

# **City of Marcus**

Marcus, Iowa

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**Independent Auditors' Reports  
Basic Financial Statements and  
Supplemental Information  
Schedule of Findings and Responses**

June 30, 2007

# City of Marcus

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# City of Marcus

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2007)</b>		
Darrell Downs	Mayor	December, 2007
Charles Schmillen	Mayor ProTem	December, 2007
Sherree Ogren	Council Member	December, 2009
Conrad Ebert	Council Member	December, 2009
Carl Nelson	Council Member	December, 2007
David Rohwer	Council Member	December, 2007
Beverly Alesch	Clerk	Indefinite
Charles Knudson	Attorney	Indefinite
<b>(After January 2007)</b>		
Darrell Downs	Mayor	December, 2007
Charles Schmillen	Mayor ProTem	December, 2007
Sherree Ogren	Council Member	December, 2009
Conrad Ebert	Council Member	December, 2009
Carl Nelson	Council Member	December, 2007
David Rohwer	Council Member	December, 2007
Beverly Alesch	Clerk	Indefinite
Charles Knudson	Attorney	Indefinite



KING, REINSCH, PROSSER & CO., L.L.P.  
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## Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council  
City of Marcus  
Marcus, 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 Marcus, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Marcus' management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards 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 that our audit provides a reasonable basis for our opinions.

As described in the notes, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marcus, Iowa, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in the notes to the financial statements.



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008 on our consideration of the City of Marcus' 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 10 and 23 through 24 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marcus' basic financial statements. Supplementary information included in pages 25 through 27 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 in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "King Reinsch Prosser &amp; Co. LLP". The signature is written in dark ink and is positioned to the right of the typed name.

Sioux City, Iowa  
March 27, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Marcus 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**

- During the fiscal year ended 2007, the City issued general obligation notes totaling \$1,094,974 which was net of \$15,026 discount and insurance costs. The \$260,000 Capital Loan Notes, Series 2006B and the \$850,000 General Obligation Capital Loan Note Series 2006A were to provide funding for the Marcus Business Park.
- The City's largest governmental activities functional disbursements was approximately \$729,000 for the Marcus Business Park capital project for the year ended 2007.
- The City's total cash basis net assets increased 17.67 percent, or approximately \$259,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$404,000 due to note proceeds on the Marcus Business Park that will be spent in the following year and the assets of the business type activities decreased by approximately \$145,000 for the purchase of a new garbage truck and increased costs of employee benefits.

### **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 were 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 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.

Supplementary Information provides detailed information about the City's nonmajor governmental funds, indebtedness, and debt maturities.

## Basis of Accounting

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

## Reporting the City's Financial Activities

### *Government-wide Financial Statements*

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 which helps answer this question.

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities includes public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and the solid waste removal. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. 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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City.

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

### **Government-Wide Financial Analysis**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,227,009 to \$1,631,090.

#### **Changes in Cash Basis Net Assets of Governmental Activities Year Ended June 30, 2007**

Receipts:

Program receipts:

Charges for service	\$ 33,000
Operating grants, contributions and restricted interest	111,642
Capital grants, contributions and restricted interest	188,778

General receipts:

Property tax	426,006
Local option sales tax	87,735
Unrestricted investment earnings	46,741
Other general receipts	9,170

Note proceeds 1,094,974

Payment of short-term debt with note proceeds (240,249)

Total receipts \$ 1,757,797

Disbursements:

General government	\$ 96,062
Public safety	76,527
Public works	128,721
Culture and recreation	143,573
Community and economic development	63,394
Debt service	116,437
Capital projects	<u>729,002</u>
Total disbursements	<u>\$ 1,353,716</u>

Increase in cash basis net assets \$ 404,081

Cash basis net assets beginning of year 1,227,009

Cash basis net assets end of year \$ 1,631,090

This summary reflects an increase of 32.9 percent for the governmental activities net assets. Total governmental activities receipts reported in fiscal year 2007 were \$1,757,797, which is net of \$240,249 for payment of short-term debt with note proceeds. Governmental activities program receipts totaled \$333,420 for the fiscal year 2007 with approximately \$189,000 or 56.6 percent being federal grant receipts. Governmental activities general receipts totaled \$569,652 and accounted for 32.4 percent of total governmental activities receipts. New note proceeds totaled \$854,725 and accounted for 48.6 percent of total governmental activities receipts.

Governmental activity disbursements totaled \$1,353,716 for fiscal year 2007. Disbursements for Marcus Business Park capital project totaled \$729,002, accounting for 53.9 percent of total governmental activities disbursements, and culture and recreation disbursements totaled \$143,573 or 10.6 percent of total governmental activities disbursements.

**Changes in Cash Basis Net Assets of Business Type Activities  
Year Ended June 30, 2007**

Receipts:	
Program receipts:	
Charges for service:	
Water utility	\$ 104,101
Sewer utility	129,447
Solid waste utility	76,533
General receipts:	
Unrestricted interest on investments	13,867
Miscellaneous	720
Note proceeds	33,600
Total receipts	<u>\$ 358,268</u>
Disbursements:	
Water utility	123,643
Sewer utility	157,378
Solid waste utility	<u>222,029</u>
Total disbursements	<u>\$ 503,050</u>
Decrease in cash balance	\$ (144,782)
Cash basis net assets beginning of year	<u>240,058</u>
Cash basis net assets end of year	<u><u>\$ 95,276</u></u>

The business activities net assets balance decreased 60.3 percent from the prior year. Business type activities receipts totaled \$358,268 for the fiscal year 2007. The program receipts totaled \$310,081 and accounted for 86.6 percent of the total receipts. Business type activities general receipts and note proceeds totaled \$48,187 for the fiscal year 2007.

Business type activities disbursements totaled \$503,050 for the fiscal year 2007. The water utility fund disbursements totaled \$123,643 or 24.6 percent of the total business type activities disbursements, the sewer utility fund disbursements totaled \$157,378 or 31.3 percent of the total business type activities disbursements, and the solid waste utility fund disbursements totaled \$222,029 or 44.1 percent of the total business type activities disbursements.

### **Individual Major Governmental Fund Analysis**

As City of Marcus completed the year, its governmental funds reported a combined fund balance of \$1,631,090, an increase of \$404,081 above last year's total of \$1,227,009. 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 was \$522,584 at the end of the fiscal year, a decrease of \$5,682 from the previous year.
- The Road Use Tax Fund cash balance decreased by \$10,124 to \$14,671 during the fiscal year. This decrease was attributable to disbursements in excess of receipts for street repairs and the final payment made on the payloader debt.
- The Urban Renewal Tax Increment Fund cash balance was \$170,792 at the end of the fiscal year, an increase of \$23,200 from the previous year. The increase was attributable to an increase in tax incremental property taxes received.
- The Employee Benefit Fund cash balance was \$52,355 at the end of the fiscal year, an increase of \$46,103 from the previous year. The increase was attributable to property taxes being levied in error for water, sewer, and solid waste employee benefits.
- The Sand Seed Donations Fund cash balance increased by \$21,290 to \$417,331 during the fiscal year. This increase was due to interest earnings on the investment cash.
- The Capital Project Fund cash balance was \$224,376 at the end of the fiscal year, an increase of \$317,645 from the prior year \$93,269 deficit balance. The increase is due to note proceeds and grants in excess of project disbursements as of June 30, 2007. \$19,658 remains to be paid on the Marcus Business Park Project.

### **Individual Major Business Type Fund Analysis**

- The Water Fund cash balance was \$212,628 at the end of the fiscal year, a decrease of \$8,934 from the prior year.
- The Sewer Fund cash balance decreased by \$25,937 to a deficit balance of \$44,944, due primarily to additional supplies and other expenses needed. Restricted fund balance for debt service totaled \$ 43,826 for the year ended June 30, 2007.
- The Solid Waste Fund cash balance decreased by \$109,911 to a deficit balance of \$72,408, due primarily to the purchase of the garbage truck.

## **Budgetary Highlights**

Over the course of the year, the City amended its budget. The amendment was approved on May 21, 2007 and resulted in an increase in other financing sources to reflect the note issues and an increase in disbursements to provide for additional disbursements in certain City departments.

The City exceeded the amounts budgeted in the public safety and culture and recreation functions for the year ended June 30, 2007 by \$2,911 and \$7,972, respectively.

## **Debt Administration**

At June 30, 2007, the City had \$2,481,172 in notes and other long-term debt.

### **Outstanding Debt at Year-End June 30, 2007**

General obligation notes	\$	1,345,000
Revenue notes		858,000
Bank notes		<u>278,172</u>
Total	\$	<u>2,481,172</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,589,572 is below its constitutional debt limit of \$2,088,023.

## **Economic Factors and Next Year's Budgets and Rates**

The City of Marcus 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. One of those factors is the state of the economy.

The water, sewer, and solid waste funds have sustained increased utility rates during year ending June 30, 2008. The City has also changed the utility billing from quarterly to monthly to allow for steady cash flow.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget decreased to \$1,069,149 from the prior year budget, which budgeted \$1,110,000 of note proceeds. The City expects to decrease disbursements during 2008 mostly due to the capital project being completed in the 2007 fiscal year and no new capital projects being budgeted for in fiscal year 2008. Also with the issuance of the notes in fiscal year 2007, the debt service budgeted disbursements were increased from the prior year approximately \$54,000 to allow for principal and interest payments on the new notes. The net effect of the budget changes is an expected decrease in disbursements of approximately \$1,367,642 to \$1,158,765. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$89,616 by the end of fiscal year 2008.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Beverly Alesch, City Clerk, 222 N. Main, Marcus, Iowa, 51035.

**BASIC FINANCIAL STATEMENTS**

**City of Marcus**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and for the Year Ended June 30, 2007**

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 96,062	\$ 5,554	\$ 1,358	\$ -	\$ (89,150)	\$ -	\$ (89,150)
Public safety	76,527	-	873	-	(75,654)	-	(75,654)
Public works	128,721	-	97,666	-	(31,055)	-	(31,055)
Culture and recreation	143,573	21,301	11,745	-	(110,527)	-	(110,527)
Community and economic development	63,394	6,145	-	-	(57,249)	-	(57,249)
Debt service	116,437	-	-	-	(116,437)	-	(116,437)
Capital projects	729,002	-	-	188,778	(540,224)	-	(540,224)
Total governmental activities	<u>1,353,716</u>	<u>33,000</u>	<u>111,642</u>	<u>188,778</u>	<u>(1,020,296)</u>	<u>-</u>	<u>(1,020,296)</u>
<b>Business-Type Activities:</b>							
Water	123,643	104,101	-	-	-	(19,542)	(19,542)
Sewer	157,378	129,447	-	-	-	(27,931)	(27,931)
Solid waste	222,029	76,533	-	-	-	(145,496)	(145,496)
Total business-type activities	<u>503,050</u>	<u>310,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(192,969)</u>	<u>(192,969)</u>
<b>Total</b>	<b>\$ 1,856,766</b>	<b>\$ 343,081</b>	<b>\$ 111,642</b>	<b>\$ 188,778</b>	<b>\$ (1,020,296)</b>	<b>\$ (192,969)</b>	<b>\$ (1,213,265)</b>

**General Receipts:**

Taxes:		
Property taxes, levied for general purposes	\$ 214,080	\$ -
Property taxes, levied for employee benefits	117,672	-
Property taxes, levied for tax increment financing	15,179	-
Property taxes, levied for debt service	72,788	-
Property taxes, levied for emergency	6,287	-
Local option sales tax	87,735	-
Unrestricted investment earnings	46,741	13,867
Miscellaneous	9,170	720
Note proceeds (net of discount and issuance costs of \$15,026)	1,094,974	33,600
Payment of short-term debt with note proceeds	(240,249)	-
Total general receipts and other receipts	<u>1,424,377</u>	<u>48,187</u>
Change in cash basis net assets	404,081	(144,782)
Cash basis net assets beginning of year	1,227,009	240,058
Cash basis net assets end of year	<u>\$ 1,631,090</u>	<u>\$ 95,276</u>

**Cash Basis Net Assets:**

Restricted:		
Streets	\$ 14,671	\$ -
Employee benefits	52,355	-
Urban renewal purposes	170,792	-
Debt service	58,433	43,826
Capital project	224,376	-
Donor authorization	417,331	-
Other purposes	170,548	-
Unrestricted	522,584	51,450
Total cash basis net assets	<u>\$ 1,631,090</u>	<u>\$ 95,276</u>

**City of Marcus**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2007**

	Special Revenue						Capital Projects		Total Governmental Funds
	General Fund	Road Use Tax	Urban Renewal Tax Increment	Employee Benefits	Sand Seed Donations	Marcus Business Park	Other Governmental Funds		
<b>RECEIPTS:</b>									
Property taxes	\$ 214,080	\$ -	\$ -	\$ 117,672	\$ -	\$ -	\$ 79,075	\$ 410,827	
Tax increment financing	-	-	15,179	-	-	-	-	15,179	
Local option sales tax	-	-	-	-	-	-	87,735	87,735	
Licenses and permits	2,015	-	-	-	-	-	-	2,015	
Intergovernmental	6,800	94,930	-	-	-	188,778	-	290,508	
Charges for services	29,280	-	-	-	-	-	-	29,280	
Investment earnings	20,497	-	3,914	-	21,290	2,823	7,020	55,544	
Miscellaneous	11,663	-	-	-	-	321	-	11,984	
Total receipts	284,335	94,930	19,093	117,672	21,290	191,922	173,830	903,072	
<b>DISBURSEMENTS:</b>									
Current:									
General government	72,238	-	-	23,824	-	-	-	96,062	
Public safety	61,778	-	-	14,749	-	-	-	76,527	
Public works	2,000	105,054	-	21,667	-	-	-	128,721	
Culture and recreation	117,256	-	-	11,329	-	-	14,988	143,573	
Community and economic development	36,794	-	26,600	-	-	-	-	63,394	
Debt service	-	-	-	-	-	-	116,437	116,437	
Capital outlay	-	-	-	-	-	729,002	-	729,002	
Total disbursements	290,066	105,054	26,600	71,569	-	729,002	131,425	1,353,716	
Excess (deficiency) of receipts over (under) disbursements	(5,731)	(10,124)	(7,507)	46,103	21,290	(537,080)	42,405	(450,644)	
<b>OTHER FINANCING SOURCES (USES):</b>									
Proceeds from debt	-	-	-	-	-	1,094,974	-	1,094,974	
Payment of short-term debt with note proceeds	-	-	-	-	-	(240,249)	-	(240,249)	
Transfers in	49	-	30,707	-	-	-	26,321	57,077	
Transfers out	-	-	-	-	-	-	(57,077)	(57,077)	
Total other financing sources and (uses)	49	-	30,707	-	-	854,725	(30,756)	854,725	
Net change in cash balances	(5,682)	(10,124)	23,200	46,103	21,290	317,645	11,649	404,081	
Cash balance beginning of year	528,266	24,795	147,592	6,252	396,041	(93,269)	217,332	1,227,009	
Cash balance end of year	\$ 522,584	\$ 14,671	\$ 170,792	\$ 52,355	\$ 417,331	\$ 224,376	\$ 228,981	\$ 1,631,090	
<b>CASH BASIS FUND BALANCES:</b>									
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,433	\$ 58,433	
Unreserved:									
General fund	522,584	-	-	-	-	-	-	522,584	
Special revenue funds	-	14,671	170,792	52,355	417,331	-	170,548	825,697	
Capital projects funds	-	-	-	-	-	224,376	-	224,376	
Total cash basis fund balances	\$ 522,584	\$ 14,671	\$ 170,792	\$ 52,355	\$ 417,331	\$ 224,376	\$ 228,981	\$ 1,631,090	

**City of Marcus**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the Year Ended June 30, 2007**

	<b>Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste</b>	<b>Total</b>
<b>RECEIPTS:</b>				
Charges for services	\$ 104,101	\$ 129,447	\$ 76,533	\$ 310,081
Miscellaneous	390	285	45	720
Total operating receipts	<u>104,491</u>	<u>129,732</u>	<u>76,578</u>	<u>310,801</u>
<b>OPERATING DISBURSEMENTS:</b>				
Personal services	66,737	22,944	58,360	148,041
Other supplies and expenses	54,579	18,376	44,233	117,188
Capital outlay	2,327	18,647	119,436	140,410
Total operating disbursements	<u>123,643</u>	<u>59,967</u>	<u>222,029</u>	<u>405,639</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(19,152)</u>	<u>69,765</u>	<u>(145,451)</u>	<u>(94,838)</u>
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS):</b>				
Investment earnings	10,218	1,709	1,940	13,867
Proceeds from debt	-	-	33,600	33,600
Debt service:				
Principal	-	(61,000)	-	(61,000)
Interest	-	(36,411)	-	(36,411)
Total non-operating receipts (disbursements)	<u>10,218</u>	<u>(95,702)</u>	<u>35,540</u>	<u>(49,944)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(8,934)</u>	<u>(25,937)</u>	<u>(109,911)</u>	<u>(144,782)</u>
Net change in cash balances	(8,934)	(25,937)	(109,911)	(144,782)
Cash balance beginning of year	221,562	(19,007)	37,503	240,058
Cash balance end of year	<u>\$ 212,628</u>	<u>\$ (44,944)</u>	<u>\$ (72,408)</u>	<u>\$ 95,276</u>
<b>CASH BASIS FUND BALANCES:</b>				
Restricted for debt service	\$ -	\$ 43,826	\$ -	\$ 43,826
Unrestricted	212,628	(88,770)	(72,408)	51,450
Total cash basis fund balances	<u>\$ 212,628</u>	<u>\$ (44,944)</u>	<u>\$ (72,408)</u>	<u>\$ 95,276</u>

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Marcus, Iowa, is a political subdivision of the State of Iowa located in Cherokee County. The City operates under the Home Rule provision of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste removal for its citizens.

Reporting Entity - For financial reporting purposes, City of Marcus has included 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. The City has no component units which meet the governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no on going financial interest or responsibility by the participating governments. City officials are members of following boards and commissions: Cherokee County Assessor's Conference Board, Cherokee County Emergency Management Commission, Cherokee County Landfill Commission and Cherokee County Joint E911 Service Board.

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information of all of the nonfiduciary 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 revenues, 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 nonfiduciary net assets. Net assets are reported in two categories:

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

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

*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 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 nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Employee Benefits Fund is used to account for the receipt of property taxes restricted for payment of certain employee's health benefits.

The Sand Seed Donations Fund is used to account for monies held in trust to be used for various projects under the discretion of the donor.

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The Capital Projects Funds is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

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

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

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage removal.

Measurement Focus and Basis of Accounting - The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements general result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions.

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

**CASH AND POOLED INVESTMENTS:**

The City's deposits in banks 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.

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. During the year ended June 30, 2007, the City held no investments.

**BONDS AND NOTES PAYABLE:**

Annual debt service requirements to maturity for general obligation notes, revenue notes, and bank notes payable are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Other Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 945,000	\$ 39,765	\$ 64,000	\$ 33,996	\$ 24,477	\$ 15,003	\$ 1,033,477	\$ 88,764
2009	100,000	19,605	66,000	31,460	25,253	13,670	191,253	64,735
2010	100,000	16,215	69,000	28,846	26,036	12,324	195,036	57,385
2011	25,000	12,615	71,000	26,111	202,406	3,024	298,406	41,750
2012	25,000	11,090	75,000	23,299	-	-	100,000	34,389
2013-2017	150,000	30,113	419,000	69,778	-	-	569,000	99,891
2018	-	-	94,000	3,723	-	-	94,000	3,723
	<u>\$ 1,345,000</u>	<u>\$ 129,403</u>	<u>\$ 858,000</u>	<u>\$ 217,213</u>	<u>\$ 278,172</u>	<u>\$ 44,021</u>	<u>\$ 2,481,172</u>	<u>\$ 390,637</u>

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a. Net revenues from user rates shall be deposited in the sewer fund each month in an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12th of the expenses payable on an annual basis such as insurance.
- b. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

**BONDS AND NOTES PAYABLE (CONTINUED):**

- c. Sufficient monthly transfers shall be made to a separate sewer revenue note principal and interest sinking account for the purpose of making the note principal and interest payments when due.
- d. Additional monthly transfers to a sewer revenue debt service reserve account shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying principal at maturity or interest on the notes when insufficient money is available in the sinking account. In each month the deposit requirement is equal to 25 percent of the amount required to be deposited in the sinking account.

The City has not funded the sewer revenue debt service reserve account as required above.

**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 percent of their annual covered salary and the City is required to contribute 5.75 percent of 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 contributions to IPERS for the year ended June 30, 2007 totaled \$12,420, equal to the required contributions for the year.

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

COMPENSATED ABSENCES:

City employees accumulate a limited amount of earned but unused vacation and sick hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2007 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 22,250
Sick Leave	<u>46,287</u>
	<u>\$ 68,537</u>

The liability has been computed based on rates of pay in effect at June 30, 2007.

INTERFUND TRANSFERS:

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Capital Projects:	
	Capital Improvements	\$ 48
	RACI Grant	<u>1</u>
		\$ 49
Special Revenue:	Special Revenue:	
Urban Renewal Tax Increment	Local Option Sales Tax	\$ 30,707
Debt Service	Local Option Sales Tax	<u>26,321</u>
		<u>\$ 57,077</u>

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

RELATED PARTY TRANSACTIONS:

The City had business transactions between the City and City officials totaling \$311,899 during the year ended June 30, 2007.

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

**INDUSTRIAL DEVELOPMENT REVENUE BONDS:**

The City has issued a total of \$1,545,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,145,000 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**RISK MANAGEMENT:**

The City of Marcus is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Marcus' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Marcus' annual contributions to the Pool for the year ended June 30, 2007 were \$21,357.

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

**RISK MANAGEMENT (CONTINUED):**

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Marcus also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and bond coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**City of Marcus**  
**Notes to Financial Statements**  
**June 30, 2007**

**DEFICIT BALANCE:**

The Emergency fund had a deficit balance of \$2,561 at June 30, 2007. The deficit balance was a result of costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of subsequent property taxes.

The Sewer and Solid Waste Enterprise Funds had deficit balances of \$44,944 and \$72,408 at June 30, 2007. The deficit balances were a result of project costs incurred prior to availability of funds. The City will make transfers to eliminate the deficit as needed.

**COMMITMENT:**

The City has entered into the following contracts to be completed after June 30, 2007:

Description	Contract	Paid	Remaining Contract
Marcus Business Park Roadway and Sanitary Sewer Project	\$ 412,183	\$ 392,525	\$ 19,658
Eagle Avenue Water & Sewer Extension	<u>79,391</u>	<u>-</u>	<u>79,391</u>
Total	<u>\$ 491,574</u>	<u>\$ 392,525</u>	<u>\$ 99,049</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Marcus**  
**Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2007**

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Total
	Funds	Funds		Original	Final	Variance
	Actual	Actual				
<b>RECEIPTS:</b>						
Property tax	\$ 410,827	\$ -	\$ 410,827	\$ 396,785	\$ 396,785	\$ 14,042
Tax increment financing	15,179	-	15,179	7,000	7,000	8,179
Local option sales tax	87,735	-	87,735	76,690	76,690	11,045
Licenses and permits	2,015	-	2,015	1,010	1,010	1,005
Use of money and property	55,544	13,867	69,411	39,620	39,620	29,791
Intergovernmental	290,508	-	290,508	330,280	330,280	(39,772)
Charges for services	29,280	310,801	340,081	306,285	308,904	31,177
Miscellaneous	11,984	-	11,984	1,538	3,638	8,346
Total receipts	<u>903,072</u>	<u>324,668</u>	<u>1,227,740</u>	<u>1,159,208</u>	<u>1,163,927</u>	<u>63,813</u>
<b>DISBURSEMENTS:</b>						
Public safety	76,527	-	76,527	70,873	73,616	(2,911)
Public works	128,721	-	128,721	113,431	138,757	10,036
Culture and recreation	143,573	-	143,573	109,024	135,601	(7,972)
Community and economic development	63,394	-	63,394	36,401	69,140	5,746
General government	96,062	-	96,062	175,358	175,358	79,296
Debt service	116,437	-	116,437	88,518	116,487	50
Capital projects	729,002	-	729,002	1,304,963	1,304,963	575,961
Business type activities	-	503,050	503,050	512,485	512,485	9,435
Total disbursements	<u>1,353,716</u>	<u>503,050</u>	<u>1,856,766</u>	<u>2,411,053</u>	<u>2,526,407</u>	<u>\$ 669,641</u>
Excess (deficiency) of receipts over (under) disbursements	(450,644)	(178,382)	(629,026)	(1,251,845)	(1,362,480)	
Other financing sources (uses), net	<u>854,725</u>	<u>33,600</u>	<u>888,325</u>	<u>-</u>	<u>1,128,574</u>	
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	404,081	(144,782)	259,299	(1,251,845)	(233,906)	
Balances - Beginning	<u>1,227,009</u>	<u>240,058</u>	<u>1,467,067</u>	<u>1,468,817</u>	<u>1,468,817</u>	
Balances - Ending	<u>\$ 1,631,090</u>	<u>\$ 95,276</u>	<u>\$ 1,726,366</u>	<u>\$ 216,972</u>	<u>\$ 1,234,911</u>	

**City of Marcus**  
**Notes to Required Supplementary Information -**  
**Budgetary Reporting**  
**June 30, 2007**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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. 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 non-program. 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, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$4,719, budgeted disbursements by \$115,354, and other financing sources by \$1,128,574. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions.

## **SUPPLEMENTARY INFORMATION**

**City of Marcus**  
**Schedule of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the Year Ended June 30, 2007**

	Special Revenue					Capital Projects			Total-Other Governmental Funds
	Emergency Fund	Local Option Sales Tax	Swimming Pool Donations	Ann Neuenfeld Memorial	Porter and Other Library Memorials	Debt Service	Capital Improvements	RACI Grant	
<b>RECEIPTS:</b>									
Property taxes	\$ 6,287	\$ -	\$ -	\$ -	\$ -	\$ 72,788	\$ -	\$ -	\$ 79,075
Local option sales tax	-	87,735	-	-	-	-	-	-	87,735
Investment earnings	-	2,207	1,073	977	2,763	-	-	-	7,020
Total receipts	6,287	89,942	1,073	977	2,763	72,788	-	-	173,830
<b>DISBURSEMENTS:</b>									
Current:									
Culture and recreation	14,988	-	-	-	-	-	-	-	14,988
Debt service	-	-	-	-	-	116,437	-	-	116,437
Total disbursements	14,988	-	-	-	-	116,437	-	-	131,425
Excess (deficiency) of receipts over (under) disbursements	(8,701)	89,942	1,073	977	2,763	(43,649)	-	-	42,405
<b>OTHER FINANCING SOURCES (USES):</b>									
Transfers in	-	-	-	-	-	26,321	-	-	26,321
Transfers out	-	(57,028)	-	-	-	-	(48)	(1)	(57,077)
Total other financing sources and (uses)	-	(57,028)	-	-	-	26,321	(48)	(1)	(30,756)
Net change in cash balances	(8,701)	32,914	1,073	977	2,763	(17,328)	(48)	(1)	11,649
Cash balance beginning of year	6,140	64,151	24,520	22,009	24,702	75,761	48	1	217,332
Cash balance end of year	\$ (2,561)	\$ 97,065	\$ 25,593	\$ 22,986	\$ 27,465	\$ 58,433	\$ -	\$ -	\$ 228,981
<b>CASH BASIS FUND BALANCES:</b>									
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,433	\$ -	\$ -	\$ 58,433
Unreserved:									
Special revenue funds	(2,561)	97,065	25,593	22,986	27,465	-	-	-	170,548
Total cash basis fund balances	\$ (2,561)	\$ 97,065	\$ 25,593	\$ 22,986	\$ 27,465	\$ 58,433	\$ -	\$ -	\$ 228,981

**City of Marcus**  
**Schedule of Indebtedness**  
**For the Year Ended June 30, 2007**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
<b>General Obligation Notes:</b>									
2004 GO Refunding Capital Notes	04/01/2004	1.35% - 3.00%	\$ 465,000	\$ 315,000	\$ -	\$ 80,000	\$ 235,000	\$ 8,118	\$ -
Capital Loan Notes, Series 2006B	08/15/2006	5.90% - 6.50%	260,000	-	260,000	-	260,000	12,858	-
Grant Anticipation Notes, Series 2006A	08/30/2006	4.00%	850,000	-	850,000	-	850,000	14,261	-
<b>Total</b>			<b>\$ 1,110,000</b>	<b>\$ 315,000</b>	<b>\$ 1,110,000</b>	<b>\$ 80,000</b>	<b>\$ 1,345,000</b>	<b>\$ 35,237</b>	<b>\$ -</b>
<b>Revenue Notes:</b>									
Sewer - 03/25/1998 (#1)	03/25/1998	3.92%	\$ 952,189	\$ 655,000	\$ -	\$ 44,000	\$ 611,000	\$ 25,676	\$ -
Sewer - 03/25/1998 (#2)	03/25/1998	3.92%	175,811	121,000	-	8,000	113,000	4,743	-
Sewer - 03/10/1999 (#3)	03/10/1999	4.19%	247,000	143,000	-	9,000	134,000	5,992	-
<b>Total</b>			<b>\$ 919,000</b>	<b>\$ 919,000</b>	<b>\$ -</b>	<b>\$ 61,000</b>	<b>\$ 858,000</b>	<b>\$ 36,411</b>	<b>\$ -</b>
<b>Bank Note Payables:</b>									
County View Development	09/08/2000	5.50%	\$ 320,000	\$ 257,182	\$ -	\$ 12,610	\$ 244,572	\$ 13,990	\$ -
2007 Sterling Truck	12/04/2006	5.00%	33,600	-	33,600	-	33,600	-	-
Industrial Park Land	01/16/2006	5.00%	233,000	233,000	-	233,000	-	7,249	-
John Deere Credit - Payloader	12/10/2001	4.90%	67,292	14,806	-	14,806	-	742	-
<b>Total</b>			<b>\$ 504,988</b>	<b>\$ 504,988</b>	<b>\$ 33,600</b>	<b>\$ 260,416</b>	<b>\$ 278,172</b>	<b>\$ 21,981</b>	<b>\$ -</b>

See accompanying independent auditors' report.

**City of Marcus**  
**Bond and Note Maturities**  
**June 30, 2007**

General Obligation Notes

Year Ending June 30,	Refunding Capital Notes April 1, 2004		Marcus Business Park Capital Loan Notes Series 2006B		Sewer, Water, and Street Improvements Series 2006A		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2008	2.45%	\$ 75,000	5.90%	\$ 20,000	4.00%	\$ 850,000	\$ 945,000
2009	2.75%	80,000	5.95%	20,000	-	-	100,000
2010	3.00%	80,000	6.00%	20,000	-	-	100,000
2011	-	-	6.10%	25,000	-	-	25,000
2012	-	-	6.15%	25,000	-	-	25,000
2013	-	-	6.25%	25,000	-	-	25,000
2014	-	-	6.30%	30,000	-	-	30,000
2015	-	-	6.35%	30,000	-	-	30,000
2016	-	-	6.40%	30,000	-	-	30,000
2017	-	-	6.50%	35,000	-	-	35,000
		<u>\$ 235,000</u>		<u>\$ 260,000</u>		<u>\$ 850,000</u>	<u>\$ 1,345,000</u>

Revenue Notes

Year Ending June 30,	Sewer Notes March 10, 1999		Sewer Notes March 25, 1998		Sewer Notes March 25, 1998		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2008	4.19%	\$ 10,000	3.92%	\$ 46,000	3.92%	\$ 8,000	\$ 64,000
2009	4.19%	10,000	3.92%	47,000	3.92%	9,000	66,000
2010	4.19%	11,000	3.92%	49,000	3.92%	9,000	69,000
2011	4.19%	11,000	3.92%	51,000	3.92%	9,000	71,000
2012	4.19%	12,000	3.92%	53,000	3.92%	10,000	75,000
2013	4.19%	12,000	3.92%	55,000	3.92%	10,000	77,000
2014	4.19%	12,000	3.92%	57,000	3.92%	11,000	80,000
2015	4.19%	13,000	3.92%	60,000	3.92%	11,000	84,000
2016	4.19%	14,000	3.92%	62,000	3.92%	12,000	88,000
2017	4.19%	14,000	3.92%	64,000	3.92%	12,000	90,000
2018	4.19%	15,000	3.92%	67,000	3.92%	12,000	94,000
		<u>\$ 134,000</u>		<u>\$ 611,000</u>		<u>\$ 113,000</u>	<u>\$ 858,000</u>

Other Notes Payable

Year Ending June 30,	Country View Development January 15, 2001		Sterling Truck December 4, 2006		Total
	Interest Rate	Amount	Interest Rate	Amount	
2008	5.50%	\$ 13,277	5.00%	\$ 11,200	\$ 24,477
2009	5.50%	14,053	5.00%	11,200	25,253
2010	5.50%	14,836	5.00%	11,200	26,036
2011	5.50%	202,406	-	-	202,406
		<u>\$ 244,572</u>		<u>\$ 33,600</u>	<u>\$ 278,172</u>



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**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
In Accordance With *Government Auditing Standards***

To the Honorable Mayor and  
Members of the City Council  
City of Marcus  
Marcus, 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 Marcus, Iowa as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 27, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Marcus' 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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'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's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying schedule of findings and responses 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'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 considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A, 07-I-B, 07-I-C, 07-I-D, 07-I-E, and 07-I-F are material weaknesses.

### 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying schedule of findings and responses.

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 Marcus' responses to findings identified in our audit are described in the accompanying schedule of findings and responses. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Marcus during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*King Reinisch Prosser & Co LLP*

Sioux City, Iowa  
March 27, 2008

**City of Marcus**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2007**

Part I: Findings Related to the Financial Statements:

**MATERIAL WEAKNESSES:**

**07-I-A**     Segregation of Duties:

Criteria - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or fraud. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records.

Condition and Effect - In performing our audit, we noted recordkeeping for the City is the primary responsibility of one person, with limited review by the Council.

Cause - Due to cost/benefit evaluation, the size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

Recommendation - This situation dictates that the Council remain actively involved in the financial affairs of the City to provide oversight and review functions.

Response - The Council understands the nature of the weakness and the necessity for the Council to provide oversight and review functions. The Council members will review the City's procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

**07-I-B**     Financial Statement Preparation in Accordance with an Other Comprehensive Basis of Accounting (OCBOA):

Criteria - The financial statements are the responsibility of the City of Marcus' management. Part of that responsibility is satisfied by either (a) management preparing the financial statements in accordance with OCBOA or (b) management demonstrating the necessary OCBOA expertise when reviewing and approving financial statements (that the auditor assisted in drafting) and the various schedules and calculations used to prepare such financial statements.

**City of Marcus**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2007**

Part I: Findings Related to the Financial Statements (Continued):

Condition and Effect - As a result of findings noted in items 07-I-C, 07-I-D, 07-I-E, and 07-I-F, the City's financial statements were not in accordance with OCBOA.

Cause -The City lacks adequate internal controls over the preparation of the financial statements in accordance with an other comprehensive basis of accounting.

Recommendation - We recommend management review the City's OCBOA financial reporting process and seek the necessary guidance/training so as to more fully understand the process to prepare the City's financial statements in accordance with OCBOA.

Response - The City understands the nature of the weakness and the necessity for management to further its understanding of OCBOA financial reporting. The City will consider implementing additional internal controls based on cost/benefit evaluation.

Conclusion - Response accepted.

07-I-C Transfers and Fund Balance:

Criteria - Transfers in and out should be used when moving cash from one fund to another fund. Beginning fund balance should agree to the prior year ending cash balance.

Condition and Effect - Movement of cash between different cash accounts in the same fund was recorded as transfer and fund balance activity. This resulted in transfers being out of balance and an incorrect fund balance. See also 07-I-B.

Cause - The software does not allow a transaction to simultaneously increase one cash account and decrease another. Transfer and fund balance accounts were used to allow for posting of receipt and disbursement activity.

Recommendation - We recommend netting the receipt and disbursement activity into one account, therefore eliminating the receipt and disbursement activity. The fund balance account should not be used in posting activity.

Response - The movement of cash activity will be netted and activity will no longer be posted to fund balance.

Conclusion - Response accepted.

**City of Marcus**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2007**

Part I: Findings Related to the Financial Statements (Continued):

07-I-D Employee Benefits:

Criteria - In accordance with City Finance Committee rules, the employee benefits tax levy must be used only for benefits for employees whose salary is paid from the General Fund or the Road Use Tax Fund.

Condition and Effect - The City has collected employee benefit tax levies for the payment of employee benefits on Enterprise Fund employees over numerous years. Also see 07-I-B.

Cause - The City was unaware that employee benefits could not be levied for Enterprise Fund employees.

Recommendation - We recommend that the City review prior years to accumulate the total enterprise employee benefit disbursements paid for by employee benefit tax levy and adopt a formal resolution for the enterprise funds to reimburse the Employee Benefits Fund. The subsequent years' levies for employee benefits should be reduced and the reimbursements received from the Enterprise Funds should be used to help pay benefits for eligible employees.

Response - We became aware that benefits could not be levied for enterprise fund employees at a conference attended after the 2007 fiscal year budget was prepared. Employee benefits are no longer being levied for Enterprise Fund employees. We will consider repaying the employee benefits fund retroactively from the appropriate enterprise funds.

Conclusion - Response accepted.

07-I-E Audit Adjustments and Accounting Records:

Criteria - The City's financial transactions should be reported by fund, function, and natural classification.

Condition and Effect - Various disbursements were not coded in the appropriate function and/or natural classification . Also see 07-I-B, 07-I-D, and 07-I-F.

Cause - The city was unaware of the importance of disbursement coding by function and natural classification. Also see 07-I-D.

**City of Marcus**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2007**

Part I: Findings Related to the Financial Statements (Continued):

Recommendation - We recommend the City seek guidance/assistance on reporting disbursements by fund, function and natural classification.

Response - We will seek assistance as recommended.

Conclusion - Response accepted.

07-I-F Special Revenue Funds:

Criteria - After implementing GASB 34, the pre GASB 34 expendable trust funds are sufficiently compatible with the definition of special revenue funds and are to be classified as such for external reporting purposes.

Condition and Effect - The pre GASB 34 expendable trust funds (Porter Library, Sand Seed Donations, Swimming Pool Donations, and Ann Neuenfeld) are being commingled in the general fund. Also see 07-I-B.

Cause - The chart of accounts does not include separate funds for the previously reported expendable trust funds. During implementation of GASB 34, the City's pre-GASB 34 expendable trust funds should have changed to special revenue funds as recommended by the GASB.

Recommendation - We recommend the City create individual special revenue funds for each of the previously reported expendable trust funds noted above.

Response - We will establish funds as recommended.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**City of Marcus  
Schedule of Findings and Responses  
Year Ended June 30, 2007**

**Part II: Other Findings Related to Required Statutory Reporting:**

07-II-A Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public safety and culture and recreation functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

07-II-B Questionable Disbursements - No disbursements were noted that did not appear to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

07-II-C Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

07-II-D Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Charles Schmillen, Mayor ProTem, Stockholder of Schmillen Construction	Construction	<u>\$ 309,035</u>
Conrad Ebert, Council Member Ebert Construction	Supplies and Repairs	<u>\$ 2,864</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions will not appear to represent conflicts of interest if the total transactions with an individual were less than \$1,500 during the fiscal year.

Recommendation - The transactions with the Mayor ProTem and Council Member may represent conflict of interests. We recommend the Council consult legal counsel on the disposition of this matter.

Response - We will consult legal counsel.

Conclusion - Response accepted.

**City of Marcus**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2007**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

07-II-E 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-II-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

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

07-II-H Financial Condition - The Emergency Fund, Sewer Fund, and Solid Waste Fund had deficit balances at June 30, 2007 totaling \$119,913.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

Response - The deficit in the emergency fund was due to construction costs incurred prior to receipt of sufficient property taxes. The deficit was subsequently eliminated. The Sewer and Solid Waste fund deficit balances were a result of project costs incurred prior to availability of funds. The City will make transfers to eliminate the deficits as needed.

Conclusion - Response accepted.

07-II-I Revenue Notes - The City is required to establish a reserve account for the lesser of: (a) the maximum amount of the principal and interest coming due on the Notes in any succeeding fiscal year, (b) 10 percent of the stated principal amount of the Notes, or (c) 125 percent of the average amount of principal and interest due on the Notes in any succeeding Fiscal Year. The reserve account has not been fully funded.

Recommendation - The City should transfer the appropriate amount to fully fund the reserve account and monitor the balance each year to determine compliance with the requirement.

Response - The City will make deposits as cash flows allow until the reserve account is adequate.

Conclusion - Response accepted.