

City of Maquoketa, Iowa

Financial Report
June 30, 2013

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City of Maquoketa, Iowa

List of Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 1, 2013)		
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
(After January 1, 2013)		
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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Maquoketa, Iowa (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, which represents 100 percent of the cash basis net position and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Maquoketa Municipal Electric Utility, is based solely on the report of 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide on basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Maquoketa, Iowa, as of June 30, 2013, and the respective changes in cash basis financial position thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As explained in Note 17 to the basic financial statements, the City restated beginning cash basis net position of the Governmental Activities and fund balance of the General Fund due to an overstatement of cash and related receipts. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The basis of cash receipts and cash disbursements requires that the budgetary comparison information on pages 30 – 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management discussion and analysis that the basis of cash receipts and cash disbursements require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The nonmajor governmental funds statement of cash receipts, disbursements and changes in cash balance, schedule of indebtedness and schedule of bond and note maturities, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The governmental funds schedule of receipts by source and disbursements by function and information required by the sewer revenue bond resolution 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of the City's internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Davenport, Iowa
November 15, 2013

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City of Maquoketa, Iowa

Statement of Net Position - Cash Basis

June 30, 2013

	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets:				
Cash	\$ 6,818,986	\$ 1,676,605	\$ 8,495,591	\$ 3,848,246
Investments	1,763,238	-	1,763,238	-
Total assets	\$ 8,582,224	\$ 1,676,605	\$ 10,258,829	\$ 3,848,246
Net Position:				
Restricted:				
Streets	\$ 549,481	\$ -	\$ 549,481	\$ -
Urban renewal purposes	2,850,283	-	2,850,283	-
Debt service	319,473	337,993	657,466	-
Library	1,971,187	-	1,971,187	-
Economic development	193,917	-	193,917	-
Employee benefits	159,318	-	159,318	-
Police	5,140	-	5,140	-
Unrestricted	2,533,425	1,338,612	3,872,037	3,848,246
Total net position	\$ 8,582,224	\$ 1,676,605	\$ 10,258,829	\$ 3,848,246

See Notes to Financial Statements.

City of Maquoketa, Iowa

**Statement of Activities - Cash Basis
Year Ended June 30, 2013**

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary government:				
Governmental activities:				
Public safety	\$ 1,456,583	\$ 17,462	\$ 297,145	\$ 3,000
Public works	1,249,398	212,986	822,341	-
Culture and recreation	1,113,403	453,672	97,325	-
Community and economic development	383,948	1,524	164,097	-
General government	530,027	16,921	413,901	-
Debt service	1,146,332	-	-	-
Capital projects	159,001	-	-	-
Total governmental activities	6,038,692	702,565	1,794,809	3,000
Business-type activities:				
Water utility	697,527	684,312	-	-
Wastewater treatment	791,275	915,093	-	-
Storm water	25,617	122,284	-	-
Total business-type activities	1,514,419	1,721,689	-	-
Total primary government	\$ 7,553,111	\$ 2,424,254	\$ 1,794,809	\$ 3,000
Component unit:				
Maquoketa Municipal Electric Utility	\$ 12,033,112	\$ 9,239,473	\$ -	\$ -

General receipts:				
Property tax levied for:				
General purposes				
Insurance				
Employee benefits				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Franchise tax				
Unrestricted interest on investments				
Loan and note proceeds				
Miscellaneous				
Sale of assets				
Transfers in (out)				
Total general receipts and transfers				
Change in cash basis net position				

Cash basis net position, beginning of year, as restated
Cash basis net position, end of year

See Notes to Financial Statements.

Net (Disbursements) Receipts and Change in Cash Basis Net Position				
Governmental Activities	Business-Type Activities	Total	Component Unit	
\$ (1,138,976)	\$ -	\$ (1,138,976)	\$ -	-
(214,071)	-	(214,071)	-	-
(562,406)	-	(562,406)	-	-
(218,327)	-	(218,327)	-	-
(99,205)	-	(99,205)	-	-
(1,146,332)	-	(1,146,332)	-	-
(159,001)	-	(159,001)	-	-
(3,538,318)	-	(3,538,318)	-	-
-	(13,215)	(13,215)	-	-
-	123,818	123,818	-	-
-	96,667	96,667	-	-
-	207,270	207,270	-	-
\$ (3,538,318)	\$ 207,270	\$ (3,331,048)	-	-
\$ -	\$ -	\$ -	\$ (2,793,639)	-
\$ 1,385,080	\$ -	\$ 1,385,080	\$ -	-
64,547	-	64,547	-	-
586,560	-	586,560	-	-
156,182	-	156,182	-	-
1,445,426	-	1,445,426	-	-
489,553	-	489,553	-	-
71,819	-	71,819	-	-
230,363	-	230,363	-	-
28,578	3,103	31,681	67,263	-
252,046	2,460	254,506	-	-
128,569	37,660	166,229	231,912	-
51,254	-	51,254	-	-
331,177	(331,177)	-	-	-
5,221,154	(287,954)	4,933,200	299,175	-
1,682,836	(80,684)	1,602,152	(2,494,464)	-
6,899,388	1,757,289	8,656,677	6,342,710	-
\$ 8,582,224	\$ 1,676,605	\$ 10,258,829	\$ 3,848,246	-

City of Maquoketa, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
 Governmental Funds
 Year Ended June 30, 2013

	General	Capital Projects General
Receipts:		
Property tax	\$ 1,449,627	\$ -
Tax increment financing collections	-	-
Other city tax	791,735	-
Licenses and permits	20,293	-
Use of money and property	56,696	2,056
Intergovernmental	951,107	-
Charges for service	682,272	-
Fines and fees	9,431	-
Miscellaneous	48,588	1,904
Total receipts	4,009,749	3,960
Disbursements:		
Operating:		
Public safety	1,198,926	-
Public works	750,994	-
Culture and recreation	815,302	-
Community and economic development	42,341	-
General government	462,437	-
Debt service	-	-
Capital projects	-	158,709
Total disbursements	3,270,000	158,709
Excess (deficiency) of receipts over disbursements	739,749	(154,749)
Other financing sources (uses):		
Sale of capital assets	51,254	-
Interfund loans	-	(250,000)
Loan proceeds	252,046	-
Operating transfers in	249,601	390,691
Operating transfers out	(2,489,490)	(2,056)
Total other financing sources (uses)	(1,936,589)	138,635
Net change in cash balances	(1,196,840)	(16,114)
Cash and investment balances, beginning of year, as restated	2,444,841	1,134,228
Cash and investment balances, end of year	\$ 1,248,001	\$ 1,118,114

(Continued)

Library	Special Revenue		Debt Service	Other Nonmajor Governmental Funds	Total
	Urban Renewal Tax Increment	Road Use Tax			
\$ -	\$ -	\$ -	\$ 156,182	\$ 586,560	\$ 2,192,369
-	1,445,426	-	-	-	1,445,426
-	-	-	-	-	791,735
-	-	-	-	-	20,293
68,383	24,069	-	-	469	151,673
18,671	-	588,321	-	164,097	1,722,196
-	-	-	-	-	682,272
7,371	-	-	-	-	16,802
10,515	-	-	-	3,186	64,193
104,940	1,469,495	588,321	156,182	754,312	7,086,959
-	-	-	-	237,348	1,436,274
-	-	387,638	-	104,793	1,243,425
232,976	-	-	-	60,347	1,108,625
-	282,281	-	-	59,326	383,948
-	-	-	-	59,228	521,665
-	-	36,337	1,109,995	-	1,146,332
-	-	-	-	292	159,001
232,976	282,281	423,975	1,109,995	521,334	5,999,270
(128,036)	1,187,214	164,346	(953,813)	232,978	1,087,689
-	-	-	-	-	51,254
-	-	250,000	-	-	-
-	-	-	-	-	252,046
2,099,223	-	-	955,604	-	3,695,119
-	(576,202)	(213,042)	-	(103,152)	(3,383,942)
2,099,223	(576,202)	36,958	955,604	(103,152)	614,477
1,971,187	611,012	201,304	1,791	129,826	1,702,166
-	2,239,271	348,177	317,682	318,207	6,802,406
\$ 1,971,187	\$ 2,850,283	\$ 549,481	\$ 319,473	\$ 448,033	\$ 8,504,572

City of Maquoketa, Iowa

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
Governmental Funds (Continued)
Year Ended June 30, 2013**

	General	Capital Projects <u>General</u>
Assets:		
Cash	\$ 1,248,001	\$ 1,118,114
Investments	-	-
	<u>\$ 1,248,001</u>	<u>\$ 1,118,114</u>
Cash basis fund balances:		
Restricted:		
Debt service	\$ -	\$ -
Urban renewal purposes	-	-
Streets	-	-
Library	-	-
Economic development	-	-
Employee benefits	-	-
Police	-	-
Assigned for capital projects	-	1,118,114
Unassigned	1,248,001	-
Total cash basis fund balances	<u>\$ 1,248,001</u>	<u>\$ 1,118,114</u>

See Notes to Financial Statements

Library	Special Revenue		Debt Service	Other Nonmajor Governmental Funds	Total
	Urban Renewal Tax Increment	Road Use Tax			
\$ 207,949	\$ 2,850,283	\$ 549,481	\$ 319,473	\$ 448,033	\$ 6,741,334
1,763,238	-	-	-	-	1,763,238
<u>\$ 1,971,187</u>	<u>\$ 2,850,283</u>	<u>\$ 549,481</u>	<u>\$ 319,473</u>	<u>\$ 448,033</u>	<u>\$ 8,504,572</u>
\$ -	\$ -	\$ -	\$ 319,473	\$ -	\$ 319,473
-	2,850,283	-	-	-	2,850,283
-	-	549,481	-	-	549,481
1,971,187	-	-	-	-	1,971,187
-	-	-	-	193,917	193,917
-	-	-	-	159,318	159,318
-	-	-	-	5,140	5,140
-	-	-	-	107,253	1,225,367
-	-	-	-	(17,595)	1,230,406
<u>\$ 1,971,187</u>	<u>\$ 2,850,283</u>	<u>\$ 549,481</u>	<u>\$ 319,473</u>	<u>\$ 448,033</u>	<u>\$ 8,504,572</u>

City of Maquoketa, Iowa

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in
Cash Balances - Governmental Funds to the Statement of Activities and Net Position - Cash Basis

Year Ended June 30, 2013

Total governmental funds cash balance \$ 8,504,572

Amounts reported for governmental activities in the statement of activities and net position are different because:

The internal service fund is 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 fund are included in the governmental activities in the statement of net position.

Cash basis net position of governmental activities

77,652
\$ 8,582,224

Net change in cash balances

\$ 1,702,166

Amounts reported for governmental activities in the statement of activities and net position are different because:

The internal service fund is used by management to charge the costs of employee health benefits to individual funds. The change in net position of the internal service funds is reported with governmental activities.

Change in cash basis net position of governmental activities

(19,330)
\$ 1,682,836

See Notes to Financial Statements.

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City of Maquoketa, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
 Proprietary Funds
 Year Ended June 30, 2013

	Enterprise Funds	
	Water Utility	Wastewater Treatment
Operating receipts:		
Charges for service	\$ 684,312	\$ 915,093
Use of money and property	1,539	1,564
Miscellaneous	2,857	34,803
Total operating receipts	688,708	951,460
Operating disbursements:		
Contractual services	432,868	522,031
Commodities	101,464	12,701
Repair, maintenance and utilities	162,122	119,913
Capital items	1,073	-
Total operating disbursements	697,527	654,645
Excess (deficiency) of operating receipts over operating disbursements	(8,819)	296,815
Nonoperating receipts (disbursements):		
Debt service	-	(136,630)
Notes proceeds	2,460	-
Total nonoperating receipts (disbursements)	2,460	(136,630)
Excess (deficiency) of receipts over disbursements before transfers	(6,359)	160,185
Operating transfers in	-	122,388
Operating transfers out	(220,431)	(233,134)
	(220,431)	(110,746)
Net change in cash balances	(226,790)	49,439
Cash balances, beginning of year	745,905	823,494
Cash balances, end of year	\$ 519,115	\$ 872,933
Cash basis net position:		
Restricted for debt service	\$ 73,570	\$ 264,423
Unrestricted	445,545	608,510
Total cash basis net position	\$ 519,115	\$ 872,933

See Notes to Financial Statements.

Enterprise Funds			Internal Service Fund
Storm Water	Total		Employee Health
\$ 122,284	\$ 1,721,689	\$	320,023
-	3,103		92
-	37,660		392
122,284	1,762,452		320,507
4,683	959,582		249,012
-	114,165		110,825
-	282,035		-
20,934	22,007		-
25,617	1,377,789		359,837
96,667	384,663		(39,330)
-	(136,630)		-
-	2,460		-
-	(134,170)		-
96,667	250,493		(39,330)
-	122,388		20,000
-	(453,565)		-
-	(331,177)		20,000
96,667	(80,684)		(19,330)
187,890	1,757,289		96,982
\$ 284,557	\$ 1,676,605	\$	77,652
\$ -	\$ 337,993	\$	-
284,557	1,338,612		77,652
\$ 284,557	\$ 1,676,605	\$	77,652

City of Maquoketa, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
Fiduciary Funds
Year Ended June 30, 2013

	Police Retirement System
Additions:	
Contributions:	
Plan members	\$ 51,834
City	72,899
Total contributions	<u>124,733</u>
Investment earnings:	
Net increase in fair value of investments	28,968
Interest	2,490
Total investment earnings	<u>31,458</u>
Total additions	<u>156,191</u>
Deductions, benefits	<u>201,613</u>
Net change in cash balances	(45,422)
Cash and investment balances, beginning of year	<u>195,508</u>
Cash and investment balances, end of year	<u><u>\$ 150,086</u></u>
Assets:	
Cash	\$ 23,077
Investments	127,009
Cash basis net position, restricted for pension benefit	<u><u>\$ 150,086</u></u>

See Notes to Financial Statements.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies

Nature of operations:

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 nonpartisan 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.

Reporting entity:

For financial reporting purposes, the City has 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 units. The component units discussed below are 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.

Blended component unit:

Maquoketa Library Corporation (the Corporation) is a legally separate entity but the governing body of the Corporation consists of the same members as the City's Library Board, which is appointed by the City Council. The Corporation also provides services almost entirely to the Maquoketa Library, a department of the City of Maquoketa. The Corporation is presented as a special revenue fund of the City combined with the activity of the City's library department. This component unit does not issue separate audited financial statements.

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.

The audited financial statements are available at Maquoketa Municipal Electric Utility, located at 201 E. Pleasant Street, Maquoketa, Iowa 52060-3013.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting 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 cash basis statement of net position and cash basis statement of activities reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. 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.

Net position is reported in the following categories:

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Restricted net position due to enabling legislation consists of \$549,481 for streets, \$2,850,283 for urban renewal purposes, \$159,318 for employee benefits and \$5,140 for police.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position may have constraints on resources imposed by management or City Council, which can be removed or modified.

The cash basis statement of activities 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.

The City adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The adoption of this Statement changed the presentation of the basic financial statements to a statement of net position format.

Fund financial statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies (Continued)

Governmental funds: Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the City's 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. This fund pays for the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects – General Fund, a capital projects 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: To account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

The Library Fund is used to account for the library operations and the blended component unit activity related to the Library including donations received for the Library.

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. This fund is presented as major for public interest purposes.

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 other governmental funds of the City are considered nonmajor.

Proprietary fund types: Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector (business-type activities). The measurement focus is upon income determination, financial position and cash flows.

Enterprise funds: To account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The following are the City's major enterprise 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. This fund is presented as major for public interest purposes.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies (Continued)

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis. The City's Employee Health Fund accounts for the health insurance premiums and claims for all City employees.

The City also reports a fiduciary fund which focuses on net position and changes in net position. The City's fiduciary fund is as follows:

The Police Retirement System Fund is used to account for assets held by the City in a trustee capacity for contributions to the state pension plan, Municipal Fire and Police Retirement System of Iowa. The City does not have a standalone pension plan.

Measurement focus and basis of accounting:

The City maintains its financial records and these financial statements were prepared 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. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items.

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 position available to finance the program. It is the City's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

Significant accounting policies:

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

Cash: The City uses common bank accounts to hold the monies of more than one fund. Interest earned on these common accounts is credited to each participating fund based on its approximate share of the account prior to the payment of interest.

Investments: Investments are reported at cost or amortized value.

Property taxes: Property tax receipts are based on January 1, 2011 assessed property valuations and reflects the tax asking contained in the budget certified in March 2012.

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

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

City of Maquoketa, Iowa

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies (Continued)

Assigned – Amounts constrained by the City's intent to use them for a specific purpose. The authority to assign cash basis fund balance has been delegated by the City Council to the City Manager and City Treasurer.

Unassigned – All amounts not included in other spendable classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance. Residual deficit amounts of other governmental funds would also be reported as unassigned.

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.

Note 2. Cash and Pooled Investments

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.

Custodial credit risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

The City's deposits in banks as of June 30, 2013, 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. In addition, the City's and Corporation's investments were held by a custodian in the name of the City or Corporation and not exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the City's debt securities to this risk is outlined in the table below.

Credit risk: Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Information about this risk is outlined in the table below.

Concentration of credit risk: Concentration of credit risk is the risk associated with having more than 5 percent of investments in any issuer. Information about this risk is outlined in the table below.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 2. Cash and Pooled Investments (Continued)

At June 30, 2013, the City's investments had specific maturities and credit ratings as follows:

Type	Carrying Value	Fair Value	Maturity	Standard and Poor's Credit Rating	Concentration of Credit
Mutual funds	\$ 807,575	\$ 810,579	NA	N/A	N/A
Stocks	603,983	752,164	NA	N/A	N/A
Corporate bonds:					
General Electric Cap Corp Internotes	10,000	10,634	05/15/2015	AA+	1%
Archer Daniels Midland Co.	20,435	21,363	03/01/2021	A	1%
Mid American Energy Co.	38,996	46,324	07/15/2017	A-	2%
Conoco Phillips	32,973	40,006	05/15/2018	A	2%
Walgreen Co.	14,124	15,837	01/15/2019	BBB	1%
AT&T Corp.	19,871	23,196	02/15/2019	A-	1%
Berkshire Hathaway Fin Corp	25,405	26,696	01/15/2021	AA	1%
Blackrock, Inc.	34,317	36,280	05/24/2021	A+	2%
Ameris Bank Moultrie, GA	45,000	46,402	12/02/2014	N/A	2%
Metlife Inc.	25,072	23,632	12/15/2022	A-	1%
General Electric Cap. Corp.	30,000	31,474	07/15/2018	AA+	2%
Wells Fargo and Co.	40,688	40,453	03/08/2022	A+	2%
JP Morgan Chase & Co.	29,093	31,667	03/25/2020	A	2%
JP Morgan Chase & Co.	20,254	18,988	09/23/2022	A	1%
Goldman Sachs Group, Inc.	25,000	25,264	08/15/2021	A-	1%
Goldman Sachs Group, Inc.	20,646	19,571	09/15/2021	A-	1%
National Rural Utils Corp. Fin.	20,000	20,984	03/15/2020	A	1%
Municipal bonds	26,815	27,761	06/01/2022	Not rated	1%
	<u>\$ 1,890,247</u>	<u>\$ 2,069,275</u>			

Certain investments included above that are held by the Police Retirement System Fund (Fiduciary fund) in the amount of \$127,009 are reported at fair value in the financial statements because the original cost of these investments is unknown and management believes the difference between cost and fair value is not material.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 3. Bonds and Notes Payable

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

Year Ending June 30:	General Obligation Capital Loan Notes		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2014	\$ 683,000	\$ 67,428	\$ 39,780	\$ 3,824
2015	390,000	50,570	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	-	-
	<u>\$ 1,948,000</u>	<u>\$ 273,748</u>	<u>\$ 92,461</u>	<u>\$ 5,647</u>

Year Ending June 30:	Loan Payable		General Obligation Notes	
	Principal	Interest	Principal	Interest
2014	\$ 25,205	\$ -	\$ -	\$ 135,745
2015	25,205	-	730,000	116,218
2016	25,205	-	760,000	76,170
2017	25,205	-	810,000	33,375
2018	25,205	-	200,000	5,550
2019	25,205	-	-	-
2020	25,205	-	-	-
2021	25,205	-	-	-
2022	25,205	-	-	-
2023	10,498	-	-	-
	<u>\$ 237,343</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 367,058</u>

City of Maquoketa, Iowa

Notes to Financial Statements

Note 3. Bonds and Notes Payable (Continued)

Year Ending June 30:	Revenue Bonds and Capital Loan		Total	
	Principal	Interest	Principal	Interest
2014	\$ 219,000	\$ 114,749	\$ 966,985	\$ 321,746
2015	227,000	108,805	1,414,079	277,324
2016	232,000	102,093	1,153,012	217,292
2017	347,000	93,760	1,307,205	160,510
2018	358,000	83,463	708,205	116,825
2019	369,000	74,833	519,205	97,083
2020	381,000	61,887	531,205	78,575
2021	393,000	50,565	543,205	61,690
2022	405,000	38,898	555,205	44,461
2023	417,000	26,867	427,498	26,867
2024	185,000	18,153	185,000	18,153
2025	190,000	12,865	190,000	12,865
2026	196,000	7,402	196,000	7,402
2027	33,000	4,283	33,000	4,283
2028	34,000	3,618	34,000	3,618
2029	34,000	2,935	34,000	2,935
2030	36,000	2,252	36,000	2,252
2031	28,000	1,523	28,000	1,523
2032	29,000	1,033	29,000	1,033
2033	30,000	525	30,000	525
	<u>\$ 4,143,000</u>	<u>\$ 810,509</u>	<u>\$ 8,920,804</u>	<u>\$ 1,456,962</u>

The capital obligation notes, corporate purpose, were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The City plans to pay the debt services of the bonds 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 water and sewer revenue bonds and capital loan notes require that monies be deposited into various restricted reserve accounts and that these deposits be used only for the payment of principal and interest on the related bonds when due or for other purposes as set forth in the bond agreement. The deposits in these restricted reserve accounts total \$334,633 as of June 30, 2013.

The water and sewer revenue bonds and capital loan notes require the City to produce and maintain net revenues at a level not less than 110 percent of the amount of principal and interest on the revenue bonds.

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$2.5 million in water system revenue bonds issued May, 2002. Proceeds from the bonds were used to finance a portion of the costs of construction of the Wastewater Treatment System. The bonds are payable solely from sewer customer net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,077,330. Principal and interest paid for the current year and total customer net revenues were \$132,030 and \$193,547, respectively.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 3. Bonds and Notes Payable (Continued)

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$2.5 million in water system revenue bonds issued June, 2005. Proceeds from the bonds were used to finance construction activities approved by the department and being undertaken with respect to the operation or infrastructure of the Water System for the purpose of providing safe drinking water to the customers. The bonds are payable solely from water customer net revenues and are payable through 2025. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,156,430. Principal and interest paid for the current year and total customer net revenues were \$166,245 and \$216,805, respectively.

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$138,000 in sewer system revenue capital loan notes issued February, 2010. Proceeds from the bonds were used to finance construction activities approved by the department and being undertaken with respect to the Wastewater Treatment System. The bonds are payable solely from sewer customer net revenues and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$133,030. Principal and interest paid for the current year and total customer net revenues were \$7,210 and \$193,547, respectively.

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$492,000 in water system revenue capital loan notes issued May, 2013. Proceeds from the bonds were used to finance the acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping of the municipal water utility. The bonds are payable solely from water customer net revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$586,719. Principal and interest paid for the current year and total customer net revenues were none and \$216,805, respectively.

The 2012 equalized valuation of taxable property of the City, as certified by Jackson County, Iowa, is \$296,434,748. The legal debt limit as of June 30, 2013, in accordance with the Iowa Constitution Article XI.3 follows:

Debt limit (5% of \$296,434,748)		\$ 14,821,737
Debt applicable to debt limit:		
General obligation notes	\$ 4,448,000	
Capital lease obligations	92,461	
Loan payable	237,343	4,777,804
Legal debt margin		<u><u>\$ 10,043,933</u></u>

City of Maquoketa, Iowa

Notes to Financial Statements

Note 4. Interfund Loans

During the year ended June 30, 2006, the Capital Improvements General 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 based upon a schedule to be determined by the Maquoketa City Council. At June 30, 2013, the outstanding balance of principal and interest was \$64,230.

During the year ended June 30, 2013, the Capital Improvements General Fund loaned \$250,000 to the Road Use Tax Fund to resurface 17th Street. The loan bears interest at 5.0% per annum, and will be repaid in a balloon payment of \$282,188 due June 30, 2015.

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 5.78 percent of their annual salary, and the City is required to contribute 8.67 percent of covered salary, except for police employees, in which case the percentages are 6.84 percent and 10.27 percent, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011, were \$84,591, \$74,575 and \$67,052, 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 percent of their earnable compensation, and the City's contribution rate, based on an actuarially determined normal contribution rate, cannot be less than 17 percent of earnable compensation. For the year ended June 30, 2013, the City's contribution rate was 26.12 percent. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012 and 2011, were \$142,395, \$171,013 and \$135,006, respectively, which met or exceeded the required minimum contribution for each year. The employer and employee portions of the contribution to the Plan are paid from the Police Retirement System fund, a fiduciary fund.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 6. Other Postemployment 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.

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. Retirees over age 65 are not eligible to participate in the plan.

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, 2013, the City contributed \$4,994 and plan members eligible for benefits contributed none 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 including health insurance premiums and medication. Therefore, the contributions noted above relate to this disabled retiree.

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, 2013 is as follows:

Type of Benefit	Amount
Vacation	\$ 84,698
Sick leave	45,239
Total	\$ 129,937

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, 2013.

Generally these liabilities will be liquidated by the General Fund.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 8. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013, is as follows:

Transfer To	Transfer From	Amount
General	Special revenue:	
	Road use tax	\$ 41,259
	Employee benefits, nonmajor fund	78,540
	Capital projects:	
	General CIP nonmajor fund	2,056
	Airport	24,612
	Enterprise:	
	Water utility	49,443
	Wastewater treatment	53,691
		<u>249,601</u>
Library, special revenue fund	General	<u>2,099,223</u>
General, CIP, capital project fund	General	223,405
	Special revenue:	
	Road use tax	99,459
	Urban renewal tax increment	67,827
		<u>390,691</u>
Debt service	General	24,474
	Special revenue:	
	Road use tax	72,324
	Urban renewal tax increment	508,375
	Enterprise:	
	Water utility	170,988
	Wastewater treatment	179,443
		<u>955,604</u>
Wastewater treatment, major enterprise fund	General	<u>122,388</u>
Employee health, internal service fund	General	20,000
		<u>\$ 3,837,507</u>

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

The transfer from the General Fund to the Library fund in the current year was to transfer the Library's portion of the General Fund's fund balance to a separate special revenue fund.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 9. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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. This exception is accounted for in the Employee Health Fund.

Note 10. Deficit Fund Balance

The Housing Assistance Program fund had a deficit fund balance in the amount of \$17,595 at June 30, 2013. The City will be receiving grant money, donations and transfer funds to eliminate this deficit fund balance.

Note 11. Commitments

The City has entered into various construction contracts totaling approximately \$1,878,000. The unpaid contract balances as of June 30, 2013, totaled approximately \$908,000, which will be paid as work on the projects progress.

Note 12. 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, 2013, was \$279,607. The City's obligation under these agreements for the fiscal year 2014 will not exceed \$138,163.

Note 13. Lease Agreements

The City is a party to several operating leases. The leases are with various local companies and individuals for T-hangars and 8-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.

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 \$279 and \$314 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.

The City is party to an operating lease for 19.81 acres of farmland. The lease runs from March 1, 2013 through March 1, 2014, and requires an annual rent payment to the City of \$6,460, paid in two installments.

The City is party to an operating lease for 5.68 acres of farmland. The lease runs from March 1, 2013 through March 1, 2014, and requires an annual rent payment to the City of \$1,600, paid in two installments.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 13. Lease Agreements (Continued)

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 to the City of \$225 paid on March 1.

Note 14. General Fund Cash Balance

As of June 30, 2013 the ending cash balance for the General Fund was \$1,248,001. Several subfunds comprise this balance and are as follows:

Fund Name		Balance
General	001	\$ 1,077,396
YMCA operating account	002	6,908
Rehab	014	11,532
Insurance reserve	019	180,751
Historic preservation	067	5,072
Historic preservation	069	6,174
Airport	660	(39,832)
Total		\$ 1,248,001

Note 15. Scott County Family YMCA Agreement

During the year ended 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 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 16. Pending Governmental Accounting Standards Board (GASB) Statements

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

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will be effective for the City beginning with its year ending June 30, 2014. This Statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. This Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. This Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

City of Maquoketa, Iowa

Notes to Financial Statements

Note 16. Pending Governmental Accounting Standards Board (GASB) Statements (Continued)

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the City beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

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

Note 17. Restatement

The City restated beginning cash basis net position of the governmental activities and beginning cash basis fund balance in the General Fund during the year due to an overstatement of cash and the related receipts. The effect of the restatement is as follows:

	Governmental Activities	General Fund
Cash basis net position/fund balance June 30, 2012, as previously reported	\$ 7,081,093	\$ 2,626,546
Overstatement of cash	(181,705)	(181,705)
Cash basis net position/fund balance June 30, 2012, as restated	<u>\$ 6,899,388</u>	<u>\$ 2,444,841</u>

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Required Supplementary Information

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City of Maquoketa, Iowa

**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Cash Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2013**

	Governmental Funds Actual	Enterprise Funds Actual
Receipts:		
Property tax	\$ 2,192,369	\$ -
Tax increment financing collections	1,445,426	-
Other city tax	791,735	-
Licenses and permits	20,293	-
Use of money and property	151,673	3,103
Intergovernmental	1,722,196	-
Charges for services	682,272	1,721,689
Miscellaneous	80,995	40,120
Total receipts	7,086,959	1,764,912
Disbursements:		
Public safety	1,436,274	-
Public works	1,243,425	-
Culture and recreation	1,108,625	-
Community and economic development	383,948	-
General government	521,665	-
Debt service	1,146,332	-
Capital projects	159,001	-
Enterprise funds	-	1,514,419
Total disbursements	5,999,270	1,514,419
Excess (deficiency) of receipts over disbursements	1,087,689	250,493
Other financing sources, net	614,477	(331,177)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,702,166	(80,684)
Cash balances, beginning of year	6,802,406	1,757,289
Cash balances, end of year	\$ 8,504,572	\$ 1,676,605

See Note to Required Supplementary Information.

	Total Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
\$	2,192,369	\$ 2,137,351	\$ 2,137,351	\$ 55,018
	1,445,426	1,651,317	1,651,317	(205,891)
	791,735	729,588	711,974	79,761
	20,293	12,365	12,265	8,028
	154,776	228,134	226,634	(71,858)
	1,722,196	1,350,876	1,760,493	(38,297)
	2,403,961	2,013,774	2,014,774	389,187
	121,115	1,571,301	1,506,015	(1,384,900)
	8,851,871	9,694,706	10,020,823	(1,168,952)
	1,436,274	1,270,733	1,395,233	(41,041)
	1,243,425	1,792,233	2,148,629	905,204
	1,108,625	1,712,386	1,846,486	737,861
	383,948	271,973	621,455	237,507
	521,665	475,846	532,496	10,831
	1,146,332	1,110,009	1,153,613	7,281
	159,001	55,919	256,919	97,918
	1,514,419	2,018,004	2,230,004	715,585
	7,513,689	8,707,103	10,184,835	2,671,146
	1,338,182	987,603	(164,012)	1,502,194
	283,300	400,000	711,138	(427,838)
	1,621,482	1,387,603	547,126	1,074,356
	8,559,695	6,984,111	6,984,111	1,575,584
\$	10,181,177	\$ 8,371,714	\$ 7,531,237	\$ 2,649,940

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City of Maquoketa, Iowa

Note to Required Supplementary 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 \$326,117 and increased budgeted disbursements by \$1,477,732. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety function.

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Supplementary Information

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City of Maquoketa, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
 Nonmajor Governmental Funds
 Year Ended June 30, 2013

	Special Revenue	
	GREAT	Bi-Centennial
Receipts:		
Property tax	\$ -	\$ -
Use of money and property	-	-
Intergovernmental	-	-
Miscellaneous	-	-
Total receipts	-	-
Disbursements:		
Operating:		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Community and economic development	-	-
General government	-	-
Capital projects	-	-
Total disbursements	-	-
Excess (deficiency) of receipts over disbursements	-	-
Other financing uses, operating transfers out	-	-
Net change in cash balances	-	-
Cash balances, beginning of year	153	1,702
Cash balances, end of year	<u>\$ 153</u>	<u>\$ 1,702</u>
Cash basis fund balances:		
Restricted:		
Economic development	\$ -	\$ 1,702
Employee benefits	-	-
Police	153	-
Assigned for capital projects	-	-
Unassigned	-	-
Total cash basis fund balance	<u>\$ 153</u>	<u>\$ 1,702</u>

(Continued)

Special Revenue

Economic Development Revolving	Housing Assistance Program	Employee Benefits	Police Forfeiture	Hooked on Fishing
\$ -	\$ -	\$ 586,560	\$ -	\$ -
367	-	-	5	-
-	164,097	-	-	-
-	-	-	3,186	-
367	164,097	586,560	3,191	-
-	-	236,519	829	-
-	-	104,793	-	-
-	-	60,347	-	-
-	59,326	-	-	-
-	-	59,000	-	228
-	-	-	-	-
-	59,326	460,659	829	228
367	104,771	125,901	2,362	(228)
-	-	(78,540)	-	-
367	104,771	47,361	2,362	(228)
191,848	(122,366)	111,957	2,625	228
\$ 192,215	\$ (17,595)	\$ 159,318	\$ 4,987	\$ -

\$ 192,215	\$ -	\$ -	\$ -	\$ -
-	-	159,318	-	-
-	-	-	4,987	-
-	-	-	-	-
-	(17,595)	-	-	-
\$ 192,215	\$ (17,595)	\$ 159,318	\$ 4,987	\$ -

City of Maquoketa, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
 Nonmajor Governmental Funds (Continued)
 Year Ended June 30, 2013

	Capital Projects	
	ARC	Industrial Park
Receipts:		
Property tax	\$ -	\$ -
Use of money and property	-	-
Intergovernmental	-	-
Miscellaneous	-	-
Total receipts	-	-
Disbursements:		
Operating:		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Community and economic development	-	-
General government	-	-
Capital projects	-	292
Total disbursements	-	292
Excess (deficiency) of receipts over disbursements	-	(292)
Other financing uses, operating transfers out	-	-
Net change in cash balances	-	(292)
Cash balances, beginning of year	56,707	16,910
Cash balances, end of year	<u>\$ 56,707</u>	<u>\$ 16,618</u>
Cash basis fund balances:		
Restricted:		
Economic development	\$ -	\$ -
Employee benefits	-	-
Police	-	-
Assigned for capital projects	56,707	16,618
Unassigned	-	-
Total cash basis fund balance	<u>\$ 56,707</u>	<u>\$ 16,618</u>

Capital Projects

Library	Airport	Total
\$ -	\$ -	\$ 586,560
-	97	469
-	-	164,097
-	-	3,186
-	97	754,312
-	-	237,348
-	-	104,793
-	-	60,347
-	-	59,326
-	-	59,228
-	-	292
-	-	521,334
-	97	232,978
-	(24,612)	(103,152)
-	(24,515)	129,826
31	58,412	318,207
\$ 31	\$ 33,897	\$ 448,033

\$ -	\$ -	\$ 193,917
-	-	159,318
-	-	5,140
31	33,897	107,253
-	-	(17,595)
\$ 31	\$ 33,897	\$ 448,033

City of Maquoketa, Iowa

Schedule of Indebtedness
Year Ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
2011A capital loan notes	April 1, 2011	2.00%	\$ 1,740,000
2007B capital loan notes	August 1, 2007	4.45	1,600,000
2009A capital loan notes	October 15, 2009	3.10	330,000
Total			<u>\$ 3,670,000</u>
Matured revenue bonds, parking lot	December 1, 1967	3.50	<u>\$ 221,000</u>
General obligation notes, corporate purpose	June 1, 2001	5.35 - 5.55	<u>\$ 2,500,000</u>
Revenue bonds and capital loan notes:			
Sewer revenue bonds, Series 2002	May 3, 2002	3.00	\$ 2,500,000
Water revenue bonds, Series 2005	June 13, 2005	3.00	2,500,000
Sewer capital loan notes, Series 2010	February 10, 2010	3.00	138,000
Water capital loan notes, Series 2013	May 24, 2013	1.75	492,000
Total			<u>\$ 5,630,000</u>
Equipment capital lease	September 15, 2008	5.14	<u>\$ 255,897</u>
Loan, street lighting project	December 6, 2012	-	<u>\$ 252,046</u>

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Current
\$ 1,230,000	\$ -	\$ 520,000	\$ 710,000	\$ 24,600	\$ 515,000
1,200,000	-	100,000	1,100,000	53,437	100,000
204,000	-	66,000	138,000	6,280	68,000
<u>\$ 2,634,000</u>	<u>\$ -</u>	<u>\$ 686,000</u>	<u>\$ 1,948,000</u>	<u>\$ 84,317</u>	<u>\$ 683,000</u>
<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 135,745</u>	<u>\$ -</u>
\$ 1,840,000	\$ -	\$ 78,000	\$ 1,762,000	\$ 54,030	\$ 80,000
1,897,000	-	111,000	1,786,000	55,245	114,000
107,000	-	4,000	103,000	3,210	5,000
-	2,460	-	2,460	-	2,460
<u>\$ 3,844,000</u>	<u>\$ 2,460</u>	<u>\$ 193,000</u>	<u>\$ 3,653,460</u>	<u>\$ 112,485</u>	<u>\$ 201,460</u>
<u>\$ 130,252</u>	<u>\$ -</u>	<u>\$ 37,791</u>	<u>\$ 92,461</u>	<u>\$ 5,813</u>	<u>\$ 39,780</u>
<u>\$ -</u>	<u>\$ 252,046</u>	<u>\$ 14,703</u>	<u>\$ 237,343</u>	<u>\$ -</u>	<u>\$ 25,205</u>

City of Maquoketa, Iowa

Schedule of Bond and Note Maturities
Year Ended June 30, 2013

Year Ending June 30:	General Obligation Notes			
	2011A Refunding Capital Loan Notes		Capital Loan Notes	
	Interest Rates	Amount	Interest Rates	Amount
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
Total		<u>\$ 710,000</u>		<u>\$ 1,100,000</u>

Year Ending June 30:	Revenue Bonds and Capital Loan Notes			
	Sewer Revenue Bonds Series 2002		Water Revenue Bonds Series 2005	
	Interest Rates	Amount	Interest Rates	Amount
2014	3.00%	\$ 80,000	3.00%	\$ 114,000
2015	3.00	83,000	3.00	118,000
2016	3.00	85,000	3.00	121,000
2017	3.00	196,000	3.00	125,000
2018	3.00	202,000	3.00	129,000
2019	3.00	209,000	3.00	133,000
2020	3.00	216,000	3.00	136,000
2021	3.00	223,000	3.00	141,000
2022	3.00	230,000	3.00	145,000
2023	3.00	238,000	3.00	149,000
2024		-	3.00	154,000
2025		-	3.00	158,000
2026		-	3.00	163,000
2027		-		-
2028		-		-
2029		-		-
2030		-		-
2031		-		-
2032		-		-
2033		-		-
Total		<u>\$ 1,762,000</u>		<u>\$ 1,786,000</u>

(Continued)

City of Maquoketa, Iowa

Schedule of Bond and Note Maturities (Continued)
Year Ended June 30, 2013

Year Ending June 30:	General Obligation Notes		Equipment Capital Lease	
	Corporate Purpose			
	Issued June 1, 2001		Issued September 15, 2008	
	Interest Rates	Amount	Interest Rates	Amount
2014		\$ -	5.14%	\$ 39,780
2015	5.35%	730,000	5.14	41,874
2016	5.40	760,000	5.14	10,807
2017	5.50	810,000		-
2018	5.55	200,000		-
Total		<u>\$ 2,500,000</u>		<u>\$ 92,461</u>

Year Ending June 30:	Street Lighting Loan		Total Maturities
	Interest Rates	Amount	
2014	- %	\$ 25,205	\$ 966,985
2015	-	25,205	1,414,079
2016	-	25,205	1,153,012
2017	-	25,205	1,307,205
2018	-	25,205	708,205
2019	-	25,205	519,205
2020	-	25,205	531,205
2021	-	25,205	543,205
2022	-	25,205	555,205
2023	-	10,498	427,498
2024		-	185,000
2025		-	190,000
2026		-	196,000
2027		-	33,000
2028		-	34,000
2029		-	34,000
2030		-	36,000
2031		-	28,000
2032		-	29,000
2027		-	30,000
Total		<u>\$ 237,343</u>	<u>\$ 8,920,804</u>

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City of Maquoketa, Iowa

**Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds
Last Eight Years**

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 2,192,369	\$ 2,075,847	\$ 2,084,517	\$ 2,028,557
Tax increment financing collections	1,445,426	1,653,143	1,497,040	1,597,006
Other city tax	791,735	723,117	680,920	661,037
Licenses and permits	20,293	11,478	21,828	13,276
Use of money and property	151,673	160,669	291,836	254,500
Intergovernmental	1,722,196	1,755,539	1,490,636	1,289,030
Charges for services	682,272	575,201	506,896	706,261
Miscellaneous, including fines and fees	80,995	737,121	1,008,873	1,151,175
Total	\$ 7,086,959	\$ 7,692,115	\$ 7,582,546	\$ 7,700,842
Disbursements:				
Operating:				
Public safety	\$ 1,436,274	\$ 1,203,534	\$ 1,097,404	\$ 1,033,300
Public works	1,243,425	2,267,248	1,630,059	1,619,585
Culture and recreation	1,108,625	1,194,724	1,262,872	1,662,179
Community and economic development	383,948	527,710	570,734	732,362
General government	521,665	506,234	576,463	443,152
Debt service	1,146,332	1,140,132	2,876,002	1,081,752
Capital projects	159,001	70,662	255,875	218,783
Total	\$ 5,999,270	\$ 6,910,244	\$ 8,269,409	\$ 6,791,113

	2009	2008	2007	2006
\$	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>

City of Maquoketa, Iowa

**Additional Information Required by the Sewer Revenue Bond Resolution
June 30, 2013**

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 Theft Forgery Computer Fraud Money & Securities Inside Money & Securities Outside Linebacker Commercial Output	\$ 39,875,523 650,925 1,000,000 1,000,000 4,000,000 300,000 10,000 50,000 15,000 15,000 1,000,000 38,525,000	4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014 4/1/2014
Old Republic Insurance Company Greensburg, Pennsylvania Policy #PR227805	Airport Owners and Liability	2,000,000	1/1/2014
Nationwide Kalispell, Montana Policy #50503262472013, #5050326392013, #50503262542013	Flood Insurance Program	338,300	4/4/2014
VFIS York, Pennsylvania Policy #VFP 4316-3502D-1	Maquoketa Volunteer Fire Department and Rescue Squad	100,000	1/1/2014
Iowa Municipalities Workers' Compensation Association Des Moines, Iowa Policy #1075-1314	Workers' Compensation Coverage	1,000,000	7/1/2013

Rate and number of users of the system:

- User charges - the minimum sewer charge per month shall be \$23.09 up to 300 cubic feet.
- Over 300 cubic feet the charge is \$1.51 per 100 cubic feet as determined in ordinance 1067.
- Number of users - the City has approximately 2,480 users.



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

In connection with our audit of the financial statements of the City of Maquoketa (the City) as of and for the year ended June 30, 2013, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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.

We have separately communicated, to you and identified deficiencies that we determined to be significant deficiencies or material weaknesses.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Cash Disbursements: Under the City's Purchasing Policy, expenditures are required to be approved by either the Department head, City Manager and/or City Council based on dollar thresholds. Through our testing, we noted one of thirteen expenditures tested did not have the department head approval and a separate cash disbursement tested did not have the City Manager's approval. We recommend all disbursements have the appropriate approvals per the City's policy.

Compensated Absences: Currently, neither the City nor the Library are tracking the Library full time employees' vacation time. We recommend the Library employees' vacation time be tracked either by payroll or the Library Executive Director.

Payroll: The Deputy City Clerk maintains her bank username and password with the payroll instructions in a filing cabinet in the finance department. We recommend that user names and passwords be maintained in a secure location with limited access by others. If others need access to the bank website to perform a task, we recommend they have their own username and password that would allow the access they need to complete the task they are assigned.

Payroll: Per the employee handbook, annual performance evaluations are required to be written and maintained in employee personnel files within 30 days of the employee's anniversary date. We noted that performance evaluations were not maintained for 11 of 12 employees tested. We recommend the annual evaluations be performed as required by the employee handbook.

Federal Awards: All expenditures related to Federal awards are required to be accumulated to determine if a Single Audit of the City's federal awards is required. The City did not include the Cooperative Forestry Assistance grant with expenditures of \$1,305 on the Schedule of Federal Awards workpaper used to determine the total federal expenditures and if a Single Audit is required. We recommend that all Federal expenditures be reported on the Schedule of Federal Awards workpaper.

Self Insurance Benefit Payments: Currently, the City does not record expenditures related to self insurance benefit payments until checks clear the bank statement. These expenditures should be recorded when the checks are written by the third party administrator on behalf of the City. We recommend the City post the self insurance benefit payments based on the check registers received from the third party administrator.

Third Party Administrator: The City uses a Third Party Administrator (TPA), Employee Benefits Systems (EBS), to process its health insurance benefit payments. This service and processing is subject to policies and procedures that are, at least in part, physically and operationally separate from the City. As there is neither a "Report on Controls Place in Operation" (Type I service auditor's report) nor a "Report on Controls Place in Operation and Tests of Operating Effectiveness" (Type II service auditor's report), there is no documentation of the internal controls in place over the processing nor evidence that controls at the servicer in place are operating properly. We recommend the City determine the effect of these policies and procedures on its internal control by requesting a Type II annual service auditor report or another type of analysis.

Bank Transfers: The Finance Clerk has the ability to transfer monies between bank accounts, post journal entries in the general ledger system, and reconciles the bank statements. In addition, no supporting documentation is maintained for bank transfers. Currently, the compensating controls in place are the Finance Committee reviewing the monthly bank statements and the Deputy City Clerk reviewing the journal entry register. Along with the bank website account numbers being prepopulated. We want to stress the importance of these compensating controls to mitigate the lack of segregation of duties. We also recommend that transfers be approved and/or reviewed by any individual independent from the journal entry posting and reconciling the bank statement. The bank website may allow limitations on individual rights to allow for one individual to input the transfer and another individual to approve the transfer.

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



Davenport, Iowa
November 15, 2013