, our responsibility, as described by professional standards, is to plan and perform our audit to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of City of Maquoketa solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies and material weaknesses over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated February 19, 2013.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing City of Maquoketa's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such

information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of Maquoketa is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2012. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is the estimate of compensated absences.

Management's estimate of the approximate liability for earned compensated absences 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.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the City of Maquoketa's financial statements relate to:

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.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following attachment indicates material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management (Attachment 2).

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated February 19, 2013 (Attachment 1).

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with City of Maquoketa, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City of Maquoketa's auditors.

This report is intended solely for the information and 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.

Honkamp Krueger & Co.

Dubuque, Iowa
February 19, 2013

Attachment 1



201 East Pleasant Street
Maquoketa, IA 52060-3050
E-mail: maqcity@maquoketaia.com

Phone: (563) 652-2484
Fax: (563) 652-2485
www.maquoketaia.com

February 19, 2013

Honkamp Krueger & Co., P.C.
2345 John F. Kennedy Road
P.O. Box 699
Dubuque, IA 52004-0699

We are providing this letter in connection with your audit of the basic financial statements of the City of Maquoketa as of June 30, 2012, and for the year then ended, for the purpose of expressing opinions as to whether the basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Maquoketa in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the basic financial statements previously mentioned in conformity with the cash receipts and disbursements basis of accounting. We acknowledge our responsibility for the design and implementation of effective internal control over financial reporting, and programs and controls to prevent and detect fraud. We also confirm that we are responsible for the identification of and compliance with laws, regulations, and provisions of contracts and grant agreements applicable to us.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of February 19, 2013, the following representations made to you during your audit.

1. The financial statements of the various opinion units referred to above are fairly presented in conformity with the cash receipts and disbursements basis of accounting and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all:
 - a. Financial records and related data and all audit and relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the elected body and other relevant committees or summaries of actions of recent meetings for which minutes have not yet been prepared.

Attachment 1

3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We have reviewed and approved the various adjusting journal entries, summarized in the attached schedule, that were proposed by you for recording in our books and records and reflected in the financial statements.
6. We have no knowledge of any fraud or suspected fraud affecting the entity involving (a) management, (b) employees who have significant roles in internal controls, or (c) others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, vendors, regulators, or others.
8. The City of Maquoketa has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
9. The following have been properly recorded or disclosed in the financial statements:
 - a. Related-party transactions, including sales or charges for services provided, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the City of Maquoketa is contingently liable.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (FASB Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*). Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
10. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
11. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.

Attachment 1

- b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62 (ASC 450, *Contingencies*).
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62 (ASC 450).
12. The City of Maquoketa has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
13. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. We represent to you the following regarding the financial statements for the City of Maquoketa:
- a. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
 - b. All funds and activities are properly classified.
 - c. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
 - d. All net assets components and fund balance classifications have been properly reported.
 - e. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - f. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
 - g. All interfund and intra-entity transactions and balances have been properly classified and reported.
 - h. Special items and extraordinary items have been properly classified and reported.
 - i. Deposit and investment risks have been properly and fully disclosed.
 - j. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
 - k. All required supplementary information is measured and presented within the prescribed guidelines.
 - l. With regard to investments and other instruments reported at fair value:
 - (1) The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - (2) The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.

Attachment 1

- (3) The disclosures related to fair values are complete, adequate, and in conformity with GAAP.
 - (4) There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
15. With respect to the supplementary information and other information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
16. With respect to federal award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of Circular A-133.
 - b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with Circular A-133.
 - c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with Circular A-133.
 - d. The methods of measurement or presentation have not changed from those used in the prior period.
 - e. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
 - f. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
 - g. We have, in accordance with Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
 - h. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.

Attachment 1

- i. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- j. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
- k. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- l. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- m. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Tribal Governments, and the U.S. Office of Management and Budget's, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.
- n. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- p. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- q. We have properly identified and separately accounted for all awards and expenditures of ARRA funds.
- r. We have properly identified and separately presented in the Schedule of Expenditures of Federal Awards and Data Collection Form all expenditures involving ARRA funds.
- s. We are responsible for the summary schedule of prior audit findings to include all findings required to be included by Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- t. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

Attachment 1

- u. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by Circular A-133, and we are responsible for preparing and implementing a correction action plan for each audit finding.
- v. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- w. We have reviewed, approved, and taken responsibility for the schedule of expenditures of federal awards and related notes and an acknowledgment of the auditor's role in the preparation of this information.
- x. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

City of Maquoketa


Signature


Title

Attachment 2

Client: **City of Maquoketa**
 Engagement: **City of Maquoketa**
 Period Ending: **6/30/2012**
 Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		PBC		
To record journal entries posted by client after TB was imported.				
001-6-1110-63320	REPAIRS/PARTS VEHICLES		50.00	
001-6-2295-63311	REPAIRS/PARTS-EQUIPMENT		100.00	
001-6-4430-63713	CITADEL - UTILITIES/MISC		32.14	
001-6-4430-63713	CITADEL - UTILITIES/MISC		38.11	
001-6-4445-63720	UTILITIES		946.65	
001-6-4445-63720	UTILITIES		2,347.74	
001-6-6620-61100	FICA		125.20	
001-6-6620-61100	FICA		158.15	
001-6-6620-61100	FICA		543.34	
001-6-6620-61100	FICA		686.82	
001-6-6620-61300	IPERS		830.52	
001-6-6620-61300	IPERS		945.17	
002-4-44462-434001	CITY SUBSIDY		14,000.00	
085-1115	CASH		554.34	
085-1115	CASH		4,697.73	
085-4-11104-479902	POLICE RETIREMENT REVENUE		562.34	
085-6-1110-65999	EXPENSES		8.00	
085-6-1110-65999	EXPENSES		8.00	
112-1110	CASH-EMPLOYEE BENEFITS FUND		1,499.06	
112-1110	CASH-EMPLOYEE BENEFITS FUND		1,790.14	
001-1110	CASH-GENERAL FUND			1,499.06
001-1110	CASH-GENERAL FUND			1,790.14
001-6-1110-63325	GASOLINE VEHICLES			50.00
001-6-2295-63325	VEHICLE FUEL			100.00
001-6-4430-63713	CITADEL - UTILITIES/MISC			978.79
001-6-4430-63713	CITADEL - UTILITIES/MISC			2,385.85
002-1115	CASH-YMCA OPERATING			14,000.00
085-1115	CASH			554.34
085-4-11104-479902	POLICE RETIREMENT REVENUE			562.34
085-4-11104-479902	POLICE RETIREMENT REVENUE			4,705.73
085-6-1110-65999	EXPENSES			8.00
112-6-6620-61100	FICA			125.20
112-6-6620-61100	FICA			158.15
112-6-6620-61100	FICA			543.34
112-6-6620-61100	FICA			686.82
112-6-6620-61300	IPERS			830.52
112-6-6620-61300	IPERS			945.17
Total			29,923.45	29,923.45

Adjusting Journal Entries JE # 2 **2814**
 To correct transfers

001-6-1110-63325	GASOLINE VEHICLES	80.98	
005-6-1110-64751	MISCELLANEOUS EXPENSE	250.00	
126-4-55994-405900	CARWASH-TIF	160.00	
300-4-87504-479681	POLICE	250.00	
660-6-9836-67990	CIP	8,000.00	
822-4-09504-479908	SELF FUNDED II REVENUE	296.49	
001-6-4445-63502	MAINTENANCE/REPAIRS		80.98
005-6-1110-64750	EXPENSES		250.00
126-4-55994-405710	TIF - URBAN RENEWAL		160.00
300-4-87504-479700	OTHER PROJECTS		250.00
660-6-9835-64577	LOAN PAYMENT-JET TANK		8,000.00

Attachment 2

Client: *City of Maquoketa*
 Engagement: *City of Maquoketa*
 Period Ending: *6/30/2012*
 Workpaper: *Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit
822-4-09504-471000	REIMBURSEMENTS			296.49
Total			9,037.47	9,037.47
Adjusting Journal Entries JE # 3				
		4100		
To adjust library fund to actual.				
031-1110	CASH-LIBRARY FUND		83,370.00	
032-6-4410-65999	EXPENSES		3,741.12	
032-6-4410-69104	TRANSFERS		83,370.00	
031-4-44104-400001	TRANSFER IN			83,370.00
032-1115	CASH			17,945.64
032-4-44104-479913	LIBRARY CORP REVENUE			69,165.48
Total			170,481.12	170,481.12
Adjusting Journal Entries JE # 4				
		PY		
To record prior year adjusting entry not posted.				
031-1110	CASH-LIBRARY FUND		98,335.00	
031-3860	FUND BALANCE			98,335.00
Total			98,335.00	98,335.00



To the City Council
City of Maquoketa
Maquoketa, Iowa

In planning and performing our audit of the basic financial statements of City of Maquoketa as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Maquoketa's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in City of Maquoketa's internal control to be material weaknesses:

Segregation of Duties

A limited number of 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. It was noted during the audit that the City has implemented enhanced controls over check signing and payroll functions with their limited number of personnel. 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

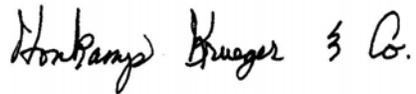
The City does not have an internal system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of

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 a 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.

This communication is intended solely for the information and use of the City Council and management of the City of Maquoketa, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HONKAMP KRUEGER & CO., P.C.

A handwritten signature in black ink that reads "Honkamp Krueger & Co." in a cursive style.

Dubuque, Iowa
February 19, 2013



**City of Maquoketa
Corrective Action Plan for Federal Audit Findings
For the Year Ended June 30, 2012**

Finding III-A-12. 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. During the year, the City implemented new controls over check signing and payroll procedures.

Date of Completion

Ongoing.