

CITY OF MARENGO, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2007

Table of Contents

Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-9
Basic Financial Statements	
Government-Wide Financial Statement	
Statement of Activities and Net Assets - Cash Basis.....	10
Governmental Fund Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds	11
Proprietary Fund Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Enterprise Funds.....	12
Notes to the Financial Statements.....	13-19
Required Supplementary Information	
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental and Enterprise Funds.....	20
Other Supplementary Information	
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - General Fund.....	21
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	22
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Water Major Enterprise Fund	23
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Sanitary Sewer Major Enterprise Fund.....	24
Schedule of Indebtedness	25
Schedule of Bond and Note Maturities	26
Schedule of Receipts by Source and Disbursements by Function/Program - All Governmental Funds	27
Schedule of Sanitary Sewer System Rates.....	28
Schedule of Insurance.....	29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	30-31
Schedule of Findings and Questioned Costs	32

Officials

Name	Title	Term Expires
Elected Officials		
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
Appointed Officials		
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

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, 2007 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 of Marengo's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 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 our audit and the report of other auditors provide a reasonable basis for our opinions.

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
Page 2

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, 2007, 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 25, 2007 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 certain 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 of Marengo'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 three years ended June 30, 2006 (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. Other supplementary 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
September 25, 2007

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities, other than debt proceeds, increased 60%, or approximately \$1,000,000, from the fiscal 2006 year to the fiscal 2007 year. This increase is due to grants and contributions for the library building renovation.

Governmental activities disbursements increased 15%, or approximately \$400,000, in fiscal year 2007 from the fiscal year 2006. This change was primarily due to increased capital outlay for the library building renovation with an offset in debt service due to retirement of debt issues.

The City's total cash basis net assets decreased approximately \$280,000 from June 30, 2006 to June 30, 2007. The assets of the governmental activities decreased approximately \$390,000 while the assets of the business-type activities increased by approximately \$110,000.

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 Pool Renovation and the Library Renovation 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 the City's 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 \$1,338,248 a year ago to \$941,424. 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>2007</u>	<u>2006</u>
Receipts and Transfers		
Program Receipts		
Charges for services	\$ 107,170	\$ 91,580
Operating grants, contributions and restricted interest	297,980	340,858
Capital grants, contributions and restricted interest	1,050,376	130,042
General Receipts		
Property tax	908,525	846,845
Local option sales tax	303,514	251,704
Unrestricted miscellaneous, intergovernmental, interest and sale of assets	53,938	38,715
Debt proceeds	—	783,489
Transfers, net	16,123	—
Total Receipts	<u>2,737,626</u>	<u>2,483,233</u>
Disbursements		
Public safety	320,710	321,519
Public works	271,406	345,537
Health and social services	58,982	79,072
Culture and recreation	220,982	258,648
General government	157,281	143,827
Debt service	308,371	547,815
Capital projects	1,796,718	1,029,909
Total Disbursements	<u>3,134,450</u>	<u>2,726,327</u>
Change in Cash Basis Net Assets	(396,824)	(243,094)
Cash Basis Net Assets - Beginning of Year	<u>1,338,248</u>	<u>1,581,342</u>
Cash Basis Net Assets - End of Year	<u>\$ 941,424</u>	<u>\$ 1,338,248</u>

The City's total receipts for governmental activities increased by 10%, or \$254,393. The increase was due to capital grants and contributions less a prior year issuance of debt.

The total cost of all programs and services increased by \$408,123, or 15%. The majority of this increase was due to spending prior year debt proceeds on the library renovation capital project for which the debt was issued.

Changes in Cash Basis Net Assets of Business-Type Activities

	Years Ended June 30,	
	2007	2006
Receipts and Transfers		
Program Receipts		
Charges for Services		
Water	\$ 271,586	\$ 276,315
Sanitary Sewer	253,865	207,023
Storm Sewer	19,766	19,108
Interest	5,843	2,827
Debt proceeds	282,217	—
Total Receipts	833,277	505,273
Disbursements and Transfers		
Water	504,222	265,370
Sanitary Sewer	186,761	224,490
Storm Sewer	13,141	9,746
Transfers, net	16,123	—
Total Disbursements	720,247	499,606
Change in Cash Basis Net Assets	113,030	5,667
Cash Basis Net Assets - Beginning of Year	323,283	317,616
Cash Basis Net Assets - End of Year	\$ 436,313	\$ 323,283

Total business-type activities receipts for the fiscal year were \$833,277 compared to \$505,273 last year. The increase was primarily due to water revenue debt proceeds. The cash balance increased by \$113,030, or 3.5%, from the prior year. Total disbursements for the fiscal year increased by 44% to a total of \$220,641. The increase is primarily due to water project capital outlay.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$941,424, a decrease of more than \$390,000 from last year's total of \$1,338,248.

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 \$48,999 from the prior year to \$192,221. This increase was largely due to fewer transfers of approximately \$71,000 to other funds.

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 disbursements on street repairs and improvements being larger than receipts.

The Local Option Sales Tax Fund cash balance increased approximately \$120,000 over the prior year due to increased receipts and less cash transferred out.

The Tax Increment Financing Fund cash balance increased from a zero balance to \$119,085 during the fiscal year. This increase is due to not transferring 100% of receipts to other funds.

The Library Renovation Fund cash balance decreased by \$651,927 due to the disbursement of prior year debt proceeds for the renovation of the library building.

The Debt Service Fund reported a decrease in cash of \$12,581 due to smaller amounts transferred in from other funds.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility cash balance increased by \$57,639 to \$305,668 due to smaller repairs and equipment replacement costs. The Sanitary Sewer System cash balance increased by \$47,649 due to last year's rate increase combined with greater usage of the system.

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 two times. The first amendment was approved on August 28, 2006 and was issued to include receipts and disbursement for the library building renovation project. It increased intergovernmental receipts by \$400,000 for a Vision Iowa grant and miscellaneous receipts by \$643,000 for contributions from Friends and others. Disbursements for capital projects increased \$1,600,000 for the Library Renovation Project. Beginning balances increased \$125,829 to reflect the change from estimated year-end balance to amounts reported at June 30, 2006. The second amendment was approved May 28, 2007. The amendment resulted in increased receipts from the use of money and property, intergovernmental sources and miscellaneous sources. It also reported increased disbursements expected for Public Safety, Public Works, Health and Social Services and Capital Projects functions.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$2,010,000 in general obligation debt, \$282,217 in water revenue debt and \$122,000 in sewer revenue debt for a total debt outstanding of \$2,414,217. The water revenue debt outstanding is the amount drawn to date from a maximum loan total available of \$3,200,000.

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 \$2,010,000 is significantly below its constitutional debt limit of \$4,784,979.

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 2008 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. Fire and street department equipment has been approved for purchase. On August 13, 2007, a \$200,000 three-year general obligation loan was approved to pay for these items. Water system improvement contracts totaling \$2,591,819 were awarded April 9, 2007. The Iowa Finance Authority has provided a \$3,200,000 loan at 3% interest from the State Revolving Fund. The loan is available for design, engineering, construction and debt issue costs. The City can draw amounts to pay costs as incurred.

FINANCIAL CONTACT

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

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2007

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		Total	
					Governmental Activities	Business- Type Activities		
Governmental Activities								
Public safety	\$ 320,710	\$ 30,550	\$ 6,843	\$ —	\$ (283,317)	\$ —	\$ (283,317)	\$ —
Public works	271,406	50,093	231,697	—	10,384	—	10,384	—
Health and social services.....	58,982	5,909	—	—	(53,073)	—	(53,073)	—
Culture and recreation.....	220,982	20,618	55,052	—	(145,312)	—	(145,312)	—
General government.....	157,281	—	—	—	(157,281)	—	(157,281)	—
Debt service.....	308,371	—	4,388	—	(303,983)	—	(303,983)	—
Capital projects.....	1,796,718	—	—	1,050,376	(746,342)	—	(746,342)	—
Total Governmental Activities	3,134,450	107,170	297,980	1,050,376	(1,678,924)	—	(1,678,924)	—
Business-Type Activities								
Water	504,222	271,586	1,763	—	—	(230,873)	(230,873)	—
Sanitary sewer.....	186,761	253,865	2,963	—	—	70,067	70,067	—
Storm sewer	13,141	19,766	1,117	—	—	7,742	7,742	—
Total Business-Type Activities.....	704,124	545,217	5,843	—	—	(153,064)	(153,064)	—
Total Primary Government	\$ 3,838,574	\$ 652,387	\$ 303,823	\$ 1,050,376	(1,678,924)	(153,064)	(1,831,988)	—
Component Unit - Memorial Hospital	\$ 13,390,761	\$ 14,123,408	\$ 223,583	\$ —	—	—	—	956,230
General Receipts								
Property Tax Levied for								
General purposes.....					415,840	—	415,840	—
Memorial hospital.....					40,927	—	40,927	—
Insurance					69,001	—	69,001	—
Employee benefits.....					92,321	—	92,321	—
Debt service					86,854	—	86,854	—
Tax increment financing.....					203,582	—	203,582	—
Local option sales tax.....					303,514	—	303,514	—
Miscellaneous.....					7,517	—	7,517	—
Intergovernmental not restricted to specific purpose.....					8,477	—	8,477	—
Unrestricted interest on investments					29,086	—	29,086	—
Debt proceeds					—	282,217	282,217	—
Sale of assets.....					8,858	—	8,858	—
Transfers					16,123	(16,123)	—	—
Total General Receipts and Transfers.....					1,282,100	266,094	1,548,194	—
Change in Cash Basis Net Assets					(396,824)	113,030	(283,794)	956,230
Cash Basis Net Assets - Beginning of Year					1,338,248	323,283	1,661,531	3,120,878
Cash Basis Net Assets - End of Year					\$ 941,424	\$ 436,313	\$ 1,377,737	\$ 4,077,108
Cash Basis Net Assets								
Restricted								
Donor designations or legal provisions					\$ 749,280	\$ —	\$ 749,280	\$ —
Customer deposits					—	37,396	37,396	—
Debt service					48,343	—	48,343	825,111
Debt covenants					—	105,313	105,313	—
Unrestricted					143,801	293,604	437,405	3,251,997
Total Cash Basis Net Assets					\$ 941,424	\$ 436,313	\$ 1,377,737	\$ 4,077,108

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, 2007

	General	Special Revenue			Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Tax	Tax Increment Financing	Library Renovation			
Receipts								
Property taxes	\$ 525,768	\$ —	\$ —	\$ —	\$ —	\$ 86,854	\$ 92,321	\$ 704,943
T.I.F. collections	—	—	—	203,582	—	—	—	203,582
Other city tax	—	—	303,514	—	—	—	—	303,514
Licenses and permits.....	3,674	—	—	—	—	—	—	3,674
Use of money and property	6,142	—	14,362	4,834	3,954	4,388	7,946	41,626
Intergovernmental.....	29,933	211,279	—	—	400,000	—	—	641,212
Charges for services.....	106,620	—	—	—	—	—	550	107,170
Miscellaneous.....	64,700	—	—	—	642,224	—	—	706,924
Total Receipts.....	736,837	211,279	317,876	208,416	1,046,178	91,242	100,817	2,712,645
Disbursements								
Public safety	320,710	—	—	—	—	—	—	320,710
Public works	50,149	221,257	—	—	—	—	—	271,406
Health and social services.....	58,982	—	—	—	—	—	—	58,982
Culture and recreation.....	220,982	—	—	—	—	—	—	220,982
General government.....	156,881	—	—	—	—	400	—	157,281
Debt service.....	—	—	—	—	—	308,371	—	308,371
Capital projects.....	—	—	—	—	1,710,105	—	86,613	1,796,718
Total Disbursements.....	807,704	221,257	—	—	1,710,105	308,771	86,613	3,134,450
Excess (Deficiency) of Receipts Over (Under)								
Disbursements	(70,867)	(9,978)	317,876	208,416	(663,927)	(217,529)	14,204	(421,805)
Other Financing Sources (Uses)								
Sale of capital assets.....	8,858	—	—	—	—	—	—	8,858
Operating transfers in.....	111,008	—	—	—	12,000	204,948	92,418	420,374
Transfers out	—	—	(197,617)	(89,331)	—	—	(117,303)	(404,251)
Total Other Financing Sources (Uses).....	119,866	—	(197,617)	(89,331)	12,000	204,948	(24,885)	24,981
Increase (Decrease) in Cash Balances.....	48,999	(9,978)	120,259	119,085	(651,927)	(12,581)	(10,681)	(396,824)
Cash Balances - Beginning of Year.....	143,222	15,843	138,180	—	800,192	60,924	179,887	1,338,248
Cash Balances - End of Year	\$ 192,221	\$ 5,865	\$ 258,439	\$ 119,085	\$ 148,265	\$ 48,343	\$ 169,206	\$ 941,424
Cash Basis Fund Balances								
Reserved								
Donor or legal provisions	\$ 48,420	\$ 5,865	\$ 258,439	\$ 119,085	\$ 148,265	\$ —	\$ 169,206	\$ 749,280
Debt service	—	—	—	—	—	48,343	—	48,343
Unreserved								
General Fund.....	143,801	—	—	—	—	—	—	143,801
Total Cash Basis Fund Balances	\$ 192,221	\$ 5,865	\$ 258,439	\$ 119,085	\$ 148,265	\$ 48,343	\$ 169,206	\$ 941,424

See accompanying notes to the financial statements.

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

As of and for the Year Ended June 30, 2007

	Major		Nonmajor	
	Water	Sanitary Sewer	Storm Sewer	Total
Operating Receipts				
Charges for service	\$ 262,333	\$ 252,515	\$ 19,766	\$ 534,614
Miscellaneous.....	9,253	1,350	—	10,603
Total Operating Receipts.....	271,586	253,865	19,766	545,217
Operating Disbursements				
Business-type activities	206,879	161,715	13,141	381,735
Operating Receipts Over				
Operating Disbursements	64,707	92,150	6,625	163,482
Nonoperating Receipts (Disbursements)				
Interest on investments	1,763	2,963	1,117	5,843
Debt service.....	—	(25,046)	—	(25,046)
Capital outlay.....	(297,343)	—	—	(297,343)
Total Nonoperating Receipts (Disbursements).....	(295,580)	(22,083)	1,117	(316,546)
Receipts Over (Under) Disbursements	(230,873)	70,067	7,742	(153,064)
Other Financing Sources (Uses)				
Debt proceeds	282,217	—	—	282,217
Transfers in.....	6,295	—	—	6,295
Transfers out	—	(22,418)	—	(22,418)
Total Other Financing Sources (Uses)	288,512	(22,418)	—	266,094
Increase in Cash Balances	57,639	47,649	7,742	113,030
Cash Balances - Beginning of Year.....	248,029	60,203	15,051	323,283
Cash Balances - End of Year.....	\$ 305,668	\$ 107,852	\$ 22,793	\$ 436,313
Cash Basis Fund Balances				
Reserved				
Customer deposits	\$ 37,396	\$ —	\$ —	\$ 37,396
Debt covenants	16,804	16,456	—	33,260
Unreserved	251,468	91,396	22,793	365,657
Total Cash Basis Fund Balances	\$ 305,668	\$ 107,852	\$ 22,793	\$ 436,313

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Marengo, Iowa, is a political subdivision of the State of Iowa located in Iowa County. It was first incorporated in 1859 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and council members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation and general governmental services. The City also provides water and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Marengo has included, except as noted below, all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Marengo (the primary government) 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. During the year ended June 30, 2007, the city recognized cash receipts of \$41,379 collected for the Hospital and remitted \$43,290 to the Hospital. At June 30, 2007, the City held \$18,647 in the General Fund restricted for the Hospital.

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 2006 tax return includes total receipts of \$131,712, cash disbursements of \$605,370, a beginning balance of \$503,626 and an ending balance of \$29,968.

Disbursements include \$598,699 to the City of Marengo for library building renovation and \$1,200 for management and general support services.

(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 storm sewer 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

(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.

The *Tax Increment Financing Fund* is used to account for the collection of tax increment financing receipts and the transfer thereof to other funds to pay liabilities incurred for allowable projects.

Capital Projects

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.

(2) Deposits and Investments

The City's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Notes to the Financial Statements

(2) Deposits and Investments

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

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation		Sewer Revenue		Water Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 215,000	\$ 75,385	\$ 22,000	\$ 3,330	\$ 172,000	\$ 52,480	\$ 409,000	\$ 131,195
2009	225,000	68,435	23,000	2,655	177,000	90,840	425,000	161,930
2010	225,000	60,857	24,000	1,950	183,000	85,530	432,000	148,337
2011	230,000	53,001	26,000	1,200	188,000	80,040	444,000	134,241
2012	230,000	44,686	27,000	405	194,000	74,400	451,000	119,491
2013-17 ..	690,000	108,531	—	—	1,059,000	281,310	1,749,000	389,841
2018-22 ..	195,000	17,875	—	—	1,227,000	112,620	1,422,000	130,495
	<u>\$ 2,010,000</u>	<u>\$ 428,770</u>	<u>\$ 122,000</u>	<u>\$ 9,540</u>	<u>\$ 3,200,000</u>	<u>\$ 777,220</u>	<u>\$ 5,332,000</u>	<u>\$ 1,215,530</u>

On April 23, 2007, the City Council adopted resolution 07-21 which provided for the issuance of not to exceed \$3,200,000 water revenue bonds in order to provide funds to pay a portion of the cost of construction improvements and extensions to the City's Water Utility (project). The Iowa Finance Authority, an agency and public instrumentality of the State of Iowa, is the lender. Issuance terms provided for a 1% (\$32,000) initiation fee, interest rate of 3%, and an annual servicing fee of 0.25% of the unpaid principal balance. Proceeds, less the initiation fee, are available as project costs are incurred. Through June 30, 2007, the City has drawn \$250,217 of available proceeds and has recognized the initiation fee as additional proceeds and project costs.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

1. All of the bonds and the interest thereon shall be payable solely from the net revenue of the Utility and the balance in the sinking fund, both of which are pledged for payment. None of the bonds shall be a general obligation of the City, nor payable in any manner by taxation.
2. Loan proceeds shall be held by the Trustee (Wells Fargo Bank, National Association) and disbursed for costs of the Project.
3. Sufficient rates will be established and maintained which will cause net revenue of the Water Utility to be at least 110% of the bond principal and interest due in the fiscal year.
4. Monthly transfers will be made to the water revenue bond 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.

Notes to the Financial Statements

(3) Long-Term Debt

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

1. The bonds are 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.
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. 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.

Hospital Revenue Notes

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
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.....	255,000	440,195	695,195
2013-2017	5,480,000	1,626,730	7,106,730
2018-2022	1,900,000	622,925	2,522,925
2023-2024	920,000	86,045	1,006,045
Total	<u>\$ 9,480,000</u>	<u>\$ 4,630,945</u>	<u>\$ 14,110,945</u>

Notes to the Financial Statements

(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.

Most regular plan members are required to contribute 3.7% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$36,206, \$34,287 and \$30,301, respectively, equal to the required contributions for each year.

(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, 2007 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Nonmajor Governmental	\$ 94,008
	Capital Projects	
	Nonmajor Governmental	<u>17,000</u>
		<u>111,008</u>
Debt Service	Special Revenue	
	Local Option Sales Tax	115,617
	Tax Increment Financing	<u>89,331</u>
		<u>204,948</u>
Capital Projects	Special Revenue	
	Library Renovation	<u>12,000</u>

Notes to the Financial Statements

(6) Interfund Transfers

Nonmajor Governmental	Special Revenue	
	Local Option Sales Tax	\$ 70,000
Nonmajor Governmental	Enterprise	
	Sanitary Sewer	<u>22,418</u>
		<u>92,418</u>
Enterprise	Capital Projects	
Water	Nonmajor Governmental	<u>6,295</u>
Total		<u>\$ 426,669</u>

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 Commitments and Subsequent Debt Issue

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, 2007, all costs have been paid on this contract except construction retainage of \$82,310.

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. On April 9, 2007, the City Council approved three construction contracts for the project totaling \$2,591,819. The project is primarily funded with water revenue bonds from the Iowa Finance Authority (Note 3).

During April, 2007, the City Council approved purchasing a fire truck chassis and apparatus for approximately \$127,000. In May, 2007, the purchase of an end loader for approximately \$90,000 was also approved. Primary funding for these purchases is from a \$200,000 general obligation note issued August 13, 2007.

During June, 2007, the City Council awarded the 2007 street improvements contract for approximately \$300,000.

Required Supplementary Information

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

Year Ended June 30, 2007

	Governmental Funds - Actual	Enterprise Funds Actual	Net	Budget		Net Over (Under) Final Budget
				Original	Final	
Receipts						
Property tax.....	\$ 704,943	\$ —	\$ 704,943	\$ 672,805	\$ 672,805	\$ 32,138
T.I.F. collections.....	203,582	—	203,582	191,000	191,000	12,582
Other city tax.....	303,514	—	303,514	281,734	281,734	21,780
Licenses and permits.....	3,674	—	3,674	5,400	5,400	(1,726)
Use of money and property	41,626	5,843	47,469	4,300	43,000	4,469
Intergovernmental.....	641,212	—	641,212	256,100	1,385,100	(743,888)
Charges for service.....	107,170	534,614	641,784	638,100	638,100	3,684
Miscellaneous.....	706,924	10,603	717,527	37,300	685,000	32,527
Total Receipts.....	<u>2,712,645</u>	<u>551,060</u>	<u>3,263,705</u>	<u>2,086,739</u>	<u>3,902,139</u>	<u>(638,434)</u>
Disbursements						
Public safety.....	320,710	—	320,710	316,200	320,900	(190)
Public works.....	271,406	—	271,406	258,800	283,800	(12,394)
Health and social services	58,982	—	58,982	61,000	75,000	(16,018)
Culture and recreation.....	220,982	—	220,982	272,350	272,350	(51,368)
General government.....	157,281	—	157,281	186,700	186,700	(29,419)
Debt service.....	308,371	25,046	333,417	341,350	341,350	(7,933)
Capital projects.....	1,796,718	297,343	2,094,061	66,000	2,774,000	(679,939)
Business-type activities.....	—	381,735	381,735	475,800	475,800	(94,065)
Total Disbursements.....	<u>3,134,450</u>	<u>704,124</u>	<u>3,838,574</u>	<u>1,978,200</u>	<u>4,729,900</u>	<u>(891,326)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements.....	<u>(421,805)</u>	<u>(153,064)</u>	<u>(574,869)</u>	<u>108,539</u>	<u>(827,761)</u>	<u>252,892</u>
Other Financing Sources (Uses)						
Bond proceeds.....	—	282,217	282,217	—	—	282,217
Sale of equipment.....	8,858	—	8,858	3,000	3,000	5,858
Operating transfers in.....	420,374	6,295	426,669	306,600	515,100	(88,431)
Operating transfers out.....	(404,251)	(22,418)	(426,669)	(306,600)	(515,100)	88,431
Other Financing Sources, Net.....	<u>24,981</u>	<u>266,094</u>	<u>291,075</u>	<u>3,000</u>	<u>3,000</u>	<u>288,075</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses ..						
Balances - Beginning of Year.....	<u>1,338,248</u>	<u>323,283</u>	<u>1,661,531</u>	<u>1,329,418</u>	<u>1,455,247</u>	<u>206,284</u>
Balances - End of Year ..	<u>\$ 941,424</u>	<u>\$ 436,313</u>	<u>\$ 1,377,737</u>	<u>\$ 1,440,957</u>	<u>\$ 630,486</u>	<u>\$ 747,251</u>

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. 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, two budget amendments increased budgeted disbursements by \$2,751,700. Original budgeted disbursements did not include capital outlay for a portion of the Library Renovation Project or the Water System Project. Amendments one and two increased budgeted capital outlay by \$1,600,000 and \$1,108,000, respectively. The second amendment increased other budgeted disbursements by \$43,700 for higher than originally expected operating costs. 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, 2007

	General	Insurance	Library Miscellaneous	Recreation Commission	Capital Reserve	Memorial Building	Total
Receipts							
Property taxes	\$ 415,840	\$ 69,001	\$ —	\$ —	\$ —	\$ 40,927	\$ 525,768
Licenses and permits.....	3,674	—	—	—	—	—	3,674
Use of money and property	5,690	—	—	—	—	452	6,142
Intergovernmental.....	29,933	—	—	—	—	—	29,933
Charges for services.....	106,620	—	—	—	—	—	106,620
Miscellaneous.....	60,966	—	2,444	1,290	—	—	64,700
Total Receipts	622,723	69,001	2,444	1,290	—	41,379	736,837
Disbursements							
Public safety	320,710	—	—	—	—	—	320,710
Public works	50,149	—	—	—	—	—	50,149
Health and social services.....	15,692	—	—	—	—	43,290	58,982
Culture and recreation.....	219,054	—	1,155	773	—	—	220,982
General government.....	114,350	42,531	—	—	—	—	156,881
Total Disbursements	719,955	42,531	1,155	773	—	43,290	807,704
Excess (Deficiency) of Receipts Over (Under) Disbursements	(97,232)	26,470	1,289	517	—	(1,911)	(70,867)
Other Financing Sources (Uses)							
Sale of capital assets.....	8,858	—	—	—	—	—	8,858
Transfers in.....	111,008	—	—	—	—	—	111,008
Intrafund transfers (net).....	325	—	—	—	(325)	—	—
Total Other Financing Sources (Uses).....	120,191	—	—	—	(325)	—	119,866
Increase (Decrease) in Cash Balances.....	22,959	26,470	1,289	517	(325)	(1,911)	48,999
Cash Balances - Beginning of Year.....	80,887	—	1,497	—	40,280	20,558	143,222
Cash Balances - End of Year	\$ 103,846	\$ 26,470	\$ 2,786	\$ 517	\$ 39,955	\$ 18,647	\$ 192,221
Cash Basis Fund Balances							
Reserved							
Donor or legal provisions	\$ —	\$ 26,470	\$ 2,786	\$ 517	\$ —	\$ 18,647	\$ 48,420
Unreserved.....	103,846	—	—	—	39,955	—	143,801
Cash Balances - End of Year	\$ 103,846	\$ 26,470	\$ 2,786	\$ 517	\$ 39,955	\$ 18,647	\$ 192,221

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

As of and for the Year Ended June 30, 2007

	Special Employee Benefits	Capital Projects Capital Projects	Pool Renovation	Permanent Cemetery Trust	Total
Receipts					
Property taxes	\$ 92,321	\$ —	\$ —	\$ —	\$ 92,321
Use of money and property ...	3,748	4,198	—	—	7,946
Charges for services.....	—	—	—	550	550
Total Receipts	<u>96,069</u>	<u>4,198</u>	<u>—</u>	<u>550</u>	<u>100,817</u>
Disbursements					
Capital projects.....	<u>—</u>	<u>86,613</u>	<u>—</u>	<u>—</u>	<u>86,613</u>
Receipts Over (Under)					
Disbursements	<u>96,069</u>	<u>(82,415)</u>	<u>—</u>	<u>550</u>	<u>14,204</u>
Other Financing Sources (Uses)					
Transfers in.....	—	92,418	—	—	92,418
Transfers out	<u>(94,008)</u>	<u>(23,295)</u>	<u>—</u>	<u>—</u>	<u>(117,303)</u>
Total Other Financing Sources (Uses)	<u>(94,008)</u>	<u>69,123</u>	<u>—</u>	<u>—</u>	<u>(24,885)</u>
Increase (Decrease) in					
Cash Balances	2,061	(13,292)	—	550	(10,681)
Cash Balances - Beginning of Year	<u>40,780</u>	<u>80,926</u>	<u>7,357</u>	<u>50,824</u>	<u>179,887</u>
Cash Balances - End of Year	<u>\$ 42,841</u>	<u>\$ 67,634</u>	<u>\$ 7,357</u>	<u>\$ 51,374</u>	<u>\$ 169,206</u>
Cash Basis Fund Balances					
Reserved - donor or legal provisions.....	<u>\$ 42,841</u>	<u>\$ 67,634</u>	<u>\$ 7,357</u>	<u>\$ 51,374</u>	<u>\$ 169,206</u>

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

As of and for the Year Ended June 30, 2007

	Water	Water Bond Sinking	Water Reserve	System Improvements	Water Deposits	Water Revolving	Total
Operating Receipts							
Charges for service	\$ 262,333	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 262,333
Miscellaneous	1,767	—	—	1,000	6,486	—	9,253
Total Operating Receipts	264,100	—	—	1,000	6,486	—	271,586
Operating Disbursements							
Business-type activities	<u>201,009</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,870</u>	<u>—</u>	<u>206,879</u>
Excess of Operating Receipts Over Operating Disbursements	63,091	—	—	1,000	616	—	64,707
Nonoperating Receipts (Disbursements)							
Interest on investments	1,763	—	—	—	—	—	1,763
Capital outlay	—	—	—	(297,343)	—	—	(297,343)
Total Nonoperating Receipts (Disbursements).....	1,763	—	—	(297,343)	—	—	(295,580)
Excess (Deficiency) of Receipts Over (Under) Disbursements	64,854	—	—	(296,343)	616	—	(230,873)
Other Financing Sources (Uses)							
Debt proceeds	—	—	—	282,217	—	—	282,217
Transfers in.....	—	—	—	6,295	—	—	6,295
Intrafund transfers (net)	(30,299)	16,804	—	96,688	—	(83,193)	—
Total Other Financing Sources (Uses).....	(30,299)	16,804	—	385,200	—	(83,193)	288,512
Increase (Decrease) in Cash Balances.....	34,555	16,804	—	88,857	616	(83,193)	57,639
Cash Balances -Beginning of Year.....	30,441	—	32,500	—	36,780	148,308	248,029
Cash Balances - End of Year	\$ 64,996	\$ 16,804	\$ 32,500	\$ 88,857	\$ 37,396	\$ 65,115	\$ 305,668
Cash Basis Fund Balance							
Reserved							
Customer deposits	\$ —	—	\$ —	\$ —	\$ 37,396	\$ —	\$ 37,396
Debt covenants	—	16,804	—	—	—	—	16,804
Unreserved	64,996	—	32,500	88,857	—	65,115	251,468
Total Cash Basis Fund Balance	\$ 64,996	\$ 16,804	\$ 32,500	\$ 88,857	\$ 37,396	\$ 65,115	\$ 305,668

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, 2007

	Sewer Rental	Sewer Sinking	Sewer Reserve	Sewer Replace- ment	Sewer Revolving	Total
Operating Receipts						
Charges for service	\$ 252,515	\$ —	\$ —	\$ —	\$ —	\$ 252,515
Miscellaneous.....	1,350	—	—	—	—	1,350
Total Operating Receipts	253,865	—	—	—	—	253,865
Operating Disbursements						
Business-type activities	<u>161,715</u>	—	—	—	—	<u>161,715</u>
Excess of Operating Receipts Over Operating Disbursements	92,150	—	—	—	—	92,150
Nonoperating Receipts (Disbursements)						
Interest on investments	2,963	—	—	—	—	2,963
Debt service.....	—	(25,046)	—	—	—	(25,046)
Total Nonoperating Receipts (Disbursements)	2,963	(25,046)	—	—	—	(22,083)
Excess (Deficiency) of Receipts Over (Under) Disbursements	95,113	(25,046)	—	—	—	70,067
Other Financing Sources (Uses)						
Transfers out	(22,418)	—	—	—	—	(22,418)
Intrafund transfers (net)	(395)	28,895	(28,500)	—	—	—
Total Other Financing Sources (Uses)	(22,813)	28,895	(28,500)	—	—	(22,418)
Increase (Decrease) in Cash Balances	72,300	3,849	(28,500)	—	—	47,649
Cash Balances - Beginning of Year	5,549	12,607	28,500	9,266	4,281	60,203
Cash Balances - End of Year	\$ 77,849	\$ 16,456	\$ —	\$ 9,266	\$ 4,281	\$ 107,852
Cash Basis Fund Balance						
Reserved - debt covenants.....	\$ —	\$ 16,456	\$ —	\$ —	\$ —	\$ 16,456
Unreserved	77,849	—	—	9,266	4,281	91,396
Total Cash Basis Fund Balance	\$ 77,849	\$ 16,456	\$ —	\$ 9,266	\$ 4,281	\$ 107,852

Schedule of Indebtedness

Year Ended June 30, 2007

	Amount Originally Issued	Date of Issue	Interest Rates	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds								
Library renovation.....	\$ 800,000	4-15-06	3.70 - 4.50%	\$ 760,000	\$ —	\$ 45,000	\$ 715,000	\$ 30,988
Refunding	620,000	12-15-04	2.95 - 3.85	550,000	—	80,000	470,000	18,262
General Obligation Notes								
Corporate purpose.....	\$ 162,800	5-5-97	5.30 - 5.50%	10,000	—	10,000	—	550
Equipment lease purchase	22,009	9-24-01	6.00	1,315	—	1,315	—	17
Corporate purpose.....	1,000,000	6-1-05	3.25 - 4.00	<u>915,000</u>	<u>—</u>	<u>90,000</u>	<u>825,000</u>	<u>32,768</u>
Total General Obligation.....				<u>\$ 2,236,315</u>	<u>\$ —</u>	<u>\$ 226,315</u>	<u>\$ 2,010,000</u>	<u>\$ 82,585</u>
Sewer Revenue Bonds.....	\$ 360,000	10-15-91	3.00%	<u>\$ 143,000</u>	<u>\$ —</u>	<u>\$ 21,000</u>	<u>\$ 122,000</u>	<u>\$ 3,975</u>
Water Revenue Bonds	\$ 3,200,000*	6-1-07	3.00%	<u>\$ —</u>	<u>\$ 282,217</u>	<u>\$ —</u>	<u>\$ 282,217</u>	<u>\$ —</u>

*Maximum available

Schedule of Bond and Note Maturities

At June 30, 2007

	General Obligation Bonds and Notes						Revenue Bonds				
	Refunding		Corporate Purpose		Library Renovation		Total	Sewer Revenue		Water Revenue	
	Issued 12-15-04		Issued 6-1-05		Issued 4-15-06			Issued 10-15-91		Issued 6-1-07	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount*
2008.....	2.95%	\$ 80,000	3.25%	\$ 90,000	3.70%	\$ 45,000	\$ 215,000	3.00%	\$ 22,000	3.00%	\$ 172,000
2009.....	3.15	80,000	3.35	95,000	3.75	50,000	225,000	3.00	23,000	3.00	177,000
2010.....	3.35	80,000	3.45	95,000	3.80	50,000	225,000	3.00	24,000	3.00	183,000
2011.....	3.55	80,000	3.55	100,000	3.85	50,000	230,000	3.00	26,000	3.00	188,000
2012.....	3.70	75,000	3.65	105,000	3.90	50,000	230,000	3.00	27,000	3.00	194,000
2013.....	3.85	75,000	3.75	110,000	3.95	50,000	235,000		—	3.00	199,000
2014.....		—	3.90	115,000	4.05	55,000	170,000		—	3.00	205,000
2015.....		—	4.00	115,000	4.10	55,000	170,000		—	3.00	212,000
2016.....		—		—	4.20	55,000	55,000		—	3.00	218,000
2017.....		—		—	4.30	60,000	60,000		—	3.00	225,000
2018.....		—		—	4.40	60,000	60,000		—	3.00	231,000
2019.....		—		—	4.45	65,000	65,000		—	3.00	238,000
2020.....		—		—	4.50	70,000	70,000		—	3.00	245,000
2021.....		—		—		—	—		—	3.00	253,000
2022.....		—		—		—	—		—	3.00	260,000
Total.....		\$ 470,000		\$ 825,000		\$ 715,000	\$ 2,010,000		\$ 122,000		\$ 3,200,000

*Subject to a maximum draw down of \$3,200,000. At June 30, 2007, \$282,217 had been drawn down.

Schedule of Receipts by Source and Disbursements by Function/Program

All Governmental Funds

Years Ended June 30, 2004 Through 2007

	2007	2006	2005	2004
Receipts				
Property tax	\$ 704,943	\$ 688,920	\$ 680,412	\$ 654,306
T.I.F. collections	203,582	157,925	151,178	151,391
Other city tax	303,514	251,704	285,873	280,640
Licenses and permits.....	3,674	3,997	5,438	4,653
Use of money and property	41,626	31,155	6,716	3,324
Intergovernmental.....	641,212	268,078	416,405	290,791
Charges for service	107,170	91,580	103,593	115,627
Miscellaneous.....	<u>706,924</u>	<u>206,385</u>	<u>69,274</u>	<u>142,823</u>
Total Receipts	<u>\$ 2,712,645</u>	<u>\$ 1,699,744</u>	<u>\$ 1,718,889</u>	<u>\$ 1,643,555</u>
Disbursements				
Operating				
Public safety.....	\$ 320,710	\$ 321,519	\$ 264,493	\$ 371,423
Public works.....	271,406	345,537	259,939	281,820
Health and social services	58,982	79,072	12,999	13,164
Culture and recreation	220,982	258,648	273,456	317,922
General government	157,281	143,827	169,052	192,031
Debt service.....	308,371	547,815	1,066,082	277,319
Capital projects.....	<u>1,796,718</u>	<u>1,029,909</u>	<u>464,204</u>	<u>404,460</u>
Total Disbursements	<u>\$ 3,134,450</u>	<u>\$ 2,726,327</u>	<u>\$ 2,510,225</u>	<u>\$ 1,858,139</u>

Schedule of Sanitary Sewer System Rates

Year Ended June 30, 2007

Approximately 1,100 customers at June 30, 2007.

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	\$3.00
--	--------

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

Year Ended June 30, 2007

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket (including certified acts of terrorism)	4/1/07 - 4/1/08	\$2,565,231
Valuable papers and records	4/1/07 - 4/1/08	100,000
Liability		
Products/completed operations	4/1/07 - 4/1/08	2,000,000
General aggregate	4/1/07 - 4/1/08	2,000,000
Personal/advertising injury	4/1/07 - 4/1/08	1,000,000
Each occurrence	4/1/07 - 4/1/08	1,000,000
Damage to premises	4/1/07 - 4/1/08	100,000
Medical expense	4/1/07 - 4/1/08	5,000
Crime		
Public employee dishonesty	6/1/07 - 6/1/08	\$75,000 per employee
Inland Marine		
Contractors equipment	4/1/07 - 4/1/08	216,464
Scheduled property floater (miscellaneous)	4/1/07 - 4/1/08	32,307
Automobile		
Liability	4/1/07 - 4/1/08	1,000,000
Uninsured	4/1/07 - 4/1/08	50,000
Underinsured	4/1/07 - 4/1/08	50,000
Physical damage	4/1/07 - 4/1/08	Loss less deductible
Comprehensive	4/1/07 - 4/1/08	Loss less deductible
Collision	4/1/07 - 4/1/08	Loss less deductible
Medical	4/1/07 - 4/1/08	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/07 - 4/1/08	500,000
Bodily injury by disease/employee	4/1/07 - 4/1/08	500,000
Bodily injury by disease/limit	4/1/07 - 4/1/08	500,000
Umbrella		
Retained	4/1/07 - 4/1/08	10,000
Occurrence	4/1/07 - 4/1/08	2,000,000
Aggregate	4/1/06 - 4/1/08	2,000,000
Linebacker		
Each loss	4/1/07 - 4/1/08	1,000,000
Aggregate for each policy term	4/1/07 - 4/1/08	1,000,000
Insured's deductible per loss	4/1/07 - 4/01/8	2,000

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

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, 2007, which, along with the discretely presented component unit, collectively comprise the City's basic financial statements, and have issued our report thereon dated September 25, 2007. Our report expressed a qualified opinion on the discrete component units due to the omission of Friends of the Marengo Public Library, 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 of Marengo's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Marengo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marengo's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Marengo's ability to initiate, authorize, record, process or

report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Marengo's financial statements that is more than inconsequential will not be prevented or detected by the City of Marengo's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Marengo's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-IC-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marengo'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 or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Marengo's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Marengo's responses and, accordingly, we express no opinion on them.

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 and other parties to whom the City of Marengo may report. 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 25, 2007

Schedule of Findings and Questioned Costs

Part I: Findings Related to the Financial Statements

07-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.

Part II: Compliance and Other Matters

- 07-C-1 Certified Budget** - We noted no disbursements during the year ended June 30, 2007 which exceeded the amounts budgeted.
- 07-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.
- 07-C-3 Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 07-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.
- 07-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.
- 07-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.
- 07-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.
- 07-C-8 Revenue Bonds and Notes** - The City has complied with the revenue bond and note resolutions.