

CITY OF MARENGO, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2004

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Officials

Name	Title	Term Expires
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**Elected Officials
(Before January, 2004)**

Robert Olson	Mayor	January, 2004
William Kreis	Council Member and Mayor Pro Tem	January, 2006
Dale Slaymaker	Council Member	January, 2006
Adam Rabe	Council Member	January, 2006
Michael T. Curry	Council Member	January, 2004
Terry Brecht	Council Member	January, 2004

**Elected Officials
(After December, 2003)**

Joe Seye	Mayor	January, 2006
William Kreis	Council Member and Mayor Pro Tem	January, 2006
Dale Slaymaker	Council Member	January, 2006
Adam Rabe	Council Member	January, 2006
Michael T. Curry	Council Member	January, 2008
Terry Brecht	Council Member	January, 2008

Appointed Officials

Randy Bennett	Administrator/Clerk (Appointed January 6, 2004)	Indefinite
Barbara Barrick	Acting Clerk (through January 6, 2004)	Indefinite
Barbara Barrick	Financial Manager	Indefinite
Ken Martens	Attorney	Indefinite
Stuart Stukey	Public Works Director	Indefinite
Galen Moser	Police Chief	Indefinite

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major governmental fund and the aggregate remaining fund information of the City of Marengo, Iowa, as of and for the year ended June 30, 2004 which, along with the major enterprise fund, collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Marengo Memorial Hospital, which represent 94%, 97% and 88%, respectively, of the disbursements, net receipts over disbursements and cash basis net assets of the business-type activities and 100% of the major enterprise fund - Marengo Memorial Hospital blended component unit. 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 Marengo Memorial Hospital, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As more fully discussed in Note 1 to the financial statements, management has elected not to include financial information of Friends of the Marengo Public Library discrete component unit in its statement of activities and net assets - cash basis that, in our opinion should be included in order for the statement of activities and net assets - cash basis to be presented in accordance with the cash receipts and disbursements basis of accounting.

To the Honorable Mayor and
Members of the City Council
City of Marengo, Iowa
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In our opinion, based on our audit and the report of other auditors, except for the effects of not including Friends of the Marengo Public Library discrete component unit in the statement of activities and net assets - cash basis, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marengo at June 30, 2004, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*. In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2005 on our consideration of the City of Marengo, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 5, 2005 on our consideration of the City of Marengo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 10 and Page 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The financial statements and supplemental data for the years ended June 30, 2003, 2002 and 2001 (which is not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed qualified opinions on those financial statements and supplemental data due to the omission of the Marengo Memorial Hospital component unit. Other supplemental information included on Pages 23 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, except for the omission of Friends of the Marengo Public Library blended component unit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
May 5, 2005

Management's Discussion and Analysis

The City of Marengo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased approximately \$82,000 from the fiscal 2003 year to the fiscal 2004 year. This increase is due to increases in T.I.F. collections, local option sales tax, charges for services and miscellaneous with offsetting decreases in property taxes and intergovernmental receipts.

Governmental activities disbursements increased approximately \$420,000 in fiscal year 2004 from the fiscal year 2003. This change was primarily due to the Eastern Avenue capital project and additional payments for insurance.

The City's total cash basis net assets increased approximately \$2,088,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$33,000; the assets of the business-type activities, other than the Marengo Memorial Hospital (Hospital) increased by approximately \$28,000 and the Hospital's increased approximately \$2,027,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The government-wide financial statement consists of a statement of activities and net assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The fund financial statements tell how governmental services are financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other supplementary information provides detailed information about the nonmajor governmental funds and other matters.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of activities and net assets reports information that helps answer this question.

The statement of activities and net assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities and net assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, general government, debt service and capital projects. Property tax, T.I.F. collections, local option sales taxes, intergovernmental, charges for service and debt proceeds finance most of these activities.
- Business-type activities include the Hospital, water utility, sanitary sewer system and storm sewer system. These activities are financed primarily by user charges and debt proceeds.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds and the balances at year end that are available for spending. The governmental funds include the (a) General Fund; (b) the Special Revenue Funds such as Road Use Tax, Employee Benefits, Local Option Tax and Tax Increment Financing (T.I.F); (c) the Debt Service Fund; (d) the Capital Projects Funds such as the Capital Projects Fund and the Library Building and Renovation Fund; and (e) Permanent Funds such as the Cemetery Trust. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

Governmental funds are further broken down into the following functional areas:

Public Safety - This category includes police operations, fire protection and animal control services.

Public Works - This category includes landfill fees, roads, bridges, sidewalks, parking areas, street lighting, traffic safety, street cleaning, trees and snow removal.

Health and Social Services - This category includes mosquito control and the City's contributions to other organizations including, but not limited to, Iowa County Volunteer Coop and Hawkeye Area Community Action Program (HACAP).

Culture and Recreation - This category includes library services, parks, recreation and cemetery.

Community and Economic Development - This category could include community betterment, economic development and T.I.F. However, the first two items are typically included in capital projects and T.I.F. receipts are transferred to debt service to retire qualifying obligations incurred in capital projects.

General Government - This category includes mayor and council, administrator/city clerk, finance, elections, legal services, operation of city hall and insurance.

Debt Service - This category includes general obligation debt principal and interest payments.

Capital Projects - This category includes the Capital Projects Fund which is used for most roadway engineering and construction and the accumulation of resources toward the future renovation of the existing library building and construction of a new aquatic center.

Governmental funds receipts come from property tax; utility replacement tax; T.I.F. collections; local option tax; various license and permit fees; interest on deposits; federal, state and local grants, contracts and reimbursements; charges for services and miscellaneous items which include contributions; deposits; fuel tax refunds; recreation fees and concessions; fines and penalties; refunds and reimbursements; transfers from one fund to another; and debt proceeds.

2. Proprietary funds are used to account for internal service and enterprise funds. The City has no internal service funds. Enterprise funds are used to report business-type activities. The City maintains three enterprise funds to provide separate information for water sanitary sewer and storm sewer. The City also includes a fund for a blended component enterprise, the Marengo Memorial Hospital. These are all self-sufficient funds except for a voter-approved memorial building levy which the Hospital uses for debt service. Enterprise debt service and capital construction are included within the funds. Water and sanitary sewer funds have special accounts to provide for debt service and fiduciary responsibilities.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$743,505 a year ago to \$776,153. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30, 2004
Receipts and Transfers	
Program Receipts	
Charges for service	\$ 115,627
Operating grants, contributions and restricted interest	310,344
Capital grants, contributions and restricted interest	97,102
General Receipts	
Property tax	805,697
Local option sales tax	280,640
Unrestricted miscellaneous, intergovernmental and interest	34,145
Debt proceeds	392,487
Sale of assets	11,628
Transfers, net	<u>(156,883)</u>
Total Receipts and Transfers	<u>1,890,787</u>
Disbursements	
Public safety	371,423
Public works	281,820
Health and social services	13,164
Culture and recreation	317,922
General government	192,031
Debt service	277,319
Capital projects	<u>404,460</u>
Total Disbursements	<u>1,858,139</u>
Increase in Cash Basis Net Assets	32,648
Cash Basis Net Assets - Beginning of Year	<u>743,505</u>
Cash Basis Net Assets - End of Year	<u>\$ 776,153</u>

The City's total receipts and net transfers for governmental activities increased by 21.1%, or \$329,068. The increase was due to issuance of debt and additional collections of T.I.F. monies, local option sales tax, charges for services and miscellaneous with decreases in property tax collected, intergovernmental receipts and transfers to Friends of the Marengo Public Library and the Marengo Memorial Hospital.

The total cost of all programs and services increased by approximately \$422,000, or 29.4%. The majority of this increase was in capital projects, due to the City awarding a construction contract for Eastern Avenue with approximately 49% of the cost paid before year end.

Changes in Cash Basis Net Assets of Business-Type Activities

**Year Ended
June 30, 2004**

Receipts and transfers	
Program Receipts	
Charges for Service	
Hospital	\$ 7,301,991
Water	270,476
Sanitary Sewer	157,131
Storm Sewer	12,978
Operating grants, contributions and restricted interest	101,046
Capital grants, contributions and restricted interest	149,310
General Receipts	
Debt proceeds - Hospital	1,000,000
Transfers, net - Hospital	<u>61,883</u>
Total Receipts and Transfers	<u>9,054,815</u>
 Disbursements	
Hospital	6,585,231
Water	238,839
Sanitary sewer	169,786
Storm sewer	<u>5,694</u>
Total Disbursements	<u>6,999,550</u>
 Increase in Cash Basis Net Assets	 2,055,265
Cash Basis Net Assets - Beginning of Year	<u>975,599</u>
 Cash Basis Net Assets - End of Year	 <u>\$ 3,030,864</u>

Excluding the Hospital, total business-type activities receipts for the fiscal year were \$442,668 compared to \$416,391 last year. The increase was primarily due to a water rate increase. The cash balance increased by approximately \$28,000, or 8.3% over the prior year. Total disbursements for the fiscal year increased by less than 1% to a total of \$414,319. This is the first year the Marengo Memorial Hospital is included as a blended component unit. Therefore, comparative amounts and balances for the Hospital have been excluded.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$776,153, an increase of more than \$32,000 above last year's total of \$743,505.

The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance decreased \$154,972 from the prior year to \$186,540. This decrease was largely due to the City's purchase of a fire truck at a cost of approximately \$80,000, an increase in liability insurance payments made of approximately \$36,000 and the transfer of approximately \$24,000 of remaining prior year memorial building tax levy collections to the Hospital. Liability insurance installments of approximately \$42,000 were made in the prior year with a final installment of approximately \$17,000 made this year in addition to a single premium for this year's insurance of approximately \$61,000.

The General Fund receives receipts from property tax; licenses and permits; interest on deposits; state, county and local public safety; library and other assistance; various charges for services; donations; refunds and reimbursements; and miscellaneous sales and services.

The General Fund disburses monies for police; fire; animal control; landfill payments; mosquito control; contributions to health and social service agencies; library; parks; recreation facilities and activities; cemetery maintenance; mayor, city council, city administrator/clerk and city finance; attorney and legal expenses; elections; auditor fee; upkeep of city hall; and insurance.

The Capital Projects cash balance increased by \$256,043 to \$257,053 during the fiscal year. This increase is due to monies transferred in from the Local Option Sales Tax Fund and debt proceeds less payments for Eastern Avenue engineering and construction and Clinton Avenue engineering. The City intends to use this balance to pay remaining Eastern Avenue construction and engineering costs as well as costs of other capital projects approved by the City Council.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Marengo Memorial Hospital Fund blended component unit cash balance increased by \$2,026,916 to \$2,660,163, due primarily to operating receipts exceeding disbursements and proceeds from a revenue bond anticipation note of \$1,000,000. The Hospital issues a separate financial report which may be viewed online through the Iowa Auditor of State or by contacting the Chief Financial Officer, Marengo Memorial Hospital, 300 May Street, Marengo, Iowa 52301.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was first approved on May 24, 2004 with a final approval on June 14, 2004. The amendment resulted in increased receipts from miscellaneous sources and disbursements for Public Safety, Public Works, Culture and Recreation and General Government.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$1,302,394 in general obligation debt, \$183,000 in sewer revenue bonds, \$50,000 in a water revenue refunding note and \$1,087,000 in hospital indebtedness.

Outstanding Debt at Year End

General obligation notes	\$ 1,262,394
General obligation bond	40,000
Sewer revenue bonds	183,000
Water revenue refunding note	50,000
Hospital anticipatory warrants payable	87,000
Hospital revenue bond anticipation note	<u>1,000,000</u>
Totals	<u>\$ 2,622,394</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,302,394 is significantly below its constitutional debt limit of \$3,980,228. On August 12, 2003, the City issued \$32,487 in general obligation notes to partially fund the purchase of a fire truck. On June 30, 2004, the City issued a \$360,000 general obligation street improvement note in order to partially fund the Eastern Avenue construction contract. During the year, the City Council approved resolutions allowing hospital management to issue a \$1,000,000 hospital revenue bond anticipation note. In addition, the City Council passed resolutions regarding the issuance of hospital revenue bonds/notes and issuance of debt for the construction of a new library building.

The City has two T.I.F. areas: Urban Renewal Districts 1 and 2. General obligation debt was issued to pay costs of urban renewal. T.I.F. collections are transferred to the Debt Service Fund to repay general obligation debt principal and interest. At June 30, 2004, general obligation notes principal balances of \$135,000 and \$713,333 are expected to be retired with T.I.F. collections from District 1 and 2, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marengo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. One of those factors is the recent legislative changes that have negatively impacted the City's budget. The state consolidated payment was eliminated completely last year. Bank franchise fees were also eliminated the beginning of this fiscal year.

Improvements to streets are needed. The City expects to receive federal and state assistance toward those improvements as well as funding from local option tax receipts and debt proceeds.

FINANCIAL CONTACT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact, Barbara Barrick, Financial Manager, City of Marengo, 153 E. Main Street, Marengo, Iowa 52301.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2004

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Public safety	\$ 371,423	\$ 31,328	\$ 12,507	\$ —	\$ (327,588)	\$ —	\$ (327,588)
Public works	281,820	48,177	218,644	—	(14,999)	—	(14,999)
Health and social services.....	13,164	—	—	—	(13,164)	—	(13,164)
Culture and recreation.....	317,922	36,122	78,893	96,770	(106,137)	—	(106,137)
General government.....	192,031	—	—	—	(192,031)	—	(192,031)
Debt service.....	277,319	—	300	—	(277,019)	—	(277,019)
Capital projects.....	404,460	—	—	332	(404,128)	—	(404,128)
Total Governmental Activities	<u>1,858,139</u>	<u>115,627</u>	<u>310,344</u>	<u>97,102</u>	<u>(1,335,066)</u>	<u>—</u>	<u>(1,335,066)</u>
Business-Type Activities							
Memorial Hospital.....	6,585,231	7,301,991	98,963	149,310	—	965,033	965,033
Water	238,839	270,476	1,290	—	—	32,927	32,927
Sanitary sewer.....	169,786	157,131	768	—	—	(11,887)	(11,887)
Storm sewer	5,694	12,978	25	—	—	7,309	7,309
Total Business-Type Activities.....	<u>6,999,550</u>	<u>7,742,576</u>	<u>101,046</u>	<u>149,310</u>	<u>—</u>	<u>993,382</u>	<u>993,382</u>
Total.....	<u>\$ 8,857,689</u>	<u>\$ 7,858,203</u>	<u>\$ 411,390</u>	<u>\$ 246,412</u>	<u>(1,335,066)</u>	<u>993,382</u>	<u>(341,684)</u>
General Receipts							
Property Tax Levied for							
General purposes.....					436,759	—	436,759
Memorial Hospital					37,929	—	37,929
Employee benefits.....					60,079	—	60,079
Debt service					119,539	—	119,539
Tax increment financing.....					151,391	—	151,391
Local option sales tax.....					280,640	—	280,640
Miscellaneous.....					10,053	—	10,053
Intergovernmental not restricted to specific purpose.....					21,502	—	21,502
Unrestricted interest on investments					2,590	—	2,590
Debt proceeds					392,487	1,000,000	1,392,487
Sale of assets.....					11,628	—	11,628
Transfer to Friends of the Marengo Public Library					(95,000)	—	(95,000)
Transfers					(61,883)	61,883	—
Total General Receipts and Transfers					<u>1,367,714</u>	<u>1,061,883</u>	<u>2,429,597</u>
Change in Cash Basis Net Assets					<u>32,648</u>	<u>2,055,265</u>	<u>2,087,913</u>
Cash Basis Net Assets - Beginning of Year (Restated - Note 9).....					743,505	975,599	1,719,104
Cash Basis Net Assets - End of Year					<u>\$ 776,153</u>	<u>\$ 3,030,864</u>	<u>\$ 3,807,017</u>
Cash Basis Net Assets							
Restricted							
Debt service					\$ 70,166	\$ —	\$ 70,166
Customer deposits					—	41,268	41,268
Donor designations					262,913	935,614	1,198,527
Debt covenants					257,053	1,086,918	1,343,971
Unrestricted					186,021	967,064	1,153,085
Total Cash Basis Net Assets					<u>\$ 776,153</u>	<u>\$ 3,030,864</u>	<u>\$ 3,807,017</u>

See accompanying notes to the financial statements.

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

As of and for the Year Ended June 30, 2004

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Receipts				
Property taxes	\$ 474,688	\$ —	\$ 179,618	\$ 654,306
T.I.F. collections	—	—	151,391	151,391
Other city tax	—	—	280,640	280,640
Licenses and permits.....	4,653	—	—	4,653
Use of money and property	1,102	83	2,139	3,324
Intergovernmental.....	79,657	—	211,134	290,791
Charges for services.....	112,796	—	2,831	115,627
Miscellaneous.....	<u>38,310</u>	<u>—</u>	<u>104,513</u>	<u>142,823</u>
Total Receipts.....	<u>711,206</u>	<u>83</u>	<u>932,266</u>	<u>1,643,555</u>
Disbursements				
Public safety	371,423	—	—	371,423
Public works	41,052	—	240,768	281,820
Health and social services.....	13,164	—	—	13,164
Culture and recreation.....	314,482	—	3,440	317,922
General government.....	190,654	—	1,377	192,031
Debt service.....	—	—	277,319	277,319
Capital projects.....	—	404,460	—	404,460
Total Disbursements.....	<u>930,775</u>	<u>404,460</u>	<u>522,904</u>	<u>1,858,139</u>
Receipts Over (Under) Disbursements	<u>(219,569)</u>	<u>(404,377)</u>	<u>409,362</u>	<u>(214,584)</u>
Other Financing Sources (Uses)				
Debt proceeds	32,487	360,000	—	392,487
Sale of capital assets.....	11,628	—	—	11,628
Transfer to Friends of the Marengo Public Library	—	—	(95,000)	(95,000)
Operating transfers in.....	82,365	300,420	151,623	534,408
Operating transfers out.....	<u>(61,883)</u>	<u>—</u>	<u>(534,408)</u>	<u>(596,291)</u>
Total Other Financing Sources (Uses).....	<u>64,597</u>	<u>660,420</u>	<u>(477,785)</u>	<u>247,232</u>
Increase (Decrease) in Cash Balances				
	(154,972)	256,043	(68,423)	32,648
Cash Balances - Beginning of Year (Restated - Note 9)	<u>341,512</u>	<u>1,010</u>	<u>400,983</u>	<u>743,505</u>
Cash Balances - End of Year.....	<u>\$ 186,540</u>	<u>\$ 257,053</u>	<u>\$ 332,560</u>	<u>\$ 776,153</u>
Cash Basis Fund Balances				
Reserved				
Donor or legal provisions	\$ 519	\$ —	\$ 262,394	\$ 262,913
Debt service	—	—	70,166	70,166
Debt covenants.....	—	257,053	—	257,053
Unreserved.....	<u>186,021</u>	<u>—</u>	<u>—</u>	<u>186,021</u>
Total Cash Basis Fund Balances ..	<u>\$ 186,540</u>	<u>\$ 257,053</u>	<u>\$ 332,560</u>	<u>\$ 776,153</u>

See accompanying notes to the financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Enterprise Funds

As of and for the Year Ended June 30, 2004

	Major - Marengo Memorial Hospital	Nonmajor - Enterprise Funds	Total
Operating Receipts			
Charges for service	\$ 7,195,874	\$ 426,312	\$ 7,622,186
Miscellaneous.....	<u>106,117</u>	<u>14,273</u>	<u>120,390</u>
Total Operating Receipts.....	<u>7,301,991</u>	<u>440,585</u>	<u>7,742,576</u>
Operating Disbursements			
Business-type activities	<u>6,412,384</u>	<u>328,424</u>	<u>6,740,808</u>
Operating Receipts Over Operating Disbursements	<u>889,607</u>	<u>112,161</u>	<u>1,001,768</u>
Nonoperating Receipts (Disbursements)			
Interest on investments	7,362	2,083	9,445
Ambulance subsidy	91,601	—	91,601
Contributions	149,310	—	149,310
Debt service.....	(172,847)	(85,895)	(258,742)
Debt proceeds	<u>1,000,000</u>	<u>—</u>	<u>1,000,000</u>
Total Nonoperating Receipts (Disbursements).....	<u>1,075,426</u>	<u>(83,812)</u>	<u>991,614</u>
Receipts Over (Under) Disbursements.....	1,965,033	28,349	1,993,382
Transfers in	<u>61,883</u>	<u>—</u>	<u>61,883</u>
Increase in Cash Balances	2,026,916	28,349	2,055,265
Cash Balances - Beginning of Year (Restated - Note 9)	<u>633,247</u>	<u>342,352</u>	<u>975,599</u>
Cash Balances - End of Year	<u>\$ 2,660,163</u>	<u>\$ 370,701</u>	<u>\$ 3,030,864</u>
Cash Basis Fund Balances			
Reserved			
Donor or legal provisions	\$ 935,614	\$ 41,268	\$ 976,882
Debt covenants	1,000,000	86,918	1,086,918
Unreserved	<u>724,549</u>	<u>242,515</u>	<u>967,064</u>
Total Cash Basis Fund Balances	<u>\$ 2,660,163</u>	<u>\$ 370,701</u>	<u>\$ 3,030,864</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Marengo, Iowa, is a political subdivision of the State of Iowa located in Iowa County. It was first incorporated in 1859 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, health and social services, culture and recreation and general governmental services. The City also provides water and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Marengo has included, except as noted below, 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 Marengo (the primary government) including its blended component unit, the Marengo Memorial Hospital (Hospital).

Blended Component Unit

The Hospital is organized under Chapter 37 of the Code of Iowa and is dependent upon the City Council to levy memorial taxes and approve all debt issues. The Hospital is governed by its own Board of Trustees and issues its own financial statements prepared in accordance with generally accepted accounting principles. It is included as a blended major enterprise fund.

Excluded Component Unit

Friends of the Marengo Public Library (Friends) (an Iowa nonprofit corporation) is a component unit that is legally separate from the City. Friends is governed by its own board. Friends was formed for the direct benefit of the Marengo Public Library (Library). Economic resources received by Friends are used for the direct benefit of the Library and, therefore, the City's constituents.

Friends has a calendar year end. Friends does not prepare financial statements; therefore, audited financial statements are not available. Management has elected to exclude the cash transactions of Friends from City financial statements. Unaudited financial information from Friends' calendar 2003 tax return includes total receipts of \$149,362; cash disbursements, excluding fund-raising costs of \$94,776; professional fund-raising disbursements of \$28,144; a beginning balance of \$118,207; other decreases of \$24,666 and an ending balance of \$119,983. Subsequent to December 31, 2003 but prior to June 30, 2004, the Library Building and Renovation Capital Projects Fund transferred \$95,000 to Friends which is not included in calendar 2003 Friends transactions. Therefore, to avoid material misstatements of governmental activities and aggregate nonmajor fund information of the City, Friends should be included as a discrete component unit in the City's financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods and 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: Regional Environmental Improvement Board and Iowa County Assessor's Conference Board.

Basis of Presentation

Government-Wide Financial Statements

The statement of activities and net assets reports information on all of the 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 revenue, 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 presents the City's net assets. Net assets are reported in two categories:

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

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

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, refunds, reimbursements and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Capital Projects

The *Capital Projects Fund* is used to account for most major road construction and other governmental capital acquisitions financed with general obligation debt issues.

The City reports the Hospital as a major enterprise fund.

Basis of Accounting

The City of Marengo 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 fund types in accordance with accounting principles generally accepted in the United States of America.

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.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Deposits and Investments

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

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

Notes to the Financial Statements

(3) Long-Term Debt

Annual debt service requirements to maturity for long-term debt are as follows.

Year Ending June 30,	General Obligation Bond		General Obligation Notes		Sanitary Sewer Revenue Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 40,000	\$ 2,560	\$ 356,062	\$ 54,363	\$ 20,000	\$ 7,993
2006	—	—	394,345	40,044	20,000	7,069
2007	—	—	78,654	25,472	21,000	6,122
2008	—	—	66,666	21,517	22,000	5,128
2009	—	—	66,667	18,027	23,000	4,089
2010-14	—	—	300,000	38,666	77,000	5,475
	<u>\$ 40,000</u>	<u>\$ 2,560</u>	<u>\$ 1,262,394</u>	<u>\$ 198,089</u>	<u>\$ 183,000</u>	<u>\$ 35,876</u>

Year Ending June 30,	Water Revenue Refunding Note		Hospital Bond Anticipation Note		Hospital Bond Anticipation Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 50,000	\$ 3,825	\$ —	\$ 5,220	\$ 1,000,000	\$ 11,250	\$ 1,466,062	\$ 85,211
2006	—	—	22,000	4,560	—	—	436,345	51,673
2007	—	—	24,000	3,900	—	—	123,654	35,494
2008	—	—	22,000	2,130	—	—	110,666	28,775
2009	—	—	19,000	810	—	—	108,667	22,926
2010-14	—	—	—	—	—	—	377,000	44,141
	<u>\$ 50,000</u>	<u>\$ 3,825</u>	<u>\$ 87,000</u>	<u>\$ 16,620</u>	<u>\$ 1,000,000</u>	<u>\$ 11,250</u>	<u>\$ 2,622,394</u>	<u>\$ 268,220</u>

Debt service payments for the general obligation equipment lease purchase note of \$5,328 and the fire truck purchase note of \$20,965 were paid from the General Fund, general government and public safety functions, respectively. All other general obligation debt service was paid from the debt service fund. Hospital anticipatory warrant debt service was paid from the General Fund, Memorial Building Account and reported as a transfer to the Marengo Memorial Hospital Enterprise Fund with payment from that fund.

The resolutions providing for the issuance of the sanitary sewer revenue bond and the water revenue refunding note includes the following provisions:

1. The bond and note are to be redeemed from future earnings of the respective utility and the bondholders hold a lien on the future earnings of the applicable utility.
2. Sufficient cash transfers shall be made to the water utility bond and interest sinking account for the purpose of making the bond principal and interest payments when due.
3. Additional cash transfers shall be made to the water utility revenue debt service reserve account until a specific minimum balance has been reached to provide a reserve to meet future bond principal and interest payments.

Notes to the Financial Statements

(3) Long-Term Debt

4. Sufficient rates will be established and maintained which will cause net revenue of the sanitary sewer utility and the water utility to be at least 110% and 125%, respectively, of the respective utility's debt service for the year.
5. Actions will be taken to ensure that the sanitary sewer utility will be audited within 90 days of each fiscal year end and that a copy of the audit report will be provided to the Iowa Department of Natural Resources (DNR) within 120 days of each fiscal year end.

With respect to the sanitary sewer utility, the City was not in compliance with the covenants in items 4 and 5 above.

On March 22, 2004, an ordinance was passed increasing sanitary sewer rates to be effective July 1, 2004. The rates were increased to comply with item 4 above. Management expects compliance with the time requirements of item 5 above for the year ending June 30, 2005.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.9%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$209,309, \$182,145 and \$147,052, respectively, equal to the required contributions for each year. The City's contributions include amounts paid by the Marengo Memorial Hospital of \$181,006, \$154,220 and \$119,866, respectively.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused compensatory time off and vacation hours for subsequent use or for payment. Unused compensatory time is paid at year end. Vacation hours are earned based on each employee's anniversary date and each employee is expected to take the earned time off; however, payment is made for unused vacation hours at the anniversary date. These accumulations, which are not considered to be material by management, are not recognized as disbursements by the City until used or paid.

Notes to the Financial Statements

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Employee Benefits	\$ 82,365
Debt Service	Special Revenue	
	Tax Increment Financing	151,623
Capital Projects	Special Revenue	
Capital Projects	Local Option Sales Tax	300,420
Enterprise	General (Memorial Building Levy)	
Marengo Memorial Hospital		<u>61,883</u>
Total		<u>\$ 596,291</u>

(7) Risk Management

The City of Marengo 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.

(8) Construction Commitment

During the year ended June 30, 2004, the City Council awarded a contract for Eastern Avenue improvements in the amount of \$634,471. Through June 30, 2004, \$311,631 has been paid on this contract. Construction costs are being financed with the Local Option Sales Tax and general obligation bond proceeds.

(9) Accounting Change

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

Notes to the Financial Statements

(9) Accounting Change

As a result of the change, the July 1, 2003 cash balances of certain funds were restructured or restated as noted below. In addition, the Marengo Memorial Hospital's cash balance is included as noted below.

Fund Type	Fund	Fund Balance per June 30, 2003 Audited Financial Statements	Reclassi- fication/ Revision	Cash Balance July 1, 2003
Governmental Funds				
General	General			
	General	\$ 232,697	\$ (163)	\$ 232,534
	Recreation Commission	11,765	—	11,765
	Capital Reserve.....	72,820	—	72,820
	Memorial Building.....	—	24,393	24,393
	Total General Fund.....	<u>317,282</u>	<u>24,230</u>	<u>341,512</u>
Special Revenue	Trust and Agency	—	168	168
	Road Use Tax	118,241	(1)	118,240
	Memorial Hospital Levy	25,138	(25,138)	—
	Employee Benefits	22,274	—	22,274
	Local Option Tax	110,967	—	110,967
	Tax Increment Financing.....	—	—	—
	Total Special Revenue Funds	<u>276,620</u>	<u>(24,971)</u>	<u>251,649</u>
Debt Service	Debt Service.....	<u>77,400</u>	<u>—</u>	<u>77,400</u>
Capital Projects	Capital Projects	1,010	—	1,010
	Library Building and Renovation	—	23,860	23,860
	Total Capital Projects	<u>1,010</u>	<u>23,860</u>	<u>24,870</u>
Expendable Trusts	Library Building and Renovation	22,610	(22,610)	—
	Library Gifts and Memorials	1,251	(1,251)	—
	Total Expendable Trusts.....	<u>23,861</u>	<u>(23,861)</u>	<u>—</u>
Permanent/Nonexpendable Trust	Cemetery Perpetual Care	<u>48,074</u>	<u>—</u>	<u>48,074</u>
Total Governmental Funds		<u>\$ 744,247</u>	<u>\$ (742)</u>	<u>\$ 743,505</u>

Notes to the Financial Statements

(9) Accounting Change

Fund Type	Fund	Fund Balance per June 30, 2003 Audited Financial Statements	Reclassi- fication/ Revision	Cash Balance July 1, 2003
Enterprise Funds				
Water	Water.....	\$ 87,070	\$ —	\$ 87,070
	Water Sinking.....	5,882	—	5,882
	Water Reserve	93,530	(57,630)	35,900
	Water Deposits.....	37,627	—	37,627
	Water Revolving.....	—	57,630	57,630
Subtotal Water.....	<u>224,109</u>	<u>—</u>	<u>224,109</u>	
Sanitary Sewer	Sewer Rental.....	73,996	—	73,996
	Sewer Sinking	—	—	—
	Sewer Reserve.....	31,480	(2,980)	28,500
	Sewer Replacement.....	9,155	—	9,155
	Sewer Revolving	—	2,979	2,979
Subtotal Sanitary Sewer.....	<u>114,631</u>	<u>(1)</u>	<u>114,630</u>	
Storm Sewer.....	<u>3,613</u>	<u>—</u>	<u>3,613</u>	
Marengo Memorial Hospital.....	<u>—</u>	<u>633,247</u>	<u>633,247</u>	
Total Enterprise Funds	<u>\$ 342,353</u>	<u>\$ 633,246</u>	<u>\$ 975,599</u>	

(10) Subsequent Events

On August 30, 2004, the City and Marengo Memorial Hospital issued \$6,000,000 in hospital revenue notes dated August 1, 2004 and retired the \$1,000,000 hospital bond anticipation note.

On December 12, 2004, the City issued \$620,000 of general obligation refunding bonds to refund remaining balances of the April 1, 1998 general obligation corporate purpose notes and the October 1, 1998 general obligation street improvement bonds.

On April 11, 2005, the City awarded the Clinton Avenue contract for \$890,462. The project is expected to be funded with general obligation debt proceeds.

Required Supplementary Information

Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental and Enterprise Funds

Year Ended June 30, 2004

	Governmental Funds - Actual	Enterprise Funds - Actual	Less Funds Not Required to be Budgeted	Net	Budget		Net Over (Under) Final Budget
					Original	Final	
Receipts							
Property tax.....	\$ 654,306	\$ —	\$ —	\$ 654,306	\$ 610,545	\$ 610,545	\$ 43,761
T.I.F. collections.....	151,391	—	—	151,391	159,144	159,144	(7,753)
Other city tax.....	280,640	—	—	280,640	242,803	242,803	37,837
Licenses and permits.	4,653	—	—	4,653	2,400	2,400	2,253
Use of money and property	3,324	9,445	7,362	5,407	3,800	3,800	1,607
Intergovernmental	290,791	91,601	91,601	290,791	456,503	456,503	(165,712)
Charges for service	115,627	7,622,186	7,195,874	541,939	525,725	525,725	16,214
Miscellaneous	142,823	269,700	255,427	157,096	539,900	546,900	(389,804)
Total Receipts	1,643,555	7,992,932	7,550,264	2,086,223	2,540,820	2,547,820	(461,597)
Disbursements							
Public safety.....	371,423	—	—	371,423	395,250	408,650	(37,227)
Public works	281,820	—	—	281,820	282,700	297,700	(15,880)
Health and social services	13,164	—	—	13,164	50,546	50,546	(37,382)
Culture and recreation	317,922	—	—	317,922	314,203	338,703	(20,781)
General government	192,031	—	—	192,031	162,928	197,428	(5,397)
Debt service	277,319	—	—	277,319	278,228	278,228	(909)
Capital projects	404,460	—	—	404,460	898,000	898,000	(493,540)
Business-type activities	—	6,999,550	6,585,231	414,319	479,150	479,150	(64,831)
Total Disbursements	1,858,139	6,999,550	6,585,231	2,272,458	2,861,005	2,948,405	(675,947)
Receipts Over (Under) Disbursements.....	(214,584)	993,382	965,033	(186,235)	(320,185)	(400,585)	214,350
Other Financing Sources (Uses)							
Bond proceeds.....	392,487	1,000,000	1,000,000	392,487	—	—	392,487
Sale of equipment	11,628	—	—	11,628	—	—	11,628
Transfer to Friends of the Marengo Public Library	(95,000)	—	(95,000)	—	—	—	—
Operating transfers in	534,408	61,883	61,883	534,408	603,705	618,105	(83,697)
Operating transfers out	(596,291)	—	—	(596,291)	(603,705)	(618,105)	21,814
Other Financing Sources, Net.....	247,232	1,061,883	966,883	342,232	—	—	342,232
Receipts and Other Financing Sources Over (Under) Disbursements.....							
Balances - Beginning of Year	743,505	975,599	633,247	1,085,857	703,649	1,089,203	(3,346)
Balances - End of Year	\$ 776,153	\$ 3,030,864	\$ 2,565,163	\$ 1,241,854	\$ 383,464	\$ 688,618	\$ 553,236

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund type, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$87,400. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information 

Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - General Fund

As of and for the Year Ended June 30, 2004

	General	Recreation Com- mission	Capital Reserve	Memorial Building	Total
Receipts					
Property taxes	\$ 436,759	\$ —	\$ —	\$ 37,929	\$ 474,688
Licenses and permits.....	4,653	—	—	—	4,653
Use of money and property	919	—	103	80	1,102
Intergovernmental.....	79,657	—	—	—	79,657
Charges for services.....	99,321	13,475	—	—	112,796
Miscellaneous.....	38,310	—	—	—	38,310
Total Receipts	<u>659,619</u>	<u>13,475</u>	<u>103</u>	<u>38,009</u>	<u>711,206</u>
Disbursements					
Public safety	371,423	—	—	—	371,423
Public works	41,052	—	—	—	41,052
Health and social services.....	13,164	—	—	—	13,164
Culture and recreation.....	294,414	20,068	—	—	314,482
General government.....	190,654	—	—	—	190,654
Total Disbursements	<u>910,707</u>	<u>20,068</u>	<u>—</u>	<u>—</u>	<u>930,775</u>
Receipts Over (Under)					
Disbursements	<u>(251,088)</u>	<u>(6,593)</u>	<u>103</u>	<u>38,009</u>	<u>(219,569)</u>
Other Financing Sources (Uses)					
Debt proceeds	32,487	—	—	—	32,487
Sale of capital assets.....	11,628	—	—	—	11,628
Operating transfers in.....	151,354	—	(68,989)	—	82,365
Operating transfers out.....	(35,564)	—	35,564	(61,883)	(61,883)
Total Other Financing Sources (Uses)	<u>159,905</u>	<u>—</u>	<u>(33,425)</u>	<u>(61,883)</u>	<u>64,597</u>
Decrease in Cash Balances...	(91,183)	(6,593)	(33,322)	(23,874)	(154,972)
Cash Balances - Beginning of Year (as Restated).....	232,534	11,765	72,820	24,393	341,512
Cash Balances - End of Year	<u>\$ 141,351</u>	<u>\$ 5,172</u>	<u>\$ 39,498</u>	<u>\$ 519</u>	<u>\$ 186,540</u>
Cash Basis Fund Balances					
Reserved for donor or legal provisions.....	\$ —	\$ —	\$ —	\$ 519	\$ 519
Unreserved.....	141,351	5,172	39,498	—	186,021
Total Cash Basis Fund Balances	<u>\$ 141,351</u>	<u>\$ 5,172</u>	<u>\$ 39,498</u>	<u>\$ 519</u>	<u>\$ 186,540</u>

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

As of and for the Year Ended June 30, 2004

	Special Revenue Funds	Debt Service Fund	Capital Projects - Library Building and Renovation	Permanent - Cemetery Trust	Total
Receipts					
Property taxes	\$ 60,079	\$ 119,539	\$ —	\$ —	\$ 179,618
T.I.F. collections	151,391	—	—	—	151,391
Other city tax	280,640	—	—	—	280,640
Use of money and property	1,590	300	249	—	2,139
Intergovernmental.....	211,134	—	—	—	211,134
Charges for services.....	2,331	—	—	500	2,831
Miscellaneous.....	<u>6,727</u>	<u>—</u>	<u>97,786</u>	<u>—</u>	<u>104,513</u>
Total Receipts.....	<u>713,892</u>	<u>119,839</u>	<u>98,035</u>	<u>500</u>	<u>932,266</u>
Disbursements					
Public works	240,768	—	—	—	240,768
Culture and recreation	—	—	3,440	—	3,440
General government.....	—	1,377	—	—	1,377
Debt service.....	<u>—</u>	<u>277,319</u>	<u>—</u>	<u>—</u>	<u>277,319</u>
Total Disbursements.....	<u>240,768</u>	<u>278,696</u>	<u>3,440</u>	<u>—</u>	<u>522,904</u>
Receipts Over (Under) Disbursements	<u>473,124</u>	<u>(158,857)</u>	<u>94,595</u>	<u>500</u>	<u>409,362</u>
Other Financing Sources (Uses)					
Transfers to Friends of the Marengo Public Library	—	—	(95,000)	—	(95,000)
Operating transfers in.....	—	151,623	—	—	151,623
Operating transfers out.....	<u>(534,408)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(534,408)</u>
Total Other Financing Sources (Uses).....	<u>(534,408)</u>	<u>151,623</u>	<u>(95,000)</u>	<u>—</u>	<u>(477,785)</u>
Increase (Decrease) in					
Cash Balances	(61,284)	(7,234)	(405)	500	(68,423)
Cash Balances - Beginning of Year (as Restated).....	<u>251,649</u>	<u>77,400</u>	<u>23,860</u>	<u>48,074</u>	<u>400,983</u>
Cash Balances - End of Year	<u>\$ 190,365</u>	<u>\$ 70,166</u>	<u>\$ 23,455</u>	<u>\$ 48,574</u>	<u>\$ 332,560</u>
Cash Basis Fund Balances					
Reserved					
Donor or legal provisions	\$ 190,365	\$ —	\$ 23,455	\$ 48,574	\$ 262,394
Debt service	<u>—</u>	<u>70,166</u>	<u>—</u>	<u>—</u>	<u>70,166</u>
Total Cash Basis Fund Balances	<u>\$ 190,365</u>	<u>\$ 70,166</u>	<u>\$ 23,455</u>	<u>\$ 48,574</u>	<u>\$ 332,560</u>

Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Special Revenue Funds

As of and for the Year Ended June 30, 2004

	Trust and Agency	Road Use Tax	Employee Benefits	Local Option Tax	Tax Increment Financing	Total
Receipts						
Property taxes	\$ —	\$ —	\$ 60,079	\$ —	\$ —	\$ 60,079
T.I.F. collections	—	—	—	—	151,391	151,391
Other city tax	—	—	—	280,640	—	280,640
Use of money and property	—	495	170	693	232	1,590
Intergovernmental.....	—	211,134	—	—	—	211,134
Charges for services.....	—	2,331	—	—	—	2,331
Miscellaneous.....	—	6,727	—	—	—	6,727
Total Receipts	—	220,687	60,249	281,333	151,623	713,892
Disbursements						
Public works	—	240,768	—	—	—	240,768
Receipts Over (Under) Disbursements	—	(20,081)	60,249	281,333	151,623	473,124
Other Financing Uses						
Operating transfers out	—	—	(82,365)	(300,420)	(151,623)	(534,408)
Decrease in Cash Balances	—	(20,081)	(22,116)	(19,087)	—	(61,284)
Cash Balances - Beginning of Year (as Restated)	168	118,240	22,274	110,967	—	251,649
Cash Balances - End of Year	\$ 168	\$ 98,159	\$ 158	\$ 91,880	\$ —	\$ 190,365
Cash Basis Fund Balances						
Reserved						
Donor or legal provisions	\$ 168	\$ 98,159	\$ 158	\$ 91,880	\$ —	\$ 190,365

Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Enterprise Funds

As of and for the Year Ended June 30, 2004

	Water	Sanitary Sewer	Storm Sewer	Total
Operating Receipts				
Charges for service	\$ 262,753	\$ 150,581	\$ 12,978	\$ 426,312
Miscellaneous.....	<u>7,723</u>	<u>6,550</u>	<u>—</u>	<u>14,273</u>
Total Operating Receipts	<u>270,476</u>	<u>157,131</u>	<u>12,978</u>	<u>440,585</u>
Operating Disbursements				
Business-type activities	<u>180,939</u>	<u>141,791</u>	<u>5,694</u>	<u>328,424</u>
Operating Receipts Over				
Operating Disbursements	<u>89,537</u>	<u>15,340</u>	<u>7,284</u>	<u>112,161</u>
Nonoperating Receipts (Disbursements)				
Interest on investments	1,290	768	25	2,083
Debt service.....	<u>(57,900)</u>	<u>(27,995)</u>	<u>—</u>	<u>(85,895)</u>
Total Nonoperating Receipts (Disbursements).....	<u>(56,610)</u>	<u>(27,227)</u>	<u>25</u>	<u>(83,812)</u>
Increase (Decrease) in Cash				
Balances	32,927	(11,887)	7,309	28,349
Cash Balances - Beginning of Year (as Restated)	<u>224,109</u>	<u>114,630</u>	<u>3,613</u>	<u>342,352</u>
Cash Balances - End of Year	<u>\$ 257,036</u>	<u>\$ 102,743</u>	<u>\$ 10,922</u>	<u>\$ 370,701</u>
Cash Basis Fund Balances				
Reserved	\$ 99,044	\$ 29,142	\$ —	\$ 128,186
Unreserved	<u>157,992</u>	<u>73,601</u>	<u>10,922</u>	<u>242,515</u>
Total Cash Basis Fund Balances ..	<u>\$ 257,036</u>	<u>\$ 102,743</u>	<u>\$ 10,922</u>	<u>\$ 370,701</u>

Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Water Nonmajor Enterprise Fund

As of and for the Year Ended June 30, 2004

	Water	Water Sinking	Water Reserve	Water Deposits	Water Revolving	Total
Operating Receipts						
Charges for service	\$ 262,753	\$ —	\$ —	\$ —	\$ —	\$ 262,753
Miscellaneous.....	<u>2,243</u>	<u>—</u>	<u>—</u>	<u>5,480</u>	<u>—</u>	<u>7,723</u>
Total Operating Receipts	264,996	—	—	5,480	—	270,476
Operating Disbursements						
Business-type activities	<u>178,957</u>	<u>—</u>	<u>—</u>	<u>1,982</u>	<u>—</u>	<u>180,939</u>
Operating Receipts Over Operating Disbursements						
	<u>86,039</u>	<u>—</u>	<u>—</u>	<u>3,498</u>	<u>—</u>	<u>89,537</u>
Nonoperating Receipts (Disbursements)						
Interest on investments	789	94	—	143	264	1,290
Debt service.....	<u>—</u>	<u>(57,900)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(57,900)</u>
Total Nonoperating Receipts (Disbursements)	<u>789</u>	<u>(57,806)</u>	<u>—</u>	<u>143</u>	<u>264</u>	<u>(56,610)</u>
Receipts Over (Under) Disbursements	86,828	(57,806)	—	3,641	264	32,927
Other Financing Sources (Uses)						
Intrafund transfers (net)	<u>(88,800)</u>	<u>77,200</u>	<u>(3,400)</u>	<u>—</u>	<u>15,000</u>	<u>—</u>
Increase (Decrease) in Cash Balances	(1,972)	19,394	(3,400)	3,641	15,264	32,927
Cash Balances - Beginning of Year (as Restated)	<u>87,070</u>	<u>5,882</u>	<u>35,900</u>	<u>37,627</u>	<u>57,630</u>	<u>224,109</u>
Cash Balances - End of Year	<u>\$ 85,098</u>	<u>\$ 25,276</u>	<u>\$ 32,500</u>	<u>\$ 41,268</u>	<u>\$ 72,894</u>	<u>\$ 257,036</u>
Cash Basis Fund Balances						
Reserved	\$ —	\$ 25,276	\$ 32,500	\$ 41,268	\$ —	\$ 99,044
Unreserved	<u>85,098</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>72,894</u>	<u>157,992</u>
Total Cash Basis Fund Balances	<u>\$ 85,098</u>	<u>\$ 25,276</u>	<u>\$ 32,500</u>	<u>\$ 41,268</u>	<u>\$ 72,894</u>	<u>\$ 257,036</u>

Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Sanitary Sewer Nonmajor Enterprise Fund

As of and for the Year Ended June 30, 2004

	Sewer Rental	Sewer Sinking	Sewer Reserve	Sewer Replace- ment	Sewer Revolving	Total
Operating Receipts						
Charges for service	\$ 150,581	\$ —	\$ —	\$ —	\$ —	\$ 150,581
Miscellaneous.....	<u>6,550</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,550</u>
Total Operating Receipts	157,131	—	—	—	—	157,131
Operating Disbursements						
Business-type activities	<u>141,791</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>141,791</u>
Operating Receipts Over Operating Disbursements	15,340	—	—	—	—	15,340
Nonoperating Receipts (Disbursements)						
Interest on investments	679	5	—	33	51	768
Debt service.....	<u>—</u>	<u>(27,995)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(27,995)</u>
Total Nonoperating Receipts (Disbursements)	679	(27,990)	—	33	51	(27,227)
Receipts Over (Under) Disbursements	16,019	(27,990)	—	33	51	(11,887)
Other Financing Sources (Uses)						
Intrafund transfers (net)	<u>(39,906)</u>	<u>28,632</u>	<u>—</u>	<u>—</u>	<u>11,274</u>	<u>—</u>
Increase (Decrease) in Cash Balances	(23,887)	642	—	33	11,325	(11,887)
Cash Balances - Beginning of Year (as Restated)	<u>73,996</u>	<u>—</u>	<u>28,500</u>	<u>9,155</u>	<u>2,979</u>	<u>114,630</u>
Cash Balances - End of Year	\$ 50,109	\$ 642	\$ 28,500	\$ 9,188	\$ 14,304	\$ 102,743
Cash Basis Fund Balances						
Reserved	\$ —	\$ 642	\$ 28,500	\$ —	\$ —	\$ 29,142
Unreserved.....	<u>50,109</u>	<u>—</u>	<u>—</u>	<u>9,188</u>	<u>14,304</u>	<u>73,601</u>
Total Cash Basis Fund Balances	\$ 50,109	\$ 642	\$ 28,500	\$ 9,188	\$ 14,304	\$ 102,743

Schedule of Indebtedness

Year Ended June 30, 2004

Obligation	Amount Originally Issued	Date of Issue	Interest Rate
General Obligation Bonds			
Essential corporate purpose.....	\$ 425,000	9-1-89	6.40%
General Obligation Notes			
Corporate purpose.....	\$ 390,000	3-30-94	5.45 - 5.55%
Economic development	190,000	11-1-94	6.00
Capital loan.....	325,000	10-1-95	5.60 - 5.75
Corporate purpose.....	162,800	5-5-97	5.30 - 5.50
Equipment lease purchase	22,009	9-24-01	7.79
Corporate purpose.....	500,000	4-1-98	5.15
Street improvement	500,000	10-1-98	5.15
Fire truck.....	32,487	8-12-03	4.00
Street improvement	360,000	6-30-04	3.00
Total General Obligation			
Sewer Revenue Bonds	\$ 360,000	10-15-91	4.62%
Water Revenue Refunding Note	\$ 325,000	2-1-97	6.40%
Hospital Debt			
Warrants payable	\$ 112,000	3-25-97	5.95%
Warrants payable	100,000	5-15-01	6.00
Note payable	Various	Various	7.75
Bond anticipation note	1,000,000	12-8-03	2.25
Total Hospital Debt			

See accompanying notes to the financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 80,000	\$ —	\$ 40,000	\$ 40,000	\$ 5,360
175,000	—	40,000	135,000	9,908
25,000	—	25,000	—	1,500
115,000	—	35,000	80,000	6,465
40,000	—	10,000	30,000	2,140
15,838	—	4,264	11,574	1,064
366,667	—	33,334	333,333	18,075
333,334	—	33,334	300,000	17,204
—	32,487	20,000	12,487	965
<u>—</u>	<u>360,000</u>	<u>—</u>	<u>360,000</u>	<u>—</u>
<u>\$ 1,150,839</u>	<u>\$ 392,487</u>	<u>\$ 240,932</u>	<u>\$ 1,302,394</u>	<u>\$ 62,681</u>
<u>\$ 202,000</u>	<u>\$ —</u>	<u>\$ 19,000</u>	<u>\$ 183,000</u>	<u>\$ 8,894</u>
<u>\$ 100,000</u>	<u>\$ —</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 7,600</u>
\$ 40,500	\$ —	\$ 40,500	\$ —	\$ 2,258
100,000	—	13,000	87,000	6,142
95,494	—	95,494	—	3,407
<u>—</u>	<u>1,000,000</u>	<u>—</u>	<u>1,000,000</u>	<u>12,046</u>
<u>\$ 235,994</u>	<u>\$ 1,000,000</u>	<u>\$ 148,994</u>	<u>\$ 1,087,000</u>	<u>\$ 23,853</u>

Schedule of Bond and Note Maturities

At June 30, 2004

General Obligation Bonds and Notes

	<u>Corporate Purpose</u> <u>Issued 9-1-89</u>		<u>Corporate Purpose</u> <u>Issued 3-30-94</u>		<u>Capital Loan</u> <u>Issued 10-1-95</u>		<u>Corporate Purpose</u> <u>Issued 5-5-97</u>		<u>Corporate Purpose</u> <u>Issued 4-1-98</u>		<u>Street Improvement</u> <u>Issued 10-1-98</u>		<u>Equipment</u> <u>Lease/Purchase</u> <u>Issued 9-24-01</u>		<u>Fire Truck</u> <u>Issued 8-12-03</u>		<u>Street Improvement</u> <u>Issued 6-30-04</u>		Total
	Interest		Interest		Interest		Interest		Interest		Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2005	6.40%	\$ 40,000	5.45%	\$ 45,000	5.60%	\$ 40,000	5.30%	\$ 10,000	5.15%	\$ 33,333	5.15%	\$ 33,333	7.79%	\$ 4,608	4.00%	\$ 12,487	3.00%	\$ 177,301	\$ 396,062
2006	—	—	5.55	90,000	5.75	40,000	5.40	10,000	5.15	33,333	5.15	33,334	7.79	4,979	—	—	3.00	182,699	394,345
2007	—	—	—	—	—	—	5.50	10,000	5.15	33,334	5.15	33,333	7.79	1,987	—	—	—	—	78,654
2008	—	—	—	—	—	—	—	—	5.15	33,333	5.15	33,333	—	—	—	—	—	—	66,666
2009	—	—	—	—	—	—	—	—	5.15	33,333	5.15	33,334	—	—	—	—	—	—	66,667
2010	—	—	—	—	—	—	—	—	5.15	33,334	5.15	33,333	—	—	—	—	—	—	66,667
2011	—	—	—	—	—	—	—	—	5.15	33,333	5.15	33,333	—	—	—	—	—	—	66,666
2012	—	—	—	—	—	—	—	—	5.15	33,333	5.15	33,334	—	—	—	—	—	—	66,667
2013	—	—	—	—	—	—	—	—	5.15	33,334	5.15	33,333	—	—	—	—	—	—	66,667
2014	—	—	—	—	—	—	—	—	5.15	33,333	—	—	—	—	—	—	—	—	33,333
Total.....		\$ 40,000		\$ 135,000		\$ 80,000		\$ 30,000		\$ 333,333		\$ 300,000		\$ 11,574		\$ 12,487		\$ 360,000	\$ 1,302,394

Revenue Bonds and Notes

	<u>Sewer Revenue</u> <u>Issued 10-15-91</u>		<u>Water</u> <u>Revenue Refunding</u> <u>Issued 2-1-97</u>		<u>Hospital</u> <u>Anticipatory Warrants</u> <u>Issued 5-15-01</u>		<u>Hospital Bond</u> <u>Anticipation Note</u> <u>Issued 12-8-03</u>		Total
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2005	4.62%	\$ 20,000	6.40%	\$ 50,000	6.00%	\$ —	2.25%	\$ 1,000,000	\$ 1,070,000
2006	4.62	20,000	—	—	6.00	22,000	—	—	42,000
2007	4.62	21,000	—	—	6.00	24,000	—	—	45,000
2008	4.62	22,000	—	—	6.00	22,000	—	—	44,000
2009	4.62	23,000	—	—	6.00	19,000	—	—	42,000
2010	4.62	24,000	—	—	—	—	—	—	24,000
2011	4.62	26,000	—	—	—	—	—	—	26,000
2012	4.62	27,000	—	—	—	—	—	—	27,000
Total.....		\$ 183,000		\$ 50,000		\$ 87,000		\$ 1,000,000	\$ 1,320,000

Schedule of Receipts by Source and Disbursements by Function/Program All Governmental Funds

Years Ended June 30, 2001 Through 2004

	2004	2003	2002	2001
Receipts				
Property tax	\$ 654,306	\$ 694,875	\$ 826,798	\$ 842,417
T.I.F. collections	151,391	136,182	83,909	88,369
Other city tax	280,640	250,576	245,348	226,640
Licenses and permits.....	4,653	2,638	1,896	3,955
Use of money and property	3,324	9,258	12,370	24,164
Intergovernmental.....	290,791	307,001	310,889	316,067
Charges for service	115,627	73,988	67,735	77,534
Miscellaneous.....	<u>142,823</u>	<u>87,211</u>	<u>115,019</u>	<u>120,070</u>
Total Receipts	<u>\$ 1,643,555</u>	<u>\$ 1,561,729</u>	<u>\$ 1,663,964</u>	<u>\$ 1,699,216</u>
Disbursements				
Operating				
Public safety.....	\$ 371,423	\$ 328,645	N/A	N/A
Public works.....	281,820	185,404	N/A	N/A
Health and social services	13,164	34,593	N/A	N/A
Culture and recreation	317,922	278,585	N/A	N/A
General government	192,031	153,830	N/A	N/A
Debt service.....	277,319	285,387	N/A	N/A
Capital projects.....	404,460	170,086	N/A	N/A
Community Protection Program	N/A	N/A	\$ 322,815	\$ 314,331
Human Development Program.....	N/A	N/A	373,184	317,093
Home and Community Environment Program	N/A	N/A	734,999	843,348
Policy and Administration Program	<u>N/A</u>	<u>N/A</u>	<u>186,578</u>	<u>172,235</u>
Total Disbursements	<u>\$ 1,858,139</u>	<u>\$ 1,436,530</u>	<u>\$ 1,617,576</u>	<u>\$ 1,647,007</u>

Schedule of Sanitary Sewer System Rates

Year Ended June 30, 2004

Approximately 1,100 customers at June 30, 2004.

Rates for	Through June 30, 2004	Effective July 1, 2004
Basic monthly charge for residences or businesses within the corporate limits of the City	\$3.10	\$5.10
Each additional 1,000 gallons water used	\$1.60	Same
Surcharges/Additional Charges		
Wastewater with strength greater than normal domestic sewage	\$0.12/lb of BOD	Same
User discharging toxic pollutants which cause increased treatment costs	Each subject to Council determination	Same
Special conditions	Each subject to Council determination	Same
Users with Private Water Systems		
Residential		
One person	\$5.50	\$6.00
Two persons	\$7.90	\$8.40
Three persons	\$10.30	\$10.80
Four persons	\$12.70	\$13.20
Five persons	\$15.10	\$15.60
Six persons	\$17.50	\$18.00
Businesses		
One person, nonpublic	\$10.00	\$10.50
Businesses with less than 5 employees	\$15.00	\$15.50
Businesses with 5 to 15 employees	\$25.00	\$25.00
Businesses with more than 15 employees	\$50.00	\$50.50
Water intensive businesses	\$50.00	\$50.50
Monthly sewer maintenance and improvement fee	\$1.00	\$1.50

Schedule of Insurance

Year Ended June 30, 2004

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket	4/1/04 - 4/1/05	\$2,196,287
Liability		
General aggregate	4/1/04 - 4/1/05	2,000,000
Acts of terrorism	4/1/04 - 4/1/05	Any capital loss
Personal/advertising injury	4/1/04 - 4/1/05	1,000,000
Each occurrence	4/1/04 - 4/1/05	1,000,000
Damage to premises	4/1/04 - 4/1/05	100,000
Medical expense	4/1/04 - 4/1/05	5,000
Crime		
Public employee dishonesty	6/1/04 - 6/1/05	\$75,000 per employee
Inland Marine		
Contractors equipment	4/1/04 - 4/1/05	304,064
Scheduled property floater	4/1/04 - 4/1/05	32,037
Valuable papers and records	4/1/04 - 4/1/05	5,000
Automobile		
Liability	4/1/04 - 4/1/05	1,000,000
Uninsured	4/1/04 - 4/1/05	50,000
Underinsured	4/1/04 - 4/1/05	50,000
Physical damage	4/1/04 - 4/1/05	Loss less deductible
Comprehensive	4/1/04 - 4/1/05	Loss less deductible
Collision	4/1/04 - 4/1/05	Loss less deductible
Additional items	4/1/04 - 4/1/05	Loss less deductible
Endorsements	4/1/04 - 4/1/05	Loss less deductible
Medical	4/1/04 - 4/1/05	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/04 - 4/1/05	500,000
Bodily injury by disease/employee	4/1/04 - 4/1/05	500,000
Bodily injury by disease/limit	4/1/04 - 4/1/05	500,000
Umbrella		
Retained	4/1/04 - 4/1/05	10,000
Occurrence	4/1/04 - 4/1/05	2,000,000
Aggregate	4/1/04 - 4/1/05	2,000,000
Linebacker		
Each loss	4/1/04 - 4/1/05	1,000,000
Aggregate for each policy term	4/1/04 - 4/1/05	1,000,000
Insured's deductible per loss	4/1/04 - 4/1/05	2,000

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

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

We have audited the financial statements of the City of Marengo, Iowa, for the year ended June 30, 2004, and have issued our report thereon dated May 5, 2005. Our report expressed a qualified opinion on the governmental activities and the aggregate remaining fund information due to the omission of a blended component unit and an unqualified opinion on the business-type activities and each major fund financial statements which were prepared in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 noncompliance that are required to be reported under *Government Auditing Standards*.

The following comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved, except comment 04-C-7(c) which is repeated below.

04-C-1 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

- 04-C-2 Certified Budget** - Disbursements during the year ended June 30, 2004 were less than the amounts budgeted.
- 04-C-3 Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.
- 04-C-4 Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 04-C-5 Business Transactions** - We noted no business transactions between the City of Marengo and City officials which we believe appear to be conflicts of interest.
- 04-C-6 Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 04-C-7 Council Minutes** - Section 372.13(6) of the Code of Iowa states, in part, "Within fifteen days following a regular or special meeting of the council, the clerk shall cause the minutes of the proceedings of the council, including the total expenditure from each city fund, to be published in a newspaper of general circulation in the city. The publication shall include a list of all claims allowed and a summary of all receipts and shall show the gross amount of the claim."

Auditor's Findings -

- (a) The Marengo Recreation Commission (part of the General Fund) and the Library Building and Renovation Capital Projects Fund have separate bank accounts. Minutes of the City Council meetings do not include the list of claims allowed or the receipts of those accounts.
- (b) Warrant number 20631 was paid from the City's bank account on August 4, 2003. We found no such item in the lists of claims allowed.
- (c) Although minutes of Council proceedings were published, minutes of meetings held prior to April 26, 2004 were not published within 15 days.

Auditor's Recommendations - In order for the City to comply with requirements of Section 372.13(6), we recommend that: (a) disbursements and receipts of all City accounts be included in the minutes; (b) all claims allowed, including the gross amount, be included in the minutes and (c) minutes continue to be published within 15 days of the meeting.

City's Responses - Minutes will continue to be published within 15 days and will include a summary of all receipts and disbursements and a list of all claims allowed. Warrant number 20631 was a reissue of warrant number 20564, which was issued to an incorrect vendor and was voided. Voided warrants are now being included with the claims for Council approval.

Auditor's Conclusion - Responses accepted.

- 04-C-8 Deposits and Investments** - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

04-C-9 Revenue Bonds and Notes - The City did not comply with certain covenants adopted in revenue bond and note resolutions in that sanitary sewer rates were not adequate to generate net revenue within the Sanitary Sewer Fund of at least 110% of debt service requirements for the year and that the annual audit report was not completed within 90 days after year end nor provided to the Iowa Department of Natural Resources within 120 days after year end.

Auditor's Recommendations - We noted that an ordinance increasing sanitary sewer rates went into effect July 1, 2004. To ensure those rates are adequate, we recommend that the City monitor operations of the Sanitary Sewer Fund to ensure that the coverage ratio is met. We also recommend that management take action to ensure that the annual audit is timely completed and filed.

City's Responses - Action was taken to increase rates. Operations will be monitored to determine if additional rate increases are needed. Unusual circumstances beyond the City's control resulted in lack of timely audit completion. Contracts for audit services will be timely let and stipulate that the audit will be completed within 90 days unless prevented by unforeseeable circumstances.

Auditor's Conclusion - Responses accepted.

04-C-10 Unclaimed Property - Amounts held by the Water Meter Deposit account exceed the sum of the individual utility deposits held. State laws require excess amounts to be deemed unclaimed property and remitted to the State Treasurer.

Auditor's Recommendation - To comply with Iowa's unclaimed property law, we recommend that the City attempt to locate the owners of the excess deposits and remit applicable balances to such owners, including the City if deposits were forfeited for unpaid utility bills. Amounts with undetermined ownership should be submitted, along with appropriate reports, to the Treasurer - State of Iowa.

City's Response - As time allows, we will attempt to reconcile the deposits account and remit excess amounts to applicable owners or the State of Iowa.

Auditor's Conclusion - Response accepted.

Internal Control Over Financial Reporting

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

The prior year reportable condition has not been resolved and is repeated below as item 04-IC-1.

04-IC-1 Segregation of Duties

Prior Year Finding and Recommendation - 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 that certain functions are not entirely segregated. 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, segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Current Year Finding - We found that the same conditions existed.

Auditor's Recommendation - We are aware that the City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control. We realize the condition will be difficult to improve. However, we do believe it is important that the Council be aware this condition does exist and make changes when appropriate and cost effective.

City's Response - The Council is aware of the condition. We will review procedures and make changes when appropriate.

Auditor's Conclusion - Response accepted.

04-IC-2 Use of Prenumbered Cash Receipt Forms

Finding - The City uses prenumbered receipts to account for cash received from citizens and other sources. However, a copy of the prenumbered receipt is not given to the payer. The copies of the receipts that the City maintains are used to balance bank deposits, posting to the general ledger and preparing reports for the City Council.

Auditor's Recommendation - To better establish accountability and control over cash receipts, we recommend that the payer be provided a copy of the prenumbered receipt. By doing so, the payer will become accustomed to receiving it and will serve as an additional control feature to prevent an employee from receiving cash from a payer and not depositing it to the City bank account.

In general, the cash receipts procedures should ensure that one copy of the receipt be used for daily bank balancing and general ledger processing, a second copy of the receipt or a log containing the date, payer and amount should be maintained in prenumbered order for accountability of all receipts and a third copy should be provided to the payer. The system can be either electronic or manual. The payer copy of all receipts for amounts received by mail or direct deposit can be maintained together in one central location.

City's Response - The City has begun providing a copy of the receipt to the payer and will consider additional control procedures in this area.

Auditor's Conclusion - Response accepted.

04-IC-3 Utility Deposits

Finding - We noted that the City has a separate account in the Water Fund to account for customer deposits. We also noted that the City has a computer listing, by customer, of deposits held. The listing total is not being reconciled to the account balance. The account balance is larger than the listing total. The City has a fiduciary duty to maintain accountability of the deposits and refund amounts no longer needed for security. Unless forfeited by the payer for meter destruction or unpaid utility bills, deposits held are not City property. If the payer cannot be located and repaid, refundable deposits become unclaimed property and must be reported to and remitted to the State of Iowa.

Auditor's Recommendation - To properly account for property held for others, we recommend that the City reconcile amounts held to the sum of the detail listing and attempt to locate the owners of any amounts held but either not on the listing or included in the listing but no longer required to be held. The applicable balances should be returned to such owners. Any unreconcilable amounts held, along with amounts held for unlocated payers, should be forwarded to the Treasurer - State of Iowa. Once the initial reconciliation is complete, periodic (i.e. monthly) reconciliations should be completed.

City's Response - As time allows, we will attempt to reconcile the deposits account and remit excess amounts to applicable owners or the State of Iowa.

Auditor's Conclusion - Response accepted.

04-IC-4 Protection of Critical Accounting Records

Finding - We noted that accounting files are backed up daily onto compact disks. The disks are placed in the fireproof vault in City Hall. The vault is located in the same building as the computer. A disaster at City Hall could destroy both the current and backed up computer files.

Recommendation - In order to protect the City from the loss of critical accounting records, we recommend that the City store its computer backup offsite. Backup files should be rotated daily or at some other short-term interval. One potential backup system would be to take a backup disk to a bank safety deposit box at the time the daily deposit is taken to the bank.

City's Response - The City will keep two weeks' of backup disks, with the most current set being stored off-site. Monthly backups will be kept in the City's safe deposit box.

Auditor's Conclusion - Response accepted.

To the Honorable Mayor and
Members of the City Council
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions 1, 2 and 4 described above are material weaknesses.

This report is intended for the information of the Mayor, City Council and management of the City of Marengo, Iowa, and other grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
May 5, 2005