

**CITY OF MARENGO, IOWA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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# Officials

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Elected Officials</b>		
<b>Before January, 2006</b>		
Joe Seye	Mayor	January, 2006
William Kreis	Council Member	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 and Mayor Pro Tem	January, 2008
<b>After December, 2005</b>		
Joe Seye	Mayor	January, 2008
William Kreis	Council Member	January, 2010
Candi Schmieder	Council Member	January, 2010
Adam Rabe	Council Member	January, 2010
Michael T. Curry	Council Member and Mayor Pro Tem	January, 2008
Terry Brecht	Council Member	January, 2008
<b>Appointed Officials</b>		
Carl Schumacher	Administrator/Clerk	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

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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, 2006 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, 2006, 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 August 15, 2006 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 20 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 years ended June 30, 2005 and 2004 (which are not presented herein) and expressed qualified opinions for the lack of inclusion of the financial information of the Friends of Marengo Public Library. The financial statements and supplemental data for the year ended June 30, 2003 (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 21 through 29 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  
August 15, 2006

## **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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities, other than debt proceeds, decreased 1.1%, or approximately \$19,000, from the fiscal 2005 year to the fiscal 2006 year. This decrease is due to a road construction grant received last year, lower local option taxes and less receipts from charges for services with offsetting increases in property taxes, T.I.F. collections and miscellaneous receipts.

Governmental activities disbursements increased 8.6%, or approximately \$216,000, in fiscal year 2006 from the fiscal year 2005. This change was primarily due to equipment purchases and larger payroll in Public Safety and Public Works functions along with increased capital projects activities with an offset in debt service due to a prior year debt refunding.

The City's total cash basis net assets decreased approximately \$237,000 from June 30, 2005 to June 30, 2006. The assets of the governmental activities decreased approximately \$243,000 while the assets of the business-type activities increased by approximately \$6,000.

### **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 accounting principles generally accepted in the United States of America. 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 three 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.
- Component unit activity, only the Marengo Memorial Hospital is presented.

### **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 Capital Projects Funds such as the Capital Projects Fund and the Library Fund; (d) the Debt Service 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.

- 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 decreased from \$1,581,342 a year ago to \$1,338,248. 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>2006</u>	<u>2005</u>
Receipts and Transfers		
Program Receipts		
Charges for services	\$ 91,580	\$ 103,593
Operating grants, contributions and restricted interest	340,858	310,620
Capital grants, contributions and restricted interest	130,042	154,746
General Receipts		
Property tax	846,845	831,590
Local option sales tax	251,704	285,873
Unrestricted miscellaneous, intergovernmental and interest	38,715	38,347
Debt proceeds	<u>783,489</u>	<u>1,590,645</u>
Total Receipts	<u>2,483,233</u>	<u>3,315,414</u>
Disbursements		
Public safety	321,519	264,493
Public works	345,537	259,939
Health and social services	79,072	12,999
Culture and recreation	258,648	273,456
General government	143,827	169,052
Debt service	547,815	1,066,082
Capital projects	<u>1,029,909</u>	<u>464,204</u>
Total Disbursements	<u>2,726,327</u>	<u>2,510,225</u>
Change in Cash Basis Net Assets	(243,094)	805,189
Cash Basis Net Assets - Beginning of Year	<u>1,581,342</u>	<u>776,153</u>
<b>Cash Basis Net Assets - End of Year</b>	<b><u>\$ 1,338,248</u></b>	<b><u>\$ 1,581,342</u></b>

The City's total receipts for governmental activities decreased by 25.1%, or \$832,181. The decrease was due to a larger prior year issuance of debt.

The total cost of all programs and services increased by \$216,102, or 8.6%. The majority of this increase was due to spending prior year debt proceeds on capital projects for which the debt was issued.

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

	<b>Years Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Receipts and Transfers		
Program Receipts		
Charges for Services		
Water	\$ 276,315	\$ 262,472
Sanitary Sewer	207,023	177,669
Storm Sewer	19,108	13,132
Interest	2,827	3,307
Total Receipts	505,273	456,580
Disbursements		
Water	265,370	286,198
Sanitary Sewer	224,490	204,697
Storm Sewer	9,746	18,770
Total Disbursements	499,606	509,665
Change in Cash Basis Net Assets	5,667	(53,085)
Cash Basis Net Assets - Beginning of Year	317,616	370,701
<b>Cash Basis Net Assets - End of Year</b>	<b>\$ 323,283</b>	<b>\$ 317,616</b>

Total business-type activities receipts for the fiscal year were \$505,273 compared to \$456,580 last year. The increase was primarily due to a sewer rate increases. The cash balance increased by \$5,667, or 1.8%, from the prior year. Total disbursements for the fiscal year decreased by 2% to a total of \$499,606. The decrease is due to less operating costs.

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$1,338,248, a decrease of more than \$243,000 from last year's total of \$1,581,342.

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 \$83,147 from the prior year to \$143,222. This decrease was largely due to the transfer of approximately \$71,000 to other funds for the purchase of equipment and renovations of the library building and pool.

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 \$72,000 due to increased disbursements on street repairs and improvements.

The Local Option Sales Tax Fund cash balance decreased \$30,900 from the prior year due to decreased receipts and more cash transferred out.

The Capital Projects Fund cash balance decreased by \$859,192 to \$80,926 during the fiscal year. This decrease is due to the disbursement of prior year debt proceeds on the reconstruction of Clinton Avenue.

The Library Renovation Fund cash balance increased by \$799,880 due to the issuance of debt and transfers in for the renovation of the library building.

The Debt Service Fund reported a decrease in cash of \$11,453 due to an initial debt service payment on the library renovation bonds which had not been issued in time for a property tax debt service levy on the bonds.

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

The Water Utility cash balance increased by \$12,424 to \$248,029 due to increased receipts and operating costs while debt service was no longer required. The Sanitary Sewer System cash balance decreased by \$16,478 which is approximately \$10,000 less than last year's decrease. Receipts increased approximately \$30,000 due to a rate increase. However, operating costs increased approximately \$22,000 and debt service decreased approximately \$2,000.

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 three times. The first amendment was approved on August 22, 2005 and was issued to remove hospital operations from primary government operations. It reduced charges for services by \$8,000,000, business-type activity disbursements by \$6,000,000 and beginning cash balance by \$2,497,617. The second amendment was approved February 13, 2006. The amendment resulted in increased receipts from miscellaneous sources and disbursements for Health and Social Services. The third amendment was approved May 22, 2006. The amendment resulted in increased receipts from miscellaneous sources and disbursements for Public Safety, Public Works, Health and Social Services, Culture and Recreation, General Government and debt service

## DEBT ADMINISTRATION

At June 30, 2006, the City had \$2,251,699 in general obligation debt and \$143,000 in sewer revenue debt.

### Outstanding Debt at Year End

General obligation notes	\$ 1,310,000
General obligation bond	941,699
Sewer revenue bonds	<u>143,000</u>
<b>Totals</b>	<b><u>\$ 2,394,699</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 \$2,251,699 is significantly below its constitutional debt limit of \$4,179,098. On August 22, 2005, the City approved the reallocation of \$60,000 general obligation notes dated June 1, 2005, originally issued for the reconstruction of Clinton Avenue, to the new use of library building renovation. On April 26, 2006, the City closed on \$800,000 general obligation bonds to be used for the library building renovation. By public referendum held August 24, 2004, the City was authorized to issue up to \$800,000 in general obligation debt for the library renovation project.

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, 2006, general obligation debt with a principal balance of \$550,000 is expected to be retired with T.I.F. collections from District 2.

## 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 2007 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. Water system improvements are needed. The Iowa Finance Authority has agreed to provide a zero interest Drinking Water Infrastructure Planning and Design loan for up to three years to complete the improvements. Upon completion of system improvements, the loan will be rolled into an interest-bearing loan from the State Revolving Fund.

## 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, 2006

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	Primary Government			
					Governmental Activities	Business- Type Activities	Total	
<b>Governmental Activities</b>								
Public safety .....	\$ 321,519	\$ 26,427	\$ 5,250	\$ —	\$ (289,842)	\$ —	\$ (289,842)	\$ —
Public works .....	345,537	46,903	218,612	—	(80,022)	—	(80,022)	—
Health and social services.....	79,072	—	29,500	—	(49,572)	—	(49,572)	—
Culture and recreation.....	258,648	18,250	84,160	—	(156,238)	—	(156,238)	—
General government.....	143,827	—	—	—	(143,827)	—	(143,827)	—
Debt service.....	547,815	—	3,336	—	(544,479)	—	(544,479)	—
Capital projects.....	1,029,909	—	—	130,042	(899,867)	—	(899,867)	—
<b>Total Governmental Activities .....</b>	<b>2,726,327</b>	<b>91,580</b>	<b>340,858</b>	<b>130,042</b>	<b>(2,163,847)</b>	<b>—</b>	<b>(2,163,847)</b>	<b>—</b>
<b>Business-Type Activities</b>								
Water .....	265,370	276,315	1,479	—	—	12,424	12,424	—
Sanitary sewer.....	224,490	207,023	989	—	—	(16,478)	(16,478)	—
Storm sewer .....	9,746	19,108	359	—	—	9,721	9,721	—
<b>Total Business-Type Activities.....</b>	<b>499,606</b>	<b>502,446</b>	<b>2,827</b>	<b>—</b>	<b>—</b>	<b>5,667</b>	<b>5,667</b>	<b>—</b>
<b>Total Primary Government .....</b>	<b>\$ 3,225,933</b>	<b>\$ 594,026</b>	<b>\$ 343,685</b>	<b>\$ 130,042</b>	<b>(2,163,847)</b>	<b>5,667</b>	<b>(2,158,180)</b>	<b>—</b>
<b>Component Unit - Memorial Hospital .....</b>	<b>\$ 12,720,187</b>	<b>\$ 8,411,388</b>	<b>\$ 258,227</b>	<b>\$ 940</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(4,049,632)</b>
<b>General Receipts</b>								
Property Tax Levied for								
General purposes.....					457,607	—	457,607	—
Memorial Hospital .....					38,550	—	38,550	—
Employee benefits.....					107,784	—	107,784	—
Debt service .....					84,979	—	84,979	—
Tax increment financing.....					157,925	—	157,925	—
Local option sales tax.....					251,704	—	251,704	—
Miscellaneous.....					9,301	—	9,301	—
Intergovernmental not restricted to specific purpose.....					11,239	—	11,239	—
Unrestricted interest on investments .....					18,175	—	18,175	—
Debt proceeds .....					783,489	—	783,489	4,000,000
<b>Total General Receipts and Transfers .....</b>					<b>1,920,753</b>	<b>—</b>	<b>1,920,753</b>	<b>4,000,000</b>
<b>Change in Cash Basis Net Assets .....</b>					<b>(243,094)</b>	<b>5,667</b>	<b>(237,427)</b>	<b>(49,632)</b>
Cash Basis Net Assets - Beginning of Year .....					1,581,342	317,616	1,898,958	3,170,510
<b>Cash Basis Net Assets - End of Year .....</b>					<b>\$ 1,338,248</b>	<b>\$ 323,283</b>	<b>\$ 1,661,531</b>	<b>\$ 3,120,878</b>
<b>Cash Basis Net Assets</b>								
Restricted								
Donor designations or legal provisions .....					\$ 1,156,157	\$ —	\$ 1,156,157	\$ —
Customer deposits .....					—	36,780	36,780	—
Debt service .....					60,924	—	60,924	821,538
Debt covenants .....					—	41,107	41,107	—
Unrestricted .....					121,167	245,396	366,563	2,299,340
<b>Total Cash Basis Net Assets .....</b>					<b>\$ 1,338,248</b>	<b>\$ 323,283</b>	<b>\$ 1,661,531</b>	<b>\$ 3,120,878</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, 2006

	General	Special Revenue		Capital Projects		Debt Service	Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Tax	Capital Projects	Library Renovation			
<b>Receipts</b>								
Property taxes .....	\$ 496,157	\$ —	\$ —	\$ —	\$ —	\$ 84,979	\$ 107,784	\$ 688,920
T.I.F. collections .....	—	—	—	—	—	—	157,925	157,925
Other city tax .....	—	—	251,704	—	—	—	—	251,704
Licenses and permits.....	3,997	—	—	—	—	—	—	3,997
Use of money and property .....	3,873	—	8,584	6,564	3,035	3,335	5,764	31,155
Intergovernmental.....	55,834	212,244	—	—	—	—	—	268,078
Charges for services.....	91,180	—	—	—	—	—	400	91,580
Miscellaneous.....	85,987	—	—	17,000	102,937	1	460	206,385
<b>Total Receipts.....</b>	<b>737,028</b>	<b>212,244</b>	<b>260,288</b>	<b>23,564</b>	<b>105,972</b>	<b>88,315</b>	<b>272,333</b>	<b>1,699,744</b>
<b>Disbursements</b>								
Public safety .....	321,519	—	—	—	—	—	—	321,519
Public works .....	46,286	299,251	—	—	—	—	—	345,537
Health and social services.....	79,072	—	—	—	—	—	—	79,072
Culture and recreation .....	258,648	—	—	—	—	—	—	258,648
General government.....	142,620	—	—	—	—	1,207	—	143,827
Debt service.....	—	—	—	—	—	547,815	—	547,815
Capital projects.....	—	—	—	825,473	204,436	—	—	1,029,909
<b>Total Disbursements.....</b>	<b>848,145</b>	<b>299,251</b>	<b>—</b>	<b>825,473</b>	<b>204,436</b>	<b>549,022</b>	<b>—</b>	<b>2,726,327</b>
<b>Receipts Over (Under) Disbursements.....</b>	<b>(111,117)</b>	<b>(87,007)</b>	<b>260,288</b>	<b>(801,909)</b>	<b>(98,464)</b>	<b>(460,707)</b>	<b>272,333</b>	<b>(1,026,583)</b>
<b>Other Financing Sources (Uses)</b>								
Debt proceeds .....	—	—	—	—	783,489	—	—	783,489
Transfers in.....	98,643	22,358	—	2,717	114,855	449,254	5,000	692,827
Transfers out .....	(70,673)	(7,500)	(291,188)	(60,000)	—	—	(263,466)	(692,827)
<b>Total Other Financing Sources (Uses).....</b>	<b>27,970</b>	<b>14,858</b>	<b>(291,188)</b>	<b>(57,283)</b>	<b>898,344</b>	<b>449,254</b>	<b>(258,466)</b>	<b>783,489</b>
<b>Increase (Decrease) in Cash Balances.....</b>	<b>(83,147)</b>	<b>(72,149)</b>	<b>(30,900)</b>	<b>(859,192)</b>	<b>799,880</b>	<b>(11,453)</b>	<b>13,867</b>	<b>(243,094)</b>
Cash Balances - Beginning of Year.....	226,369	87,992	169,080	940,118	312	72,377	85,094	1,581,342
<b>Cash Balances - End of Year.....</b>	<b>\$ 143,222</b>	<b>\$ 15,843</b>	<b>\$ 138,180</b>	<b>\$ 80,926</b>	<b>\$ 800,192</b>	<b>\$ 60,924</b>	<b>\$ 98,961</b>	<b>\$ 1,338,248</b>
<b>Cash Basis Fund Balances</b>								
Reserved								
Donor or legal provisions .....	\$ 22,055	\$ 15,843	\$ 138,180	\$ 80,926	\$ 800,192	\$ —	\$ 98,961	\$ 1,156,157
Debt service .....	—	—	—	—	—	60,924	—	60,924
Unreserved								
General Fund.....	121,167	—	—	—	—	—	—	121,167
<b>Total Cash Basis Fund Balances.....</b>	<b>\$ 143,222</b>	<b>\$ 15,843</b>	<b>\$ 138,180</b>	<b>\$ 80,926</b>	<b>\$ 800,192</b>	<b>\$ 60,924</b>	<b>\$ 98,961</b>	<b>\$ 1,338,248</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, 2006

	<b>Major</b>		<b>Nonmajor</b>	
	<b>Water</b>	<b>Sanitary Sewer</b>	<b>Storm Sewer</b>	<b>Total</b>
<b>Operating Receipts</b>				
Charges for service .....	\$ 262,038	\$ 203,537	\$ 19,108	\$ 484,683
Miscellaneous.....	14,277	3,486	—	17,763
<b>Total Operating Receipts.....</b>	<b><u>276,315</u></b>	<b><u>207,023</u></b>	<b><u>19,108</u></b>	<b><u>502,446</u></b>
<b>Operating Disbursements</b>				
Business-type activities .....	<b><u>265,370</u></b>	<b><u>198,498</u></b>	<b><u>9,746</u></b>	<b><u>473,614</u></b>
<b>Operating Receipts Over</b>				
<b>Operating Disbursements .....</b>	<b><u>10,945</u></b>	<b><u>8,525</u></b>	<b><u>9,362</u></b>	<b><u>28,832</u></b>
<b>Nonoperating Receipts (Disbursements)</b>				
Interest on investments .....	1,479	989	359	2,827
Debt service.....	—	(25,992)	—	(25,992)
<b>Total Nonoperating Receipts (Disbursements).....</b>	<b><u>1,479</u></b>	<b><u>(25,003)</u></b>	<b><u>359</u></b>	<b><u>(23,165)</u></b>
<b>Increase (Decrease) in Cash Balances</b>				
Cash Balances - Beginning of Year.....	12,424	(16,478)	9,721	5,667
	235,605	76,681	5,330	317,616
<b>Cash Balances - End of Year.....</b>	<b><u>\$ 248,029</u></b>	<b><u>\$ 60,203</u></b>	<b><u>\$ 15,051</u></b>	<b><u>\$ 323,283</u></b>
<b>Cash Basis Fund Balances</b>				
Restricted for				
Customer deposits .....	\$ 36,780	\$ —	\$ —	\$ 36,780
Debt covenants .....	—	41,107	—	41,107
Unrestricted .....	211,249	19,096	15,051	245,396
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 248,029</u></b>	<b><u>\$ 60,203</u></b>	<b><u>\$ 15,051</u></b>	<b><u>\$ 323,283</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.

#### **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 2005 tax return includes total receipts of \$187,762, cash disbursements of \$165,851, a beginning balance of \$495,401, other decreases of \$13,686 and an ending balance of \$503,626.

Disbursements include \$102,812 to the City of Marengo for library building renovation, \$51,242 to vendors for preliminary costs of the library building renovation and \$11,497 for support services including \$61 for fund-raising. The disbursement to the City of Marengo included a \$100,000 return of a bequest for the library building renovation previously forwarded to Friends plus investment earnings on the \$100,000.

## (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 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.

## Notes to the Financial Statements

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### (1) Summary of Significant Accounting Policies

#### ***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.

#### ***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 *Library Renovation Fund* is used to account for the renovation of the building housing the Marengo Public Library which is financed with donations, general obligation debt and a Community Attraction Grant from the state of Iowa.

#### ***Debt Service***

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.

## Notes to the Financial Statements

### (2) Deposits and Investments

The City's deposits at June 30, 2006 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.

The total cash deposited with Grinnell State Bank at June 30, 2006 according to bank records was \$1,714,913.

### (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
2007 ....	\$ 125,000	\$ 49,250	\$ 116,699	\$ 33,341	\$ 21,000	\$ 3,975	\$ 262,699	\$ 86,566
2008 ....	125,000	45,407	90,000	29,978	22,000	3,330	237,000	78,715
2009 ....	130,000	41,382	95,000	27,053	23,000	2,655	248,000	71,090
2010 ....	130,000	36,987	95,000	23,870	24,000	1,950	249,000	62,807
2011 ....	130,000	32,408	100,000	20,593	26,000	1,200	256,000	54,201
2012-16	415,000	98,016	445,000	43,938	27,000	405	887,000	142,359
2017-20	255,000	29,138	—	—	—	—	255,000	29,138
	<b><u>\$ 1,310,000</u></b>	<b><u>\$ 332,588</u></b>	<b><u>\$ 941,699</u></b>	<b><u>\$ 178,773</u></b>	<b><u>\$ 143,000</u></b>	<b><u>\$ 13,515</u></b>	<b><u>\$ 2,394,699</u></b>	<b><u>\$ 524,876</u></b>

Debt service payments for a general obligation equipment lease purchase note of \$5,897 were paid from the General Fund, general government functions. All other general obligation debt service was paid from the debt service fund.

On April 26, 2006, the City closed on \$800,000 general obligation library improvement bonds dated April 15, 2006 and received proceeds of \$783,489. The proceeds were deposited into the Library Renovation (Capital Projects) Fund to pay costs of the library building renovation.

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 100% of the utility's debt service for the year.

## Notes to the Financial Statements

### (3) Long-Term Debt

3. Monthly transfers will be made to the debt sinking fund equal to one-twelfth of the next principal payment and one-sixth of the next interest payment such that adequate cash is available in the sinking fund to pay debt service when due.
4. Maintain a balance in the debt reserve fund of \$27,405.
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.

The City was not in compliance with the covenant in item 3 above.

The Marengo Memorial Hospital has issued hospital revenue notes, Series 2005, in the original amount of \$4,000,000. The notes are payable solely from future revenue of the Hospital and are due June 1, 2015. Interest is due serially each June 1 through 2015 at an interest rate of 4.8%.

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 3.25% to 6.2%.

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
2007.....	\$ 215,000	\$ 483,233	\$ 698,233
2008.....	220,000	476,245	696,245
2009.....	225,000	468,435	693,435
2010.....	235,000	459,885	694,885
2011.....	245,000	450,485	695,485
2012-2016 .....	5,410,000	1,885,780	7,295,780
2017-2021 .....	1,805,000	722,485	2,527,485
2022-2024 .....	1,340,000	167,630	1,507,630
<b>Total</b> .....	<b><u>\$ 9,695,000</u></b>	<b><u>\$ 5,114,178</u></b>	<b><u>\$ 14,809,178</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.

## Notes to the Financial Statements

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### (4) Pension and Retirement Benefits

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,. For the years ended June 30, 2006 and 2005, the contribution rates for police employees and the City were 6.16% and 9.23%, respectively, and for the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.9%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$34,287, \$30,301 and \$28,303, 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. Payment is made for unused vacation hours at separation. These accumulations, which are not considered to be material by management, are not recognized as disbursements by the City until used or paid.

### (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Road Use Tax	\$ 7,500
	Nonmajor Governmental	87,772
	Capital Projects	
	Nonmajor Governmental	3,371
Special Revenue		
Road Use Tax	General	22,358
Capital Projects	Special Revenue	
Capital Projects	Local Option Sales Tax	2,717
Library Renovation	General	43,315
	Capital Projects	
	Capital Projects	60,000
	Nonmajor Governmental	11,540
Nonmajor Governmental	General	5,000
Debt Service	Special Revenue	
	Local Option Sales Tax	288,471
	Nonmajor Governmental	<u>160,783</u>
<b>Total</b>		<b><u>\$ 692,827</u></b>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources, accumulate cash to purchase equipment and to close funds no longer needed.

### **(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 Commitments**

During the year ended June 30, 2006, the City Council awarded a contract for library building improvements in the amount of \$1,540,500. Through June 30, 2006, \$102,926 has been paid on this contract. Construction costs are being financed with the general obligation bond proceeds, a Community Attraction Grant and donations.

During the year ended June 30, 2006, the City Council approved a water system construction project and engaged an engineering firm to design the project. The project is expected to be funded with a construction loan from the Iowa Finance Authority.

**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, 2006

	Governmental Funds - Actual	Enterprise Funds Actual	Net	Budget		Net Over (Under) Final Budget
				Original	Final	
<b>Receipts</b>						
Property tax .....	\$ 688,920	\$ —	\$ 688,920	\$ 656,348	\$ 656,348	\$ 32,572
T.I.F. collections .....	157,925	—	157,925	159,000	159,000	(1,075)
Other city tax .....	251,704	—	251,704	283,701	283,701	(31,997)
Licenses and permits .....	3,997	—	3,997	5,200	5,200	(1,203)
Use of money and property .....	31,155	2,827	33,982	3,175	3,175	30,807
Intergovernmental .....	268,078	—	268,078	256,300	256,300	11,778
Charges for service .....	91,580	484,683	576,263	8,615,200	615,200	(38,937)
Miscellaneous .....	206,385	17,763	224,148	57,800	235,600	(11,452)
<b>Total Receipts .....</b>	<b>1,699,744</b>	<b>505,273</b>	<b>2,205,017</b>	<b>10,036,724</b>	<b>2,214,524</b>	<b>(9,507)</b>
<b>Disbursements</b>						
Public safety .....	321,519	—	321,519	315,250	325,250	(3,731)
Public works .....	345,537	—	345,537	322,600	354,600	(9,063)
Health and social services .....	79,072	—	79,072	40,200	100,500	(21,428)
Culture and recreation .....	258,648	—	258,648	266,400	269,900	(11,252)
General government .....	143,827	—	143,827	162,050	168,050	(24,223)
Debt service .....	547,815	—	547,815	243,500	518,500	29,315
Capital projects .....	1,029,909	—	1,029,909	1,031,700	1,031,700	(1,791)
Business-type activities .....	—	499,606	499,606	7,054,525	1,054,525	(554,919)
<b>Total Disbursements .....</b>	<b>2,726,327</b>	<b>499,606</b>	<b>3,225,933</b>	<b>9,436,225</b>	<b>3,823,025</b>	<b>(597,092)</b>
<b>Receipts Over (Under) Disbursements .....</b>	<b>(1,026,583)</b>	<b>5,667</b>	<b>(1,020,916)</b>	<b>600,499</b>	<b>(1,608,501)</b>	<b>587,585</b>
<b>Other Financing Sources (Uses)</b>						
Bond proceeds .....	783,489	—	783,489	745,000	745,000	38,489
Sale of equipment .....	—	—	—	6,000	6,000	(6,000)
Transfers in .....	692,827	—	692,827	267,600	542,600	150,227
Transfers out .....	(692,827)	—	(692,827)	(267,600)	(542,600)	(150,227)
<b>Other Financing Sources, Net .....</b>	<b>783,489</b>	<b>—</b>	<b>783,489</b>	<b>751,000</b>	<b>751,000</b>	<b>32,489</b>
<b>Receipts and Other Financing Sources Over (Under) Disbursements .....</b>	<b>(243,094)</b>	<b>5,667</b>	<b>(237,427)</b>	<b>1,351,499</b>	<b>(857,501)</b>	<b>620,074</b>
Balances - Beginning of Year .....	1,581,342	317,616	1,898,958	3,797,717	1,581,342	317,616
<b>Balances - End of Year ..</b>	<b>\$ 1,338,248</b>	<b>\$ 323,283</b>	<b>\$ 1,661,531</b>	<b>\$ 5,149,216</b>	<b>\$ 723,841</b>	<b>\$ 937,690</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, three budget amendments decreased budgeted disbursements by \$5,613,200. Original budgeted disbursements included \$6,000,000 for the Marengo Memorial Hospital. The first amendment removed the \$6,000,000. Other amendments increased budgeted disbursements by \$386,800. These budget amendments are 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, 2006

	General	Library Miscel- laneous	Recreation Com- mission	Capital Reserve	Memorial Building	Total
<b>Receipts</b>						
Property taxes .....	\$ 457,607	\$ —	\$ —	\$ —	\$ 38,550	\$ 496,157
Licenses and permits .....	3,997	—	—	—	—	3,997
Use of money and property .....	3,439	—	—	—	434	3,873
Intergovernmental .....	55,834	—	—	—	—	55,834
Charges for services .....	91,180	—	—	—	—	91,180
Miscellaneous .....	55,057	1,430	—	—	29,500	85,987
<b>Total Receipts .....</b>	<b><u>667,114</u></b>	<b><u>1,430</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>68,484</u></b>	<b><u>737,028</u></b>
<b>Disbursements</b>						
Public safety .....	321,519	—	—	—	—	321,519
Public works .....	46,286	—	—	—	—	46,286
Health and social services .....	14,776	—	—	—	64,296	79,072
Culture and recreation .....	255,630	3,018	—	—	—	258,648
General government .....	142,620	—	—	—	—	142,620
<b>Total Disbursements .....</b>	<b><u>780,831</u></b>	<b><u>3,018</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>64,296</u></b>	<b><u>848,145</u></b>
<b>Receipts Over (Under) Disbursements .....</b>	<b><u>(113,717)</u></b>	<b><u>(1,588)</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>4,188</u></b>	<b><u>(111,117)</u></b>
<b>Other Financing Sources (Uses)</b>						
Transfers in .....	87,771	3,372	—	7,500	—	98,643
Intrafund transfers (net) .....	41,427	(287)	(4,570)	(36,570)	—	—
Transfers out .....	(33,000)	—	—	(37,673)	—	(70,673)
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>96,198</u></b>	<b><u>3,085</u></b>	<b><u>(4,570)</u></b>	<b><u>(66,743)</u></b>	<b><u>—</u></b>	<b><u>27,970</u></b>
<b>Increase (Decrease) in Cash Balances .....</b>	<b><u>(17,519)</u></b>	<b><u>1,497</u></b>	<b><u>(4,570)</u></b>	<b><u>(66,743)</u></b>	<b><u>4,188</u></b>	<b><u>(83,147)</u></b>
Cash Balances - Beginning of Year .....	98,406	—	4,570	107,023	16,370	226,369
<b>Cash Balances - End of Year</b>	<b><u>\$ 80,887</u></b>	<b><u>\$ 1,497</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 40,280</u></b>	<b><u>\$ 20,558</u></b>	<b><u>\$ 143,222</u></b>
<b>Cash Basis Fund Balances</b>						
Reserved for donor or legal provisions .....	\$ —	\$ 1,497	\$ —	\$ —	\$ 20,558	\$ 22,055
Unreserved .....	80,887	—	—	40,280	—	121,167
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 80,887</u></b>	<b><u>\$ 1,497</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 40,280</u></b>	<b><u>\$ 20,558</u></b>	<b><u>\$ 143,222</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, 2006

	Special Revenue			Capital Projects		Permanent Cemetery Trust	Total
	Trust and Agency	Employee Benefits	Tax Increment Financing	Library Building	Pool Renovation		
<b>Receipts</b>							
Property taxes .....	\$ —	\$ 107,784	\$ —	\$ —	\$ —	\$ —	\$ 107,784
T.I.F. collections .....	—	—	157,925	—	—	—	157,925
Use of money and property .....	—	2,860	2,858	46	—	—	5,764
Charges for services.....	—	—	—	—	—	400	400
Miscellaneous.....	—	—	—	—	460	—	460
<b>Total Receipts.....</b>	<b>—</b>	<b>110,644</b>	<b>160,783</b>	<b>46</b>	<b>460</b>	<b>400</b>	<b>272,333</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in.....	—	—	—	—	5,000	—	5,000
Transfers out .....	(168)	(87,604)	(160,783)	(14,911)	—	—	(263,466)
<b>Total Other Financing Sources (Uses).....</b>	<b>(168)</b>	<b>(87,604)</b>	<b>(160,783)</b>	<b>(14,911)</b>	<b>5,000</b>	<b>—</b>	<b>(258,466)</b>
<b>Increase (Decrease) in Cash Balances.....</b>	<b>(168)</b>	<b>23,040</b>	<b>—</b>	<b>(14,865)</b>	<b>5,460</b>	<b>400</b>	<b>13,867</b>
Cash Balances - Beginning of Year.....	168	17,740	—	14,865	1,897	50,424	85,094
<b>Cash Balances - End of Year .....</b>	<b>\$ —</b>	<b>\$ 40,780</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,357</b>	<b>\$ 50,824</b>	<b>\$ 98,961</b>
<b>Cash Basis Fund Balances</b>							
Reserved							
Donor or legal provisions .....	\$ —	\$ 40,780	\$ —	\$ —	\$ 7,357	\$ 50,824	\$ 98,961

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

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As of and for the Year Ended June 30, 2006

	Water	Water Reserve	Water Deposits	Water Revolving	Total
<b>Operating Receipts</b>					
Charges for service .....	\$ 262,038	\$ —	\$ —	\$ —	\$ 262,038
Miscellaneous.....	<u>10,574</u>	<u>—</u>	<u>3,703</u>	<u>—</u>	<u>14,277</u>
<b>Total Operating Receipts</b>	<b><u>272,612</u></b>	<b><u>—</u></b>	<b><u>3,703</u></b>	<b><u>—</u></b>	<b><u>276,315</u></b>
<b>Operating Disbursements</b>					
Business-type activities .....	<u>261,155</u>	<u>—</u>	<u>4,215</u>	<u>—</u>	<u>265,370</u>
<b>Operating Receipts Over Operating Disbursements</b>	<b>11,457</b>	<b>—</b>	<b>(512)</b>	<b>—</b>	<b>10,945</b>
<b>Nonoperating Receipts (Disbursements)</b>					
Interest on investments .....	<u>1,479</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,479</u>
<b>Receipts Over (Under) Disbursements</b> .....	<b>12,936</b>	<b>—</b>	<b>(512)</b>	<b>—</b>	<b>12,424</b>
<b>Other Financing Sources (Uses)</b>					
Intrafund transfers (net) .....	<u>(49,293)</u>	<u>—</u>	<u>(5,334)</u>	<u>54,627</u>	<u>—</u>
<b>Increase (Decrease) in Cash Balances</b> .....	<b>(36,357)</b>	<b>—</b>	<b>(5,846)</b>	<b>54,627</b>	<b>12,424</b>
Cash Balances - Beginning of Year .....	<u>66,798</u>	<u>32,500</u>	<u>42,626</u>	<u>93,681</u>	<u>235,605</u>
<b>Cash Balances - End of Year</b> .....	<b><u>\$ 30,441</u></b>	<b><u>\$ 32,500</u></b>	<b><u>\$ 36,780</u></b>	<b><u>\$ 148,308</u></b>	<b><u>\$ 248,029</u></b>
<b>Cash Basis Fund Balances</b>					
Reserved - customer deposits	\$ —	\$ —	\$ 36,780	\$ —	\$ 36,780
Unreserved .....	<u>30,441</u>	<u>32,500</u>	<u>—</u>	<u>148,308</u>	<u>211,249</u>
<b>Total Cash Basis Fund Balances</b> .....	<b><u>\$ 30,441</u></b>	<b><u>\$ 32,500</u></b>	<b><u>\$ 36,780</u></b>	<b><u>\$ 148,308</u></b>	<b><u>\$ 248,029</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, 2006

	Sewer Rental	Sewer Sinking	Sewer Reserve	Sewer Replace- ment	Sewer Revolving	Total
<b>Operating Receipts</b>						
Charges for service .....	\$ 203,537	\$ —	\$ —	\$ —	\$ —	\$ 203,537
Miscellaneous.....	<u>3,486</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,486</u>
<b>Total Operating Receipts .....</b>	<b>207,023</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>207,023</b>
<b>Operating Disbursements</b>						
Business-type activities	<u>198,498</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>198,498</u>
<b>Operating Receipts Over Operating Disbursements .....</b>	<b><u>8,525</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>8,525</u></b>
<b>Nonoperating Receipts (Disbursements)</b>						
Interest on investments	989	—	—	—	—	989
Debt service.....	<u>—</u>	<u>(25,992)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(25,992)</u>
<b>Total Nonoperating Receipts (Dis- bursements)</b>	<b><u>989</u></b>	<b><u>(25,992)</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>(25,003)</u></b>
<b>Receipts Over (Under) Disbursements .....</b>	<b>9,514</b>	<b>(25,992)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(16,478)</b>
<b>Other Financing Sources (Uses)</b>						
Intrafund transfers (net)	<u>(18,121)</u>	<u>30,787</u>	<u>—</u>	<u>—</u>	<u>(12,666)</u>	<u>—</u>
<b>Increase (Decrease) in Cash Balances .....</b>	<b>(8,607)</b>	<b>4,795</b>	<b>—</b>	<b>—</b>	<b>(12,666)</b>	<b>(16,478)</b>
Cash Balances - Beginning of Year .....	<u>14,156</u>	<u>7,812</u>	<u>28,500</u>	<u>9,266</u>	<u>16,947</u>	<u>76,681</u>
<b>Cash Balances - End of Year .....</b>	<b><u>\$ 5,549</u></b>	<b><u>\$ 12,607</u></b>	<b><u>\$ 28,500</u></b>	<b><u>\$ 9,266</u></b>	<b><u>\$ 4,281</u></b>	<b><u>\$ 60,203</u></b>
<b>Cash Basis Fund Balance</b>						
Reserved - debt covenants.....	\$ —	\$ 12,607	\$ 28,500	\$ —	\$ —	\$ 41,107
Unreserved.....	<u>5,549</u>	<u>—</u>	<u>—</u>	<u>9,266</u>	<u>4,281</u>	<u>19,096</u>
<b>Total Cash Basis Fund Balance .....</b>	<b><u>\$ 5,549</u></b>	<b><u>\$ 12,607</u></b>	<b><u>\$ 28,500</u></b>	<b><u>\$ 9,266</u></b>	<b><u>\$ 4,281</u></b>	<b><u>\$ 60,203</u></b>

## Schedule of Indebtedness

Year Ended June 30, 2006

	Amount Originally Issued	Date of Issue	Interest Rates	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
<b>General Obligation Bonds</b>								
Library renovation.....	\$ 800,000	4-15-06	3.45 - 4.50%	\$ —	\$ 800,000	\$ 40,000	\$ 760,000	\$ 4,136
Refunding .....	620,000	12-15-04	2.20 - 3.85	580,000	—	30,000	550,000	19,028
<b>General Obligation Notes</b>								
Corporate purpose.....	\$ 390,000	3-30-94	5.45 - 5.55%	90,000	—	90,000	—	4,995
Capital loan.....	325,000	10-1-95	5.60 - 5.75	40,000	—	40,000	—	2,300
Corporate purpose.....	162,800	5-5-97	5.30 - 5.50	20,000	—	10,000	10,000	1,090
Equipment lease purchase .....	22,009	9-24-01	6.00	6,966	—	5,651	1,315	246
Street improvement .....	360,000	6-30-04	3.00	182,708	—	167,324	15,384	18,352
Corporate purpose.....	1,000,000	6-1-05	2.85 - 4.00	<u>1,000,000</u>	<u>—</u>	<u>85,000</u>	<u>915,000</u>	<u>35,190</u>
<b>Total General Obligation.....</b>				<b><u>\$ 1,919,674</u></b>	<b><u>\$ 800,000</u></b>	<b><u>\$ 467,975</u></b>	<b><u>\$ 2,251,699</u></b>	<b><u>\$ 85,337</u></b>
<b>Sewer Revenue Bonds.....</b>	\$ 360,000	10-15-91	3.00 - 4.62%	<b><u>\$ 163,000</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 20,000</u></b>	<b><u>\$ 143,000</u></b>	<b><u>\$ 5,910</u></b>

**Schedule of Bond and Note Maturities**

At June 30, 2006

**General Obligation Bonds and Notes**

	<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>		<u>Library Renovation</u> <u>Issued 4-15-06</u>		<u>Total</u>
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	
2007.....	5.50%	\$ 10,000	6.00%	\$ 1,315	3.00%	\$ 15,384	2.75%	\$ 80,000	3.10%	\$ 90,000	3.65%	\$ 45,000	\$ 241,699
2008.....		—		—		—	2.95	80,000	3.25	90,000	3.70	45,000	215,000
2009.....		—		—		—	3.15	80,000	3.35	95,000	3.75	50,000	225,000
2010.....		—		—		—	3.35	80,000	3.45	95,000	3.80	50,000	225,000
2011.....		—		—		—	3.55	80,000	3.55	100,000	3.85	50,000	230,000
2012.....		—		—		—	3.70	75,000	3.65	105,000	3.90	50,000	230,000
2013.....		—		—		—	3.85	75,000	3.75	110,000	3.95	50,000	235,000
2014.....		—		—		—		—	3.90	115,000	4.05	55,000	170,000
2015.....		—		—		—		—	4.00	115,000	4.10	55,000	170,000
2016.....		—		—		—		—		—	4.20	55,000	55,000
2017.....		—		—		—		—		—	4.30	60,000	60,000
2018.....		—		—		—		—		—	4.40	60,000	60,000
2019.....		—		—		—		—		—	4.45	65,000	65,000
2020.....		—		—		—		—		—	4.50	70,000	70,000
<b>Total.....</b>		<b><u>\$ 10,000</u></b>		<b><u>\$ 1,315</u></b>		<b><u>\$ 15,384</u></b>		<b><u>\$ 550,000</u></b>		<b><u>\$ 915,000</u></b>		<b><u>\$ 760,000</u></b>	<b><u>\$ 2,251,699</u></b>

**Revenue Bonds**

**Sewer Revenue**

**Issued 10-15-91**

	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2007.....	3.00%	\$ 21,000
2008.....	3.00	22,000
2009.....	3.00	23,000
2010.....	3.00	24,000
2011.....	3.00	26,000
2012.....	3.00	<u>27,000</u>
<b>Total.....</b>		<b><u>\$ 143,000</u></b>

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

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Years Ended June 30, 2003 Through 2006

	2006	2005	2004	2003
<b>Receipts</b>				
Property tax .....	\$ 688,920	\$ 680,412	\$ 654,306	\$ 694,875
T.I.F. collections .....	157,925	151,178	151,391	136,182
Other city tax .....	251,704	285,873	280,640	250,576
Licenses and permits.....	3,997	5,438	4,653	2,638
Use of money and property .....	31,155	6,716	3,324	9,258
Intergovernmental.....	268,078	416,405	290,791	307,001
Charges for service .....	91,580	103,593	115,627	73,988
Miscellaneous.....	<u>206,385</u>	<u>69,274</u>	<u>142,823</u>	<u>87,211</u>
<b>Total Receipts .....</b>	<b><u>\$ 1,699,744</u></b>	<b><u>\$ 1,718,889</u></b>	<b><u>\$ 1,643,555</u></b>	<b><u>\$ 1,561,729</u></b>
<b>Disbursements</b>				
Operating				
Public safety.....	\$ 321,519	\$ 264,493	\$ 371,423	\$ 328,645
Public works.....	345,537	259,939	281,820	185,404
Health and social services .....	79,072	12,999	13,164	34,593
Culture and recreation .....	258,648	273,456	317,922	278,585
General government .....	143,827	169,052	192,031	153,830
Debt service.....	547,815	1,066,082	277,319	285,387
Capital projects.....	<u>1,029,909</u>	<u>464,204</u>	<u>404,460</u>	<u>170,086</u>
<b>Total Disbursements .....</b>	<b><u>\$ 2,726,327</u></b>	<b><u>\$ 2,510,225</u></b>	<b><u>\$ 1,858,139</u></b>	<b><u>\$ 1,436,530</u></b>

## Schedule of Sanitary Sewer System Rates

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Year Ended June 30, 2006

Approximately 1,100 customers at June 30, 2006.

### Rates for

Basic monthly charge for residences or businesses within the corporate limits of the City	\$5.10
-------------------------------------------------------------------------------------------	--------

Each additional 1,000 gallons water used (\$3.00 effective July 1, 2006)	\$2.60
--------------------------------------------------------------------------	--------

### 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
-------------------------------------------------------------------------	---------------------------------------

Special conditions	Each subject to Council determination
--------------------	---------------------------------------

### 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
-----------------------------------------------	------

## Schedule of Insurance

Year Ended June 30, 2006

Policy	Coverage Dates	Amount of Coverage
<b>Property</b>		
Blanket (including certified acts of terrorism)	4/1/06 - 4/1/07	\$2,565,231
Valuable papers and records	4/1/06 - 4/1/07	100,000
<b>Liability</b>		
Products/completed operations	4/1/06 - 4/1/07	2,000,000
General aggregate	4/1/06 - 4/1/07	2,000,000
Personal/advertising injury	4/1/06 - 4/1/07	1,000,000
Each occurrence	4/1/06 - 4/1/07	1,000,000
Damage to premises	4/1/06 - 4/1/07	100,000
Medical expense	4/1/06 - 4/1/07	5,000
<b>Crime</b>		
Public employee dishonesty	6/1/06 - 6/1/07	\$75,000 per employee
<b>Inland Marine</b>		
Contractors equipment	4/1/06 - 4/1/07	216,464
Scheduled property floater (miscellaneous)	4/1/06 - 4/1/07	32,307
<b>Automobile</b>		
Liability	4/1/06 - 4/1/07	1,000,000
Uninsured	4/1/06 - 4/1/07	50,000
Underinsured	4/1/06 - 4/1/07	50,000
Physical damage	4/1/06 - 4/1/07	Loss less deductible
Comprehensive	4/1/06 - 4/1/07	Loss less deductible
Collision	4/1/06 - 4/1/07	Loss less deductible
Medical	4/1/06 - 4/1/07	5,000
<b>Workers' Compensation</b>		
Bodily injury by accident/accident	4/1/06 - 4/1/07	500,000
Bodily injury by disease/employee	4/1/06 - 4/1/07	500,000
Bodily injury by disease/limit	4/1/06 - 4/1/07	500,000
<b>Umbrella</b>		
Retained	4/1/06 - 4/1/07	10,000
Occurrence	4/1/06 - 4/1/07	2,000,000
Aggregate	4/1/06 - 4/1/07	2,000,000
<b>Linebacker</b>		
Each loss	4/1/06 - 4/1/07	1,000,000
Aggregate for each policy term	4/1/06 - 4/1/07	1,000,000
Insured's deductible per loss	4/1/06 - 4/01/7	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, 2006, 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 August 15, 2006. 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 opinion 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 06-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, 2006 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  
August 15, 2006

# Schedule of Findings and Questioned Costs

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## Part I: Findings Related to the Financial Statements

### 06-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 duties have been separated where possible; however, limited staff size hinders optimum separation.

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

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

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

### 06-IC-2 Review of General Ledger Balances

**Finding** - The City uses the cash receipts and disbursements basis of accounting. The computer software system used by City personnel for general ledger purposes, accounts for disbursements through liability accounts including accounts payable and payroll clearing. The liability accounts are credited when cash expenditure accounts are charged and debited when payments are processed. Since payment processing occurs immediately after the charging of expenditures, the liability accounts normally clear to zero. Cash accounts are reviewed and balanced monthly; however, other balance sheet accounts have not been reviewed to determine that proper clearance to zero has occurred. We noted immaterial balances in liability accounts at year end which caused certain expenditures to be overstated.

**Auditor's Recommendation** - To better establish accountability and control over reported expenditures and general ledger balances, we recommend that all general ledger balance sheet accounts be periodically reviewed. Mispostings should be corrected as soon as they are identified

**City's Response** - Liability balances were reviewed and cleared to zero as soon as they were brought to our attention. We will periodically review balance sheet account balances and correct mispostings on a timely basis.

**Auditor's Conclusion** - Response accepted

## Schedule of Findings and Questioned Costs

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### Part II: Compliance and Other Matters

**06-C-1 Certified Budget** - Disbursements during the year ended June 30, 2006 exceeded the amended amounts budgeted for debt service. In addition, disbursements for health and social services exceeded the 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.

**06-C-2 Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

**06-C-3 Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**06-C-4 Business Transactions** - We noted no business transactions between the City of Marengo and City officials which we believe appear to be conflicts of interest.

**06-C-5 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.

**06-C-6 Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not. No items requiring publication which were not properly published were noted.

**06-C-7 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.

**06-C-8 Revenue Bonds and Notes** - The City did not comply with certain covenants adopted in revenue bond and note resolutions in that monthly transfers to the sinking fund were less than amounts required by the bond resolution.

**Auditor's Recommendations** - To ensure that cash is available to service debt when due, we recommend that the City increase monthly amounts transferred to the debt sinking fund to equal one-twelfth of the next annual principal payment and one-sixth of the next semi-annual interest payment.

**City's Responses** - Upon learning of the deficiency, an adjustment was made as of June 30 to reallocate cash from the sanitary sewer revenue fund to the sinking fund which eliminated the deficiency. Future monthly transfers will be in required amounts.

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