

**CITY OF MARENGO, IOWA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2005**

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# Officials

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Elected Officials</b>		
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
<b>Appointed Officials</b>		
Carl Schumacher	Administrator/Clerk (Appointed June 14, 2005)	Indefinite
Randy Bennett	Administrator/Clerk (Through April 6, 2005)	Indefinite
Barbara Barrick	Acting Clerk (From April 6, 2005 through June 13, 2005)	
Barbara Barrick	Financial Manager	Indefinite
Ken Martens	Attorney	Indefinite
Stuart Stukey	Public Works Director	Indefinite
Galen Moser	Police Chief	Indefinite

## Independent Auditor's Report

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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 fund and the aggregate remaining fund information of the City of Marengo, Iowa, as of and for the year ended June 30, 2005 which, along with the discretely presented component unit, 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 discretely presented component unit, Marengo Memorial Hospital. 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 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, the aggregate remaining fund information and the Marengo Memorial Hospital discrete component unit of the City of Marengo at June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 9 and Page 19 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which are not presented herein) and expressed a qualified opinion for the lack of inclusion of the financial information of the Friends of Marengo Public Library. The financial statements and supplemental data for the years ended June 30, 2003 and 2002 (which are 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 20 through 28 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 discrete 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  
September 19, 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities, other than debt proceeds, increased 4.2%, or approximately \$70,000, from the fiscal 2004 year to the fiscal 2005 year. This increase is due to a road construction grant received and an increase in property taxes, increases in T.I.F. collections, local option sales tax, charges for services and miscellaneous with an offsetting decrease in donations.

Governmental activities disbursements, other than transfers to component units, increased 35.1%, or approximately \$650,000, in fiscal year 2005 from the fiscal year 2004. This change was primarily due to a debt refunding and payments on new debt with an offset to capital outlay in public safety.

The City's total cash basis net assets increased approximately \$750,000 from June 30, 2004 to June 30, 2005. The assets of the governmental activities increased approximately \$805,000 while the assets of the business-type activities decreased by approximately \$53,000.

### **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 Water Utility, the Sanitary Sewer System and the 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.

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 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 \$776,153 a year ago to \$1,581,342. The analysis that follows focuses on the changes in cash balances for governmental activities.

### Changes in Cash Basis Net Assets of Governmental Activities

	<u>Years Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts and Transfers		
Program Receipts		
Charges for services	\$ 103,593	\$ 115,627
Operating grants, contributions and restricted interest	310,620	310,344
Capital grants, contributions and restricted interest	154,746	97,102
General Receipts		
Property tax	831,590	805,697
Local option sales tax	285,873	280,640
Unrestricted miscellaneous, intergovernmental and interest	38,347	45,773
Debt proceeds	<u>1,590,645</u>	<u>392,487</u>
Total Receipts	<u>3,315,414</u>	<u>2,047,670</u>
Disbursements		
Public safety	264,493	371,423
Public works	259,939	281,820
Health and social services	12,999	13,164
Culture and recreation	273,456	317,922
General government	169,052	192,031
Debt service	1,066,082	277,319
Capital projects	464,204	404,460
Transfer to Friends of Marengo Public Library	—	95,000
Transfer to Marengo Memorial Hospital	—	61,883
Total Disbursements	<u>2,510,225</u>	<u>2,015,022</u>
Change in Cash Basis Net Assets	805,189	32,648
Cash Basis Net Assets - Beginning of Year	<u>776,153</u>	<u>743,505</u>
<b>Cash Basis Net Assets - End of Year</b>	<b><u>\$ 1,581,342</u></b>	<b><u>\$ 776,153</u></b>

The City's total receipts for governmental activities increased by 61.9%, or \$1,267,744. The increase was due to issuance of debt and receipt of a capital grant.

The total cost of all programs and services increased by \$495,203, or 24.6%. The majority of this increase was due to the City refinancing debt.

### Changes in Cash Basis Net Assets of Business-Type Activities

	<b>Years Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Receipts and Transfers		
Program Receipts		
Charges for Services		
Water	\$ 262,472	\$ 270,476
Sanitary Sewer	177,669	157,131
Storm Sewer	13,132	12,978
Interest	3,307	2,083
Total Receipts	456,580	442,668
Disbursements		
Water	286,198	238,839
Sanitary Sewer	204,697	169,786
Storm Sewer	18,770	5,694
Total Disbursements	509,665	414,319
Change in Cash Basis Net Assets	(53,085)	28,349
Cash Basis Net Assets - Beginning of Year	370,701	342,352
<b>Cash Basis Net Assets - End of Year</b>	<b>\$ 317,616</b>	<b>\$ 370,701</b>

Total business-type activities receipts for the fiscal year were \$456,580 compared to \$442,668 last year. The increase was primarily due to a sanitary sewer rate increase. The cash balance decreased by \$53,085, or 14.3%, from the prior year. Total disbursements for the fiscal year increased by 23% to a total of \$509,665. The increase is due to greater operating costs.

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$1,581,342, an increase of more than \$800,000 above last year's total of \$776,153.

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

The General Fund cash balance increased \$39,829 from the prior year to \$226,369. This decrease was largely due to the City's prior year purchase of a fire truck at a cost of approximately \$80,000, not repeated this year with offsetting increases in operating costs.

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 Road Use Tax Fund cash balance decreased approximately \$10,000 due to transfers of \$15,000 to the General Fund to be used for future purchases of capital equipment.

The Local Option Sales Tax Fund cash balance increased \$77,200 from the prior year due to increased receipts and less cash transferred out.

The Capital Projects cash balance increased by \$683,065 to \$940,118 during the fiscal year. This increase is due to the receipt of debt proceeds to be used for the reconstruction of Clinton Avenue.

The Debt Service Fund reported debt proceeds of approximately \$609,000 to pay issuance costs and refund \$600,000 of debt in addition to receipts and transfer in for payment of principal and interest as due.

## **INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

The Water Utility cash balance decreased by \$21,431 to \$235,605 due to increased operating costs while receipts decreased. The Sanitary Sewer System cash balance decreased by \$26,062. Receipts increased approximately \$20,000 due to a rate increase. However, operating costs increased approximately \$35,000.

Component Units - The City has two component units, Friends of the Marengo Public Library (Friends) and Marengo Memorial Hospital (Hospital). Friends does not issue financial statements. 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 approved on May 23, 2005. The amendment resulted in increased receipts from miscellaneous sources and debt proceeds and disbursements for Public Safety, Public Works, Health and Social Services, General Government and debt service (refunding).

## **DEBT ADMINISTRATION**

At June 30, 2005, the City had \$1,919,674 in general obligation debt and \$163,000 in sewer revenue debt.

## Outstanding Debt at Year End

General obligation notes	\$ 1,339,674
General obligation bond	580,000
Sewer revenue bonds	<u>163,000</u>
<b>Totals</b>	<b><u>\$ 2,082,674</u></b>

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 \$2,082,674 is significantly below its constitutional debt limit of \$4,293,208. On December 28, 2004, the City closed on \$620,000 in refunding bonds and used the proceeds to refund \$600,000 of debt. On June 16, 2005, the City closed on \$1,000,000 of general obligation notes to be used for the reconstruction of Clinton Avenue.

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, 2005, general obligation debt principal balances of \$90,000 and \$580,000 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 2006 budget, tax rates and fees that will be charged for various City activities.

Improvements to streets are needed. The City expects to fund those improvements 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**

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# Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total	
<b>Governmental Activities</b>								
Public safety .....	\$ 264,493	\$ 29,666	\$ 7,691	\$ —	\$ (227,136)	\$ —	\$ (227,136)	\$ —
Public works .....	259,939	49,597	218,846	—	8,504	—	8,504	—
Health and social services.....	12,999	—	—	—	(12,999)	—	(12,999)	—
Culture and recreation.....	273,456	24,330	83,465	—	(165,661)	—	(165,661)	—
General government.....	169,052	—	22	—	(169,030)	—	(169,030)	—
Debt service.....	1,066,082	—	596	—	(1,065,486)	—	(1,065,486)	—
Capital projects.....	464,204	—	—	154,746	(309,458)	—	(309,458)	—
<b>Total Governmental Activities .....</b>	<b>2,510,225</b>	<b>103,593</b>	<b>310,620</b>	<b>154,746</b>	<b>(1,941,266)</b>	<b>—</b>	<b>(1,941,266)</b>	<b>—</b>
<b>Business-Type Activities</b>								
Water .....	286,198	262,472	2,295	—	—	(21,431)	(21,431)	—
Sanitary sewer.....	204,697	177,669	966	—	—	(26,062)	(26,062)	—
Storm sewer .....	18,770	13,132	46	—	—	(5,592)	(5,592)	—
<b>Total Business-Type Activities.....</b>	<b>509,665</b>	<b>453,273</b>	<b>3,307</b>	<b>—</b>	<b>—</b>	<b>(53,085)</b>	<b>(53,085)</b>	<b>—</b>
<b>Total Primary Government .....</b>	<b>\$ 3,019,890</b>	<b>\$ 556,866</b>	<b>\$ 313,927</b>	<b>\$ 154,746</b>	<b>(1,941,266)</b>	<b>(53,085)</b>	<b>(1,994,351)</b>	<b>—</b>
<b>Component Unit - Memorial Hospital .....</b>	<b>\$ 12,530,947</b>	<b>\$ 6,829,179</b>	<b>\$ 186,142</b>	<b>\$ 25,973</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(5,489,653)</b>
<b>General Receipts</b>								
Property Tax Levied for								
General purposes.....					444,024	—	444,024	—
Memorial Hospital .....					38,316	—	38,316	—
Employee benefits.....					98,301	—	98,301	—
Debt service .....					99,771	—	99,771	—
Tax increment financing.....					151,178	—	151,178	—
Local option sales tax .....					285,873	—	285,873	—
Miscellaneous.....					12,589	—	12,589	—
Intergovernmental not restricted to specific purpose.....					15,275	—	15,275	—
Unrestricted interest on investments .....					4,603	—	4,603	—
Debt proceeds .....					1,590,645	—	1,590,645	6,000,000
Sale of assets.....					5,880	—	5,880	—
<b>Total General Receipts and Transfers.....</b>					<b>2,746,455</b>	<b>—</b>	<b>2,746,455</b>	<b>6,000,000</b>
<b>Change in Cash Basis Net Assets .....</b>					<b>805,189</b>	<b>(53,085)</b>	<b>752,104</b>	<b>510,347</b>
Cash Basis Net Assets - Beginning of Year .....					776,153	370,701	1,146,854	2,660,163
<b>Cash Basis Net Assets - End of Year .....</b>					<b>\$ 1,581,342</b>	<b>\$ 317,616</b>	<b>\$ 1,898,958</b>	<b>\$ 3,170,510</b>
<b>Cash Basis Net Assets</b>								
Restricted								
Debt service .....					\$ 72,377	\$ —	\$ 72,377	\$ 566,223
Customer deposits .....					—	42,626	42,626	—
Donor designations or legal provisions .....					1,298,966	—	1,298,966	—
Unrestricted .....					209,999	274,990	484,989	2,604,287
<b>Total Cash Basis Net Assets .....</b>					<b>\$ 1,581,342</b>	<b>\$ 317,616</b>	<b>\$ 1,898,958</b>	<b>\$ 3,170,510</b>

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, 2005

	General	Special Revenue		Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Tax				
<b>Receipts</b>							
Property taxes .....	\$ 482,340	\$ —	\$ —	\$ —	\$ 99,771	\$ 98,301	\$ 680,412
T.I.F. collections .....	—	—	—	—	—	151,178	151,178
Other city tax .....	—	—	285,873	—	—	—	285,873
Licenses and permits.....	5,438	—	—	—	—	—	5,438
Use of money and property .....	2,682	—	1,120	799	596	1,519	6,716
Intergovernmental.....	59,845	210,775	—	145,785	—	—	416,405
Charges for services.....	101,743	—	—	—	—	1,850	103,593
Miscellaneous.....	57,352	2,662	—	169	1	9,090	69,274
<b>Total Receipts.....</b>	<b>709,400</b>	<b>213,437</b>	<b>286,993</b>	<b>146,753</b>	<b>100,368</b>	<b>261,938</b>	<b>1,718,889</b>
<b>Disbursements</b>							
Public safety .....	264,493	—	—	—	—	—	264,493
Public works .....	45,768	208,604	5,567	—	—	—	259,939
Health and social services.....	12,999	—	—	—	—	—	12,999
Culture and recreation.....	257,793	—	—	—	—	15,663	273,456
General government.....	168,052	—	—	—	1,000	—	169,052
Debt service.....	22,570	—	—	—	1,043,512	—	1,066,082
Capital projects.....	—	—	—	464,204	—	—	464,204
<b>Total Disbursements.....</b>	<b>771,675</b>	<b>208,604</b>	<b>5,567</b>	<b>464,204</b>	<b>1,044,512</b>	<b>15,663</b>	<b>2,510,225</b>
<b>Receipts Over (Under) Disbursements.....</b>	<b>(62,275)</b>	<b>4,833</b>	<b>281,426</b>	<b>(317,451)</b>	<b>(944,144)</b>	<b>246,275</b>	<b>(791,336)</b>
<b>Other Financing Sources (Uses)</b>							
Debt proceeds .....	—	—	—	981,966	608,679	—	1,590,645
Sale of capital assets.....	5,880	—	—	—	—	—	5,880
Transfers in.....	96,224	—	—	18,550	337,676	—	452,450
Transfers out .....	—	(15,000)	(204,226)	—	—	(233,224)	(452,450)
<b>Total Other Financing Sources (Uses).....</b>	<b>102,104</b>	<b>(15,000)</b>	<b>(204,226)</b>	<b>1,000,516</b>	<b>946,355</b>	<b>(233,224)</b>	<b>1,596,525</b>
<b>Increase (Decrease) in Cash Balances.....</b>	<b>39,829</b>	<b>(10,167)</b>	<b>77,200</b>	<b>683,065</b>	<b>2,211</b>	<b>13,051</b>	<b>805,189</b>
Cash Balances - Beginning of Year.....	186,540	98,159	91,880	257,053	70,166	72,355	776,153
<b>Cash Balances - End of Year.....</b>	<b>\$ 226,369</b>	<b>\$ 87,992</b>	<b>\$ 169,080</b>	<b>\$ 940,118</b>	<b>\$ 72,377</b>	<b>\$ 85,406</b>	<b>\$ 1,581,342</b>
<b>Cash Basis Fund Balances</b>							
Reserved							
Donor or legal provisions .....	\$ 16,370	\$ 87,992	\$ 169,080	\$ 940,118	\$ —	\$ —	\$ 1,213,560
Debt service .....	—	—	—	—	72,377	—	72,377
Unreserved							
General Fund .....	209,999	—	—	—	—	—	209,999
Special Revenue Funds.....	—	—	—	—	—	17,908	17,908
Capital Project Funds.....	—	—	—	—	—	17,074	17,074
Permanent - Cemetery Trust Fund .....	—	—	—	—	—	50,424	50,424
<b>Total Cash Basis Fund Balances.....</b>	<b>\$ 226,369</b>	<b>\$ 87,992</b>	<b>\$ 169,080</b>	<b>\$ 940,118</b>	<b>\$ 72,377</b>	<b>\$ 85,406</b>	<b>\$ 1,581,342</b>

See accompanying notes to the financial statements.

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

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As of and for the Year Ended June 30, 2005

	Water	Sanitary Sewer	Nonmajor - Storm Sewer	Total
<b>Operating Receipts</b>				
Charges for service .....	\$ 257,144	\$ 174,248	\$ 13,132	\$ 444,524
Miscellaneous.....	<u>5,328</u>	<u>3,421</u>	<u>—</u>	<u>8,749</u>
<b>Total Operating Receipts.....</b>	<b><u>262,472</u></b>	<b><u>177,669</u></b>	<b><u>13,132</u></b>	<b><u>453,273</u></b>
<b>Operating Disbursements</b>				
Business-type activities .....	<u>233,420</u>	<u>176,612</u>	<u>18,770</u>	<u>428,802</u>
<b>Operating Receipts Over (Under)</b>				
<b>Operating Disbursements .....</b>	<b><u>29,052</u></b>	<b><u>1,057</u></b>	<b><u>(5,638)</u></b>	<b><u>24,471</u></b>
<b>Nonoperating Receipts (Disbursements)</b>				
Interest on investments .....	2,295	966	46	3,307
Debt service.....	<u>(52,778)</u>	<u>(28,085)</u>	<u>—</u>	<u>(80,863)</u>
<b>Total Nonoperating Receipts (Disbursements).....</b>	<b><u>(50,483)</u></b>	<b><u>(27,119)</u></b>	<b><u>46</u></b>	<b><u>(77,556)</u></b>
<b>Decrease in Cash Balances .....</b>	<b><u>(21,431)</u></b>	<b><u>(26,062)</u></b>	<b><u>(5,592)</u></b>	<b><u>(53,085)</u></b>
Cash Balances - Beginning of Year.....	<u>257,036</u>	<u>102,743</u>	<u>10,922</u>	<u>370,701</u>
<b>Cash Balances - End of Year .....</b>	<b><u>\$ 235,605</u></b>	<b><u>\$ 76,681</u></b>	<b><u>\$ 5,330</u></b>	<b><u>\$ 317,616</u></b>
<b>Cash Basis Fund Balances</b>				
Reserved				
Customer deposits .....	\$ 42,626	\$ —	\$ —	\$ 42,626
Unreserved .....	<u>192,979</u>	<u>76,681</u>	<u>5,330</u>	<u>274,990</u>
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 235,605</u></b>	<b><u>\$ 76,681</u></b>	<b><u>\$ 5,330</u></b>	<b><u>\$ 317,616</u></b>

See accompanying notes to the financial statements.

## Notes to the Financial Statements

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### **(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) and its discretely presented component unit, the Marengo Memorial Hospital (Hospital).

#### **Discrete 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. For the year ended June 30, 2004, it was 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 2004 tax return includes total receipts of \$348,231; cash disbursements, excluding fund-raising costs of \$8,737, professional fund-raising disbursements of \$2,626, a beginning balance of \$149,640; other increases of \$8,893; and an ending balance of \$495,401. The City Library Building and Renovation Capital Projects Fund has transferred \$100,000 to Friends which is included in calendar 2004 Friends transactions.

#### **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.

## (1) Summary of Significant Accounting Policies

### 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 major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The remaining enterprise fund is reported as a nonmajor enterprise fund.

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.

#### ***Special Revenue***

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

The *Local Option Tax Fund* is used to account for the receipts of a 1% local sales tax for water, streets, sewer and storm sewer.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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 *Debt Service Fund* is used to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major enterprise funds.

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

The *Sanitary Sewer Fund* accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

### 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.

Enterprise 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 an enterprise 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

To the extent of its depository resolution, the City's deposits at June 30, 2005 were 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. Deposits in excess of the depository resolution are uncollateralized.

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.

Following is a summary of cash deposited with Grinnell State Bank at June 30, 2005:

Total deposits according to bank records.....	\$ 1,964,457
Covered by the State Sinking Fund (approved depository resolution) .....	<u>1,500,000</u>
<b>Uncollateralized</b> .....	<b><u>\$ 464,457</u></b>

## 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 Bonds		General Obligation Notes		Sanitary Sewer Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006 .....	\$ 30,000	\$ 19,027	\$ 412,687	\$ 46,899	\$ 20,000	\$ 7,069	\$ 462,687	\$ 72,995
2007 .....	80,000	18,262	101,987	33,346	21,000	6,122	202,987	57,730
2008 .....	80,000	16,062	90,000	29,978	22,000	5,128	192,000	51,168
2009 .....	80,000	13,702	95,000	27,053	23,000	4,089	198,000	44,844
2010 .....	80,000	11,182	95,000	23,870	24,000	3,003	199,000	38,055
2011-15	230,000	17,054	545,000	64,531	53,000	2,472	828,000	84,057
	<b><u>\$ 580,000</u></b>	<b><u>\$ 95,289</u></b>	<b><u>\$ 1,339,674</u></b>	<b><u>\$ 225,677</u></b>	<b><u>\$ 163,000</u></b>	<b><u>\$ 27,883</u></b>	<b><u>\$ 2,082,674</u></b>	<b><u>\$ 348,849</u></b>

Debt service payments for a general obligation equipment lease purchase note of \$5,328 and a fire truck purchase note of \$12,986 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.

On December 28, 2004, the City closed on \$620,000 general obligation refunding bonds dated December 15, 2004 and received proceeds of \$608,679 on January 5, 2005. \$602,963 of the proceeds were used to refund \$300,000 general obligation notes dated April 1, 1998 and \$300,000 general obligation notes dated October 1, 1998. The transactions resulted in reductions of future debt service payments of \$22,426.

On June 16, 2005, the City closed on \$1,000,000 general obligation corporate purpose notes dated June 1, 2005 and received proceeds of \$981,966. The proceeds were deposited into the capital projects fund to pay costs of street improvements.

The resolution providing for the issuance of the sanitary sewer revenue bond includes the following provisions:

1. The bond is to be redeemed from future earnings of the utility and the bondholders hold a lien on the future earnings of the utility.
2. Sufficient rates will be established and maintained which will cause net revenue of the sanitary sewer utility to be at least 110% of the utility's debt service for the year.
3. 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.

The City was not in compliance with the covenants in items 2 and 3 above.

The Marengo Memorial Hospital has issued hospital revenue notes, Series 2004, in the original amount of \$6,000,000. The notes are payable solely from future revenue of the Hospital and are due serially each June 1 through 2024 at interest rates ranging from 2.5% to 6.2%.

## Notes to the Financial Statements

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### (3) Long-Term Debt

The notes contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Maturities required on Hospital notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2006.....	\$ 205,000	\$ 297,280	\$ 502,280
2007.....	215,000	291,233	506,233
2008.....	220,000	284,245	504,245
2009.....	225,000	276,435	501,435
2010.....	235,000	267,885	502,885
2011-2015 .....	1,345,000	1,179,465	2,524,465
2016-2020 .....	1,715,000	814,500	2,529,500
2021-2024 .....	<u>1,740,000</u>	<u>272,415</u>	<u>2,012,415</u>
<b>Total</b> .....	<b><u>\$ 5,900,000</u></b>	<b><u>\$ 3,683,458</u></b>	<b><u>\$ 9,583,458</u></b>

### (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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.9%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$30,301, \$28,303 and \$27,925, 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

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### (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Road Use Tax	\$ 15,000
	Employee Benefits	81,224
Debt Service	Special Revenue	
	Local Option Sales Tax	185,676
	Nonmajor Governmental	152,000
Capital Projects	Special Revenue	
Capital Projects	Local Option Sales Tax	<u>18,550</u>
<b>Total</b>		<b><u>\$ 452,450</u></b>

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

### (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, 2005, the City Council awarded a contract for Clinton Avenue improvements in the amount of \$890,462. Through June 30, 2005, \$88,263 has been paid on this contract. Construction costs are being financed with the Local Option Sales Tax and general obligation bond proceeds.

### (9) Reporting Change

For the year ended June 30, 2004, the Marengo Memorial Hospital was included as part of the City's primary government, as a blended enterprise fund. For the year ended June 30, 2005, management determined that a discrete presentation is more appropriate.

**Required Supplementary Information**

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## 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, 2005

	Governmental Funds - Actual	Enterprise Funds - Actual	Less Funds Not Required to be Budgeted	Net	Budget		Net Over (Under) Final Budget
					Original	Final	
<b>Receipts</b>							
Property tax .....	\$ 680,412	\$ —	\$ —	\$ 680,412	\$ 647,963	\$ 647,963	\$ 32,449
T.I.F. collections .....	151,178	—	—	151,178	150,000	150,000	1,178
Other city tax .....	285,873	—	—	285,873	286,034	286,034	(161)
Licenses and permits .....	5,438	—	—	5,438	2,400	2,400	3,038
Use of money and property .....	6,716	3,307	—	10,023	2,900	2,900	7,123
Intergovernmental .....	416,405	—	—	416,405	340,950	343,950	72,455
Charges for service .....	103,593	444,524	—	548,117	580,600	580,600	(32,483)
Miscellaneous .....	69,274	8,749	—	78,023	5,600	81,900	(3,877)
<b>Total Receipts .....</b>	<b>1,718,889</b>	<b>456,580</b>	<b>—</b>	<b>2,175,469</b>	<b>2,016,447</b>	<b>2,095,747</b>	<b>79,722</b>
<b>Disbursements</b>							
Public safety .....	264,493	—	—	264,493	294,350	297,350	(32,857)
Public works .....	259,939	—	—	259,939	191,400	269,400	(9,461)
Health and social services .....	12,999	—	—	12,999	36,100	105,100	(92,101)
Culture and recreation .....	273,456	—	—	273,456	274,853	274,853	(1,397)
General government .....	169,052	—	—	169,052	186,800	200,800	(31,748)
Debt service .....	1,066,082	—	600,000	466,082	250,500	859,500	(393,418)
Capital projects .....	464,204	—	—	464,204	994,500	994,500	(530,296)
Business-type activities .....	—	509,665	—	509,665	532,350	532,350	(22,685)
<b>Total Disbursements .....</b>	<b>2,510,225</b>	<b>509,665</b>	<b>600,000</b>	<b>2,419,890</b>	<b>2,760,853</b>	<b>3,533,853</b>	<b>(1,113,963)</b>
<b>Receipts Over (Under) Disbursements .....</b>	<b>(791,336)</b>	<b>(53,085)</b>	<b>(600,000)</b>	<b>(244,421)</b>	<b>(744,406)</b>	<b>(1,438,106)</b>	<b>1,193,685</b>
<b>Other Financing Sources (Uses)</b>							
Bond proceeds .....	1,590,645	—	600,000	990,645	600,000	1,209,000	(218,355)
Sale of equipment .....	5,880	—	—	5,880	—	—	5,880
Transfers in .....	452,450	—	—	452,450	504,000	504,000	(51,550)
Transfers out .....	(452,450)	—	—	(452,450)	(504,000)	(504,000)	51,550
<b>Other Financing Sources, Net .....</b>	<b>1,596,525</b>	<b>—</b>	<b>600,000</b>	<b>996,525</b>	<b>600,000</b>	<b>1,209,000</b>	<b>(212,475)</b>
<b>Receipts and Other Financing Sources Over (Under) Disbursements .....</b>							
<b>Balances - Beginning of Year .....</b>	<b>776,153</b>	<b>370,701</b>	<b>—</b>	<b>1,146,854</b>	<b>735,018</b>	<b>1,013,918</b>	<b>132,936</b>
<b>Balances - End of Year .....</b>	<b>\$ 1,581,342</b>	<b>\$ 317,616</b>	<b>\$ —</b>	<b>\$ 1,898,958</b>	<b>\$ 590,612</b>	<b>\$ 784,812</b>	<b>\$ 1,114,146</b>

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 \$773,000. 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, 2005

	General	Recreation Com- mission	Capital Reserve	Memorial Building	Total
<b>Receipts</b>					
Property taxes .....	\$ 444,024	\$ —	\$ —	\$ 38,316	\$ 482,340
Licenses and permits.....	5,438	—	—	—	5,438
Use of money and property .....	2,052	—	525	105	2,682
Intergovernmental.....	59,845	—	—	—	59,845
Charges for services.....	101,743	—	—	—	101,743
Miscellaneous.....	<u>57,352</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>57,352</u>
<b>Total Receipts .....</b>	<b><u>670,454</u></b>	<b><u>—</u></b>	<b><u>525</u></b>	<b><u>38,421</u></b>	<b><u>709,400</u></b>
<b>Disbursements</b>					
Public safety .....	264,493	—	—	—	264,493
Public works .....	45,768	—	—	—	45,768
Health and social services.....	12,999	—	—	—	12,999
Culture and recreation.....	257,191	602	—	—	257,793
General government.....	168,052	—	—	—	168,052
Debt service.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,570</u>	<u>22,570</u>
<b>Total Disbursements .....</b>	<b><u>748,503</u></b>	<b><u>602</u></b>	<b><u>—</u></b>	<b><u>22,570</u></b>	<b><u>771,675</u></b>
<b>Receipts Over (Under) Disbursements .....</b>	<b><u>(78,049)</u></b>	<b><u>(602)</u></b>	<b><u>525</u></b>	<b><u>15,851</u></b>	<b><u>(62,275)</u></b>
<b>Other Financing Sources (Uses)</b>					
Sale of capital assets.....	5,880	—	—	—	5,880
Transfers in.....	88,624	—	7,600	—	96,224
Transfers out .....	<u>(59,400)</u>	<u>—</u>	<u>59,400</u>	<u>—</u>	<u>—</u>
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>35,104</u></b>	<b><u>—</u></b>	<b><u>67,000</u></b>	<b><u>—</u></b>	<b><u>102,104</u></b>
<b>Increase (Decrease) in</b>					
<b>Cash Balances .....</b>	<b>(42,945)</b>	<b>(602)</b>	<b>67,525</b>	<b>15,851</b>	<b>39,829</b>
Cash Balances - Beginning of Year .....	<u>141,351</u>	<u>5,172</u>	<u>39,498</u>	<u>519</u>	<u>186,540</u>
<b>Cash Balances - End of Year</b>	<b><u>\$ 98,406</u></b>	<b><u>\$ 4,570</u></b>	<b><u>\$ 107,023</u></b>	<b><u>\$ 16,370</u></b>	<b><u>\$ 226,369</u></b>
<b>Cash Basis Fund Balances</b>					
Reserved for donor or legal provisions.....	\$ —	\$ —	\$ —	\$ 16,370	\$ 16,370
Unreserved.....	<u>98,406</u>	<u>4,570</u>	<u>107,023</u>	<u>—</u>	<u>209,999</u>
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 98,406</u></b>	<b><u>\$ 4,570</u></b>	<b><u>\$ 107,023</u></b>	<b><u>\$ 16,370</u></b>	<b><u>\$ 226,369</u></b>

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

As of and for the Year Ended June 30, 2005

	Special Revenue			Capital Projects			Permanent Cemetery Trust	Total
	Trust and Agency	Employee Benefits	Tax Increment Financing	Library Building	Library Renovation	Pool Renovation		
<b>Receipts</b>								
Property taxes .....	\$ —	\$ 98,301	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 98,301
T.I.F. collections .....	—	—	151,178	—	—	—	—	151,178
Use of money and property .....	—	505	822	174	2	16	—	1,519
Charges for services.....	—	—	—	—	—	—	1,850	1,850
Miscellaneous.....	—	—	—	6,829	310	1,951	—	9,090
<b>Total Receipts.....</b>	<b>—</b>	<b>98,806</b>	<b>152,000</b>	<b>7,003</b>	<b>312</b>	<b>1,967</b>	<b>1,850</b>	<b>261,938</b>
<b>Disbursements</b>								
Culture and recreation.....	—	—	—	15,593	—	70	—	15,663
<b>Receipts Over (Under) Disbursements.....</b>	<b>—</b>	<b>98,806</b>	<b>152,000</b>	<b>(8,590)</b>	<b>312</b>	<b>1,897</b>	<b>1,850</b>	<b>246,275</b>
<b>Other Financing Uses</b>								
Transfers out .....	—	(81,224)	(152,000)	—	—	—	—	(233,224)
<b>Increase (Decrease) in Cash Balances.....</b>	<b>—</b>	<b>17,582</b>	<b>—</b>	<b>(8,590)</b>	<b>312</b>	<b>1,897</b>	<b>1,850</b>	<b>13,051</b>
Cash Balances - Beginning of Year.....	168	158	—	23,455	—	—	48,574	72,355
<b>Cash Balances - End of Year .....</b>	<b>\$ 168</b>	<b>\$ 17,740</b>	<b>\$ —</b>	<b>\$ 14,865</b>	<b>\$ 312</b>	<b>\$ 1,897</b>	<b>\$ 50,424</b>	<b>\$ 85,406</b>
<b>Cash Basis Fund Balances</b>								
Unreserved								
Special Revenue Funds.....	\$ 168	\$ 17,740	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 17,908
Capital Projects Funds.....	—	—	—	14,865	312	1,897	—	17,074
Permanent Fund .....	—	—	—	—	—	—	50,424	50,424
<b>Total Cash Basis Fund Balances .....</b>	<b>\$ 168</b>	<b>\$ 17,740</b>	<b>\$ —</b>	<b>\$ 14,865</b>	<b>\$ 312</b>	<b>\$ 1,897</b>	<b>\$ 50,424</b>	<b>\$ 85,406</b>

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

As of and for the Year Ended June 30, 2005

	Water	Water Sinking	Water Reserve	Water Deposits	Water Revolving	Total
<b>Operating Receipts</b>						
Charges for service .....	\$ 257,144	\$ —	\$ —	\$ —	\$ —	\$ 257,144
Miscellaneous.....	<u>2,795</u>	<u>—</u>	<u>—</u>	<u>2,533</u>	<u>—</u>	<u>5,328</u>
<b>Total Operating Receipts .....</b>	<b>259,939</b>	<b>—</b>	<b>—</b>	<b>2,533</b>	<b>—</b>	<b>262,472</b>
<b>Operating Disbursements</b>						
Business-type activities	<u>231,923</u>	<u>—</u>	<u>—</u>	<u>1,497</u>	<u>—</u>	<u>233,420</u>
<b>Operating Receipts Over Operating Disbursements .....</b>						
	<u>28,016</u>	<u>—</u>	<u>—</u>	<u>1,036</u>	<u>—</u>	<u>29,052</u>
<b>Nonoperating Receipts (Disbursements)</b>						
Interest on investments	1,131	55	—	322	787	2,295
Debt service.....	<u>—</u>	<u>(52,778)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(52,778)</u>
<b>Total Nonoperating Receipts (Disbursements)</b>	<u>1,131</u>	<u>(52,723)</u>	<u>—</u>	<u>322</u>	<u>787</u>	<u>(50,483)</u>
<b>Receipts Over (Under) Disbursements .....</b>	<b>29,147</b>	<b>(52,723)</b>	<b>—</b>	<b>1,358</b>	<b>787</b>	<b>(21,431)</b>
<b>Other Financing Sources (Uses)</b>						
Intrafund transfers (net)	<u>(47,447)</u>	<u>27,447</u>	<u>—</u>	<u>—</u>	<u>20,000</u>	<u>—</u>
<b>Increase (Decrease) in Cash Balances ....</b>	<b>(18,300)</b>	<b>(25,276)</b>	<b>—</b>	<b>1,358</b>	<b>20,787</b>	<b>(21,431)</b>
Cash Balances - Beginning 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>
<b>Cash Balances - End of Year .....</b>	<b><u>\$ 66,798</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 32,500</u></b>	<b><u>\$ 42,626</u></b>	<b><u>\$ 93,681</u></b>	<b><u>\$ 235,605</u></b>
<b>Cash Basis Fund Balances</b>						
Reserved - customer deposits.....	\$ —	\$ —	\$ —	\$ 42,626	\$ —	\$ 42,626
Unreserved.....	<u>66,798</u>	<u>—</u>	<u>32,500</u>	<u>—</u>	<u>93,681</u>	<u>192,979</u>
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 66,798</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 32,500</u></b>	<b><u>\$ 42,626</u></b>	<b><u>\$ 93,681</u></b>	<b><u>\$ 235,605</u></b>

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

As of and for the Year Ended June 30, 2005

	Sewer Rental	Sewer Sinking	Sewer Reserve	Sewer Replace- ment	Sewer Revolving	Total
<b>Operating Receipts</b>						
Charges for service .....	\$ 174,248	\$ —	\$ —	\$ —	\$ —	\$ 174,248
Miscellaneous.....	<u>3,421</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,421</u>
<b>Total Operating Receipts .....</b>	<b>177,669</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>177,669</b>
<b>Operating Disbursements</b>						
Business-type activities	<u>176,612</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>176,612</u>
<b>Operating Receipts Over Operating Disbursements .....</b>	<b><u>1,057</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>1,057</u></b>
<b>Nonoperating Receipts (Disbursements)</b>						
Interest on investments	690	55	—	78	143	966
Debt service.....	<u>—</u>	<u>(28,085)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(28,085)</u>
<b>Total Nonoperating Receipts (Disbursements)</b>	<b><u>690</u></b>	<b><u>(28,030)</u></b>	<b><u>—</u></b>	<b><u>78</u></b>	<b><u>143</u></b>	<b><u>(27,119)</u></b>
<b>Receipts Over (Under) Disbursements .....</b>	<b>1,747</b>	<b>(28,030)</b>	<b>—</b>	<b>78</b>	<b>143</b>	<b>(26,062)</b>
<b>Other Financing Sources (Uses)</b>						
Intrafund transfers (net)	<u>(37,700)</u>	<u>35,200</u>	<u>—</u>	<u>—</u>	<u>2,500</u>	<u>—</u>
<b>Increase (Decrease) in Cash Balances .....</b>	<b>(35,953)</b>	<b>7,170</b>	<b>—</b>	<b>78</b>	<b>2,643</b>	<b>(26,062)</b>
Cash Balances - Beginning of Year .....	<u>50,109</u>	<u>642</u>	<u>28,500</u>	<u>9,188</u>	<u>14,304</u>	<u>102,743</u>
<b>Cash Balances - End of Year .....</b>	<b><u>\$ 14,156</u></b>	<b><u>\$ 7,812</u></b>	<b><u>\$ 28,500</u></b>	<b><u>\$ 9,266</u></b>	<b><u>\$ 16,947</u></b>	<b><u>\$ 76,681</u></b>

## Schedule of Indebtedness

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Year Ended June 30, 2005

Obligation	Amount Originally Issued	Date of Issue	Interest Rate
<b>General Obligation Bonds</b>			
Essential corporate purpose.....	\$ 425,000	9-1-89	6.40%
Refunding .....	620,000	12-15-04	2.20 - 3.85
<b>General Obligation Notes</b>			
Corporate purpose.....	\$ 390,000	3-30-94	5.45 - 5.55%
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
Corporate purpose.....	1,000,000	6-1-05	2.85 - 4.00
<b>Total General Obligation</b>			
<b>Sewer Revenue Bonds.....</b>	\$ 360,000	10-15-91	4.62%
<b>Water Revenue Refunding Note.....</b>	\$ 325,000	2-1-97	6.40%

See accompanying notes to the financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 40,000	\$ —	\$ 40,000	\$ —	\$ 2,560
—	620,000	40,000	580,000	9,180
135,000	—	45,000	90,000	7,448
80,000	—	40,000	40,000	4,540
30,000	—	10,000	20,000	1,620
11,574	—	4,608	6,966	720
333,333	—	333,333	—	10,138
300,000	—	300,000	—	9,278
12,487	—	12,487	—	499
360,000	—	177,292	182,708	8,384
—	1,000,000	—	1,000,000	—
<b><u>\$ 1,302,394</u></b>	<b><u>\$ 1,620,000</u></b>	<b><u>\$ 1,002,720</u></b>	<b><u>\$ 1,919,674</u></b>	<b><u>\$ 54,367</u></b>
<b><u>\$ 183,000</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 20,000</u></b>	<b><u>\$ 163,000</u></b>	<b><u>\$ 7,993</u></b>
<b><u>\$ 50,000</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 50,000</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 2,550</u></b>

# Schedule of Bond and Note Maturities

At June 30, 2005

General Obligation Bonds and Notes															
	<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>Equipment</u> <u>Lease/Purchase</u> <u>Issued 9-24-01</u>		<u>Street Improvement</u> <u>Issued 6-30-04</u>		<u>Refunding</u> <u>Issued 12-15-04</u>		<u>Corporate Purpose</u> <u>Issued 6-1-05</u>		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2006.....	5.55%	\$ 90,000	5.75%	\$ 40,000	5.40%	\$ 10,000	7.79%	\$ 4,979	3.00%	\$ 182,708	2.55%	\$ 30,000	2.85%	\$ 85,000	\$ 442,687
2007.....		—		—	5.50	10,000	7.79	1,987		—	2.75	80,000	3.10	90,000	181,987
2008.....		—		—		—		—		—	2.95	80,000	3.25	90,000	170,000
2009.....		—		—		—		—		—	3.15	80,000	3.35	95,000	175,000
2010.....		—		—		—		—		—	3.35	80,000	3.45	95,000	175,000
2011.....		—		—		—		—		—	3.55	80,000	3.55	100,000	180,000
2012.....		—		—		—		—		—	3.70	75,000	3.65	105,000	180,000
2013.....		—		—		—		—		—	3.85	75,000	3.75	110,000	185,000
2014.....		—		—		—		—		—		—	3.90	115,000	115,000
2015.....		—		—		—		—		—		—	4.00	115,000	115,000
<b>Total.....</b>		<b>\$ 90,000</b>		<b>\$ 40,000</b>		<b>\$ 20,000</b>		<b>\$ 6,966</b>		<b>\$ 182,708</b>		<b>\$ 580,000</b>		<b>\$ 1,000,000</b>	<b>\$ 1,919,674</b>

<u>Revenue Bonds</u> <u>Sewer Revenue</u> <u>Issued 10-15-91</u>		
	Interest Rates	Amount
2006.....	4.62%	\$ 20,000
2007.....	4.62	21,000
2008.....	4.62	22,000
2009.....	4.62	23,000
2010.....	4.62	24,000
2011.....	4.62	26,000
2012.....	4.62	27,000
<b>Total.....</b>		<b>\$ 163,000</b>

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

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Years Ended June 30, 2002 Through 2005

	2005	2004	2003	2002
<b>Receipts</b>				
Property tax .....	\$ 680,412	\$ 654,306	\$ 694,875	\$ 826,798
T.I.F. collections .....	151,178	151,391	136,182	83,909
Other city tax .....	285,873	280,640	250,576	245,348
Licenses and permits.....	5,438	4,653	2,638	1,896
Use of money and property .....	6,716	3,324	9,258	12,370
Intergovernmental.....	416,405	290,791	307,001	310,889
Charges for service .....	103,593	115,627	73,988	67,735
Miscellaneous.....	<u>69,274</u>	<u>142,823</u>	<u>87,211</u>	<u>115,019</u>
<b>Total Receipts .....</b>	<b><u>\$ 1,718,889</u></b>	<b><u>\$ 1,643,555</u></b>	<b><u>\$ 1,561,729</u></b>	<b><u>\$ 1,663,964</u></b>
<b>Disbursements</b>				
Operating				
Public safety.....	\$ 264,493	\$ 371,423	\$ 328,645	N/A
Public works.....	259,939	281,820	185,404	N/A
Health and social services .....	12,999	13,164	34,593	N/A
Culture and recreation .....	273,456	317,922	278,585	N/A
General government .....	169,052	192,031	153,830	N/A
Debt service.....	1,066,082	277,319	285,387	N/A
Capital projects.....	464,204	404,460	170,086	N/A
Community Protection Program .....	N/A	N/A	N/A	\$ 322,815
Human Development Program .....	N/A	N/A	N/A	373,184
Home and Community Environment Program .....	N/A	N/A	N/A	734,999
Policy and Administration Program ....	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>186,578</u>
<b>Total Disbursements .....</b>	<b><u>\$ 2,510,225</u></b>	<b><u>\$ 1,858,139</u></b>	<b><u>\$ 1,436,530</u></b>	<b><u>\$ 1,617,576</u></b>

## Schedule of Sanitary Sewer System Rates

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Year Ended June 30, 2005

Approximately 1,100 customers at June 30, 2005.

### Rates for

Basic monthly charge for residences or businesses within the corporate limits of the City	\$5.10
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Each additional 1,000 gallons water used	\$1.60
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### Surcharges/Additional Charges

Wastewater with strength greater than normal domestic sewage	\$0.12/lb of BOD
--	------------------

User discharging toxic pollutants which cause increased treatment costs	Each subject to Council determination
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Special conditions	Each subject to Council determination
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### Users with Private Water Systems

#### Residential

One person	\$ 6.00
Two persons	8.40
Three persons	10.80
Four persons	13.20
Five persons	15.60
Six persons	18.00

#### Businesses

One person, nonpublic	10.50
Businesses with less than 5 employees	15.50
Businesses with 5 to 15 employees	25.00
Businesses with more than 15 employees	50.50
Water intensive businesses	50.50

Monthly sewer maintenance and improvement fee	1.50
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## Schedule of Insurance

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Year Ended June 30, 2005

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket (including certified acts of terrorism)	4/1/05 - 4/1/06	\$2,308,707
Liability		
General aggregate	4/1/05 - 4/1/06	2,000,000
Personal/advertising injury	4/1/05 - 4/1/06	1,000,000
Each occurrence	4/1/05 - 4/1/06	1,000,000
Damage to premises	4/1/05 - 4/1/06	100,000
Medical expense	4/1/05 - 4/1/06	5,000
Crime		
Public employee dishonesty	6/1/05 - 6/1/06	\$75,000 per employee
Inland Marine		
Contractors equipment	4/1/05 - 4/1/06	338,164
Scheduled property floater	4/1/05 - 4/1/06	Various
Valuable papers and records	4/1/05 - 4/1/06	5,000
Automobile		
Liability	4/1/05 - 4/1/06	1,000,000
Uninsured	4/1/05 - 4/1/06	50,000
Underinsured	4/1/05 - 4/1/06	50,000
Physical damage	4/1/05 - 4/1/06	Loss less deductible
Comprehensive	4/1/05 - 4/1/06	Loss less deductible
Collision	4/1/05 - 4/1/06	Loss less deductible
Medical	4/1/05 - 4/1/06	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/05 - 4/1/06	500,000
Bodily injury by disease/employee	4/1/05 - 4/1/06	500,000
Bodily injury by disease/limit	4/1/05 - 4/1/06	500,000
Umbrella		
Retained	4/1/05 - 4/1/06	10,000
Occurrence	4/1/05 - 4/1/06	2,000,000
Aggregate	4/1/05 - 4/1/06	2,000,000
Linebacker		
Each loss	4/1/05 - 4/1/06	1,000,000
Aggregate for each policy term	4/1/05 - 4/1/06	1,000,000
Insured's deductible per loss	4/1/05 - 4/1/06	2,000

# **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marengo, Iowa, as of and for the year ended June 30, 2005, which, along with the discretely presented component unit, collectively comprise the City of Marengo, Iowa's basic financial statements, and have issued our report thereon dated September 19, 2005. Our report expressed a qualified opinion on the discrete component unit due to the omission of a discrete component unit and an unqualified opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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. Reportable conditions are described in Part I of the attached Schedule of Findings and Questioned Costs.

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 reportable condition 05-IC-1 is a material weakness.

**Compliance and Other Matters**

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and the use of the officials, employees and citizens of the City of Marengo, Iowa, and other parties to whom the City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Waterloo, Iowa  
September 19, 2005

## Schedule of Findings and Questioned Costs ---

### Findings Related to the Financial Statements

#### 05-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 reiterate our prior year recommendation.

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

**Auditor's Conclusion** - Response accepted.

#### 05-IC-2 Protection of Cash

**Finding** - Deposits in banks are covered by the State Sinking Fund to the extent of the approved balance of the depository resolution. For several days during the year, including year end, deposits exceeded the deposit resolution. Cash in excess of the depository resolution is not collateralized.

**Auditor's Recommendation** - In order to better protect City deposits, we recommend that the City Council annually adopt a resolution sufficiently high enough to cover the expected cash balances based upon the budget and other factors. We further recommend that the stated maximums be periodically reviewed during the year and increased as needed.

**City's Response** - Stated maximums were exceeded after debt proceeds were received. Upon realizing that the stated amounts were insufficient, steps were taken to increase the stated amount. A revised depository resolution was approved by the City Council on September 12, 2005. We will periodically review anticipated cash deposits and revise the resolution as necessary.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs ---

### 05-IC-3 Utility Deposits

**Prior Year Finding and Recommendation** - 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. 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.

**Auditor's Recommendation** - We reiterate our prior year recommendation.

**City's Response** - City staff has begun the process of reconciling utility deposits. 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.

### **Part II: Compliance and Other Matters**

**05-C-1 Official Depositories** - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded several times during the year ended June 30, 2005. See 05-IC-2 for additional discussion.

**05-C-2 Certified Budget** - Disbursements during the year ended June 30, 2005 were less than the amended amounts budgeted. However, disbursements for public works exceeded the original budget prior to the amendment being approved.

**Auditor's Recommendation** - The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

**City's Response** - Disbursements will be more closely monitored and the budget will be amended before disbursements exceed amounts budgeted.

**Auditor's Conclusion** - Response accepted.

**05-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.

**05-C-4 Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

## Schedule of Findings and Questioned Costs

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**05-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.

**05-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.

**05-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) Although minutes of Council proceedings were published, minutes of meetings of February 28, 2005 and March 14, 2005 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 and (b) minutes continue to be published within 15 days of the meeting.

**City's Responses** - Minutes will be published within 15 days and will include a summary of all receipts and disbursements and a list of all claims allowed. The late minutes were published within 17 days. The City's official newspaper is printed weekly and the lead time for the ten-day printing was inadvertently missed.

**Auditor's Conclusion** - Responses accepted.

**05-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.

**05-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** - To ensure that cash is available to service debt when due, we recommend that the City increase Sanitary Sewer Fund rates to ensure that the coverage ratio is met. Circumstances beyond City control preclude report completion within due dates.

## Schedule of Findings and Questioned Costs

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**City's Responses** - Action will be 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 attempt to be completed within 90 days unless prevented by unforeseeable circumstances.

**Auditor's Conclusion** - Responses accepted.

**05-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. See item 05-IC-3 for additional discussion.

**05-C-11 City's Code of Ordinances** - Section 380.8 of the Code of Iowa states, in part,

"1.a. A City shall compile a code of ordinances containing all of the city ordinances in effect, except...

b. A city may maintain a code of ordinances either by compiling at least annually a supplement to the code of ordinances consisting of all new ordinances and amendments to ordinances which became effective during the previous year and adopting the supplement by resolution or by adding at least annually new ordinances and amendments to ordinances to the code of ordinances itself.

c. A city which does not maintain the city code of ordinances as provided in paragraph "b" shall compile a code of ordinances at least once every five years."

**Finding** - Effective July 1, 2004, sanitary sewer rates were changed by ordinance. We noted neither an annual supplement to the City's Code of Ordinances which contains the changes nor a revision of the City's Code of Ordinances within the last year. The City last codified its ordinances in 1998.

**Auditor's Recommendation** - In order to be in compliance with the Code of Iowa and ensure its own code of ordinances is up to date, we recommend that the City have a recodification made of its ordinances, including latest updates to rates in effect.

**City's Response** - The City Council has begun action to have City ordinances recodified.

**Auditor's Conclusion** - Response accepted.