

CITY OF MARENGO, IOWA

FINANCIAL STATEMENTS

JUNE 30, 2008

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.....	13-21	
Required Supplementary Information		
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental and Enterprise Funds.....	22-23	
Other Supplementary Information		
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - General Fund.....	24	
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	25	
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Water Major Enterprise Fund	26	
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Sanitary Sewer Major Enterprise Fund.....	27	
Schedule of Indebtedness	28	
Schedule of Bond and Note Maturities	29	
Schedule of Receipts by Source and Disbursements by Function/Program - All Governmental Funds	30	
Schedule of Sanitary Sewer System Rates.....	31	
Schedule of Insurance.....	32	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters		33-34
Schedule of Findings and Questioned Costs	35-37	

Officials

Name	Title	Term Expires
Elected Officials		
Before January, 2008		
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
After December, 2007		
Joe Seye	Mayor	January, 2010
William Kreis	Council Member and Mayor Pro Tem	January, 2010
Kelli Krutsinger	Council Member	January, 2012
Michael T. Curry	Council Member	January, 2012
Adam Rabe	Council Member	January, 2010
Candi Schmieder	Council Member	January, 2010
Appointed Officials		
Carl Schumacher	Administrator/Clerk	Indefinite (Resigned August 15, 2008)
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, 2008 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.

In our opinion, based on our audit and the report of other auditors, 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, 2008, 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.

To the Honorable Mayor and
Members of the City Council
City of Marengo, Iowa
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008 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 Pages 22 and 23 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, 2007 (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 24 through 32 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
December 4, 2008

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities, other than debt proceeds, decreased 19%, or approximately \$630,000, from the fiscal 2007 year to the fiscal 2008 year. This decrease is due to prior year grants and contributions for the library building renovation.

Governmental activities disbursements decreased 20%, or approximately \$636,000, in fiscal year 2008 from the fiscal year 2007. This change was primarily due to decreased capital outlay for the library building renovation.

The City's total cash basis net assets increased approximately \$800,000 from June 30, 2007 to June 30, 2008. The assets of the governmental activities increased approximately \$813,000 while the assets of the business-type activities decreased by approximately \$13,000.

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.

2. 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 increased from \$941,424 a year ago to \$1,754,167. 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>2008</u>	<u>2007</u>
Receipts and Transfers		
Program Receipts		
Charges for services	\$ 125,221	\$ 107,170
Operating grants, contributions and restricted interest	330,061	297,980
Capital grants, contributions and restricted interest	19,676	1,050,376
General Receipts		
Property tax	892,543	908,525
Local option sales tax	295,825	303,514
Unrestricted miscellaneous, intergovernmental, interest and sale of assets	198,093	53,938
Debt proceeds	1,450,000	—
Transfers, net	—	16,123
Total Receipts	<u>3,311,419</u>	<u>2,737,626</u>
Disbursements		
Public safety	445,906	320,710
Public works	354,275	271,406
Health and social services	68,617	58,982
Culture and recreation	306,399	220,982
Community and economic development	2,302	—
General government	155,447	157,281
Debt service	361,598	308,371
Capital projects	804,132	1,796,718
Total Disbursements	<u>2,498,676</u>	<u>3,134,450</u>
Change in Cash Basis Net Assets	812,743	(396,824)
Cash Basis Net Assets - Beginning of Year	<u>941,424</u>	<u>1,338,248</u>
Cash Basis Net Assets - End of Year	<u>\$ 1,754,167</u>	<u>\$ 941,424</u>

The City's total receipts for governmental activities increased by 21%, or \$573,793. The increase was due to issuance of debt less prior year capital grants and contributions.

The total cost of all programs and services decreased by \$635,774, or 20%. The majority of this decrease was prior year spending on the library renovation capital project.

Changes in Cash Basis Net Assets of Business-Type Activities

	Years Ended June 30,	
	2008	2007
Receipts and Transfers		
Program Receipts		
Charges for Services		
Water	\$ 504,610	\$ 271,586
Sanitary Sewer	245,313	253,865
Storm Sewer	21,077	19,766
Interest	8,263	5,843
Debt proceeds	2,431,044	282,217
Total Receipts	3,210,307	833,277
Disbursements and Transfers		
Water	2,995,555	504,222
Sanitary Sewer	204,747	186,761
Storm Sewer	23,352	13,141
Transfers, net	—	16,123
Total Disbursements	3,223,654	720,247
Change in Cash Basis Net Assets	(13,347)	113,030
Cash Basis Net Assets - Beginning of Year	436,313	323,283
Cash Basis Net Assets - End of Year	\$ 422,966	\$ 436,313

Total business-type activities receipts for the fiscal year were \$3,210,307 compared to \$833,277 last year. The increase was primarily due to water revenue debt proceeds. The cash balance decreased by \$13,347, or 3%, from the prior year. Total disbursements for the fiscal year increased by 348%, or \$2,503,407. 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 \$1,754,167, an increase of more than \$810,000 from last year's total of \$941,424.

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

The General Fund cash balance decreased \$8,888 from the prior year to \$183,333. This decrease was largely due to a lower property tax levy.

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 increased approximately \$11,600 due to disbursements on street repairs and improvements being less than receipts.

The Local Option Sales Tax Fund cash balance decreased approximately \$158,000 over the prior year due to decreased receipts and more cash transferred out.

The Tax Increment Financing Fund cash balance increased from \$119,085 to approximately \$214,000 during the fiscal year. This increase is due to currently receiving financing for future debt service payments.

The Library Renovation Fund was a major fund last year but due to decreased activity and balances, it is no longer major.

The Central Business District Renovation Fund was initiated this year to account for a new capital project. Bond proceeds were received and construction was begun. As a result, the fund reports an ending cash balance of \$1,023,470.

The Debt Service Fund reported a decrease in cash of \$10,621 due to larger amounts paid for debt service.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility cash balance decreased by \$55,978 to \$249,690 due to debt proceeds drawdowns lagging capital outlay payments. The Sanitary Sewer System cash balance increased by \$44,612 due to continued operations.

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 October 8, 2007 and was issued to include disbursements to repair library damage and insurance recovery. It increased both disbursements for culture and recreation by \$35,300. The second amendment was approved May 27, 2008. The amendment resulted in increased disbursements totaling \$1,334,900 for the Public Safety Function for higher health insurance costs and equipment purchases (\$31,000), Public Works Function for increased fuel and street repair costs and equipment purchases (\$173,000), Health and Social Services for increased payments to the Marengo Memorial Hospital (\$17,400), Culture and Recreation for payment to the River Access for Iowa Valley Project (\$55,000), General Government for additional health insurance (\$3,500) and Capital Projects (\$1,055,000). It also reported increased receipts totaling \$2,103,400 including intergovernmental receipts of \$149,900 from grants, shared projects and FEMA reimbursements, miscellaneous of \$3,500 and debt proceeds of \$1,950,000. The net resulted in expected receipts over disbursements of \$768,500.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$3,181,000 in general obligation debt, \$2,541,261 in water revenue debt and \$100,000 in sewer revenue debt for a total debt outstanding of \$5,822,261. The water revenue debt outstanding is the amount drawn to date of \$2,713,261 from a maximum loan total available of \$3,200,000 less \$172,000 of principal repaid during the year.

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 \$3,181,000 is significantly below its constitutional debt limit of \$4,771,017.

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 2009 budget, tax rates and fees that will be charged for various City activities.

Improvements to streets are needed. The City expects to fund those improvements from local option tax receipts and debt proceeds. Water system 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, 2008

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	\$ 445,906	\$ 25,539	\$ 8,291	\$ —	\$ (412,076)	\$ —	\$ (412,076)	\$ —
Public works	354,275	49,284	224,101	—	(80,890)	—	(80,890)	—
Health and social services.....	68,617	6,584	—	—	(62,033)	—	(62,033)	—
Culture and recreation.....	306,399	43,814	93,601	—	(168,984)	—	(168,984)	—
Community and economic development	2,302	—	—	—	(2,302)	—	(2,302)	—
General government.....	155,447	—	—	—	(155,447)	—	(155,447)	—
Debt service.....	361,598	—	4,068	—	(357,530)	—	(357,530)	—
Capital projects.....	804,132	—	—	19,676	(784,456)	—	(784,456)	—
Total Governmental Activities	2,498,676	125,221	330,061	19,676	(2,023,718)	—	(2,023,718)	—
Business-Type Activities								
Water	2,995,555	504,610	3,923	—	—	(2,487,022)	(2,487,022)	—
Sanitary sewer.....	204,747	245,313	4,046	—	—	44,612	44,612	—
Storm sewer	23,352	21,077	294	—	—	(1,981)	(1,981)	—
Total Business-Type Activities.....	3,223,654	771,000	8,263	—	—	(2,444,391)	(2,444,391)	—
Total Primary Government	\$ 5,722,330	\$ 896,221	\$ 338,324	\$ 19,676	(2,023,718)	(2,444,391)	(4,468,109)	—
Component Unit - Memorial Hospital	\$ 15,606,478	\$ 14,372,292	\$ 303,586	\$ —	—	—	—	(930,600)
General Receipts								
Property Tax Levied for								
General purposes.....					414,252	—	414,252	—
Memorial hospital.....					40,771	—	40,771	—
Insurance					46,372	—	46,372	—
Employee benefits.....					63,857	—	63,857	—
Debt service					130,260	—	130,260	—
Tax increment financing.....					197,031	—	197,031	—
Local option sales tax.....					295,825	—	295,825	—
Miscellaneous.....					10,869	—	10,869	—
Intergovernmental not restricted to specific purpose.....					58,212	—	58,212	—
Unrestricted interest on investments					19,012	—	19,012	—
Debt proceeds					1,450,000	2,431,044	3,881,044	1,153,093
Hospital component unit transfer for land.....					110,000	—	110,000	(110,000)
Total General Receipts and Transfers.....					2,836,461	2,431,044	5,267,505	1,043,093
Change in Cash Basis Net Assets					812,743	(13,347)	799,396	112,493
Cash Basis Net Assets - Beginning of Year					941,424	436,313	1,377,737	4,077,108
Cash Basis Net Assets - End of Year					\$ 1,754,167	\$ 422,966	\$ 2,177,133	\$ 4,189,601
Cash Basis Net Assets								
Restricted								
Donor designations or legal provisions					\$ 1,588,270	\$ —	\$ 1,588,270	\$ —
Customer deposits					—	38,055	38,055	—
Debt service					37,722	—	37,722	824,169
Debt covenants					—	46,708	46,708	—
Unrestricted					128,175	338,203	466,378	3,365,432
Total Cash Basis Net Assets					\$ 1,754,167	\$ 422,966	\$ 2,177,133	\$ 4,189,601

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, 2008

	Major						Nonmajor		Total
	Special Revenue	Capital Projects			Debt Service	Governmental Funds			
	General	Road Use Tax	Local Option Tax	Tax Increment Financing	Central Business District Renovation	2007 Street Improvements	Debt Service		
Receipts									
Property taxes	\$ 501,395	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 130,260	\$ 63,857	\$ 695,512
T.I.F. collections	—	—	—	197,031	—	—	—	—	197,031
Other city tax	—	—	295,825	—	—	—	—	—	295,825
Licenses and permits.....	5,624	—	—	—	—	—	—	—	5,624
Use of money and property	3,582	—	6,466	4,924	—	—	4,068	4,091	23,131
Intergovernmental.....	90,251	217,180	—	—	—	—	—	—	307,431
Charges for services.....	123,821	—	—	—	—	—	—	1,400	125,221
Miscellaneous.....	82,019	—	—	—	—	—	—	19,625	101,644
Total Receipts	806,692	217,180	302,291	201,955	—	—	134,328	88,973	1,751,419
Disbursements									
Public safety	445,906	—	—	—	—	—	—	—	445,906
Public works	138,340	215,935	—	—	—	—	—	—	354,275
Health and social services.....	68,617	—	—	—	—	—	—	—	68,617
Culture and recreation.....	306,399	—	—	—	—	—	—	—	306,399
Community and economic development	—	—	—	2,302	—	—	—	—	2,302
General government.....	126,190	28,057	—	—	—	—	1,200	—	155,447
Debt service.....	—	—	—	—	—	—	361,598	—	361,598
Capital projects.....	—	—	—	—	263,031	331,571	—	209,530	804,132
Total Disbursements	1,085,452	243,992	—	2,302	263,031	331,571	362,798	209,530	2,498,676
Receipts Over (Under) Disbursements.....	(278,760)	(26,812)	302,291	199,653	(263,031)	(331,571)	(228,470)	(120,557)	(747,257)
Other Financing Sources (Uses)									
Debt proceeds	200,000	—	—	—	1,250,000	—	—	—	1,450,000
Sale of capital assets.....	—	—	—	—	—	—	—	110,000	110,000
Transfers in.....	108,244	38,372	—	—	36,501	331,571	217,849	42,914	775,451
Transfers out	(38,372)	—	(460,743)	(104,693)	—	—	—	(171,643)	(775,451)
Total Other Financing Sources (Uses)	269,872	38,372	(460,743)	(104,693)	1,286,501	331,571	217,849	(18,729)	1,560,000
Increase (Decrease) in Cash Balances.....	(8,888)	11,560	(158,452)	94,960	1,023,470	—	(10,621)	(139,286)	812,743
Cash Balances - Beginning of Year.....	192,221	5,865	258,439	119,085	—	—	48,343	317,471	941,424
Cash Balances - End of Year	\$ 183,333	\$ 17,425	\$ 99,987	\$ 214,045	\$ 1,023,470	\$ —	\$ 37,722	\$ 178,185	\$ 1,754,167
Cash Basis Fund Balances									
Reserved									
Donor or legal provisions.....	\$ 55,158	\$ 17,425	\$ 99,987	\$ 214,045	\$ 1,023,470	\$ —	\$ —	\$ 178,185	\$ 1,588,270
Debt service.....	—	—	—	—	—	—	37,722	—	37,722
Unreserved									
General Fund.....	128,175	—	—	—	—	—	—	—	128,175
Total Cash Basis Fund Balances	\$ 183,333	\$ 17,425	\$ 99,987	\$ 214,045	\$ 1,023,470	\$ —	\$ 37,722	\$ 178,185	\$ 1,754,167

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, 2008

	Major		Nonmajor	
	Water	Sanitary Sewer	Storm Sewer	Total
Operating Receipts				
Charges for service	\$ 494,475	\$ 243,928	\$ 21,077	\$ 759,480
Miscellaneous.....	10,135	1,385	—	11,520
Total Operating Receipts.....	504,610	245,313	21,077	771,000
Operating Disbursements				
Business-type activities	<u>266,112</u>	<u>179,356</u>	<u>23,352</u>	<u>468,820</u>
Operating Receipts Over (Under)				
Operating Disbursements	<u>238,498</u>	<u>65,957</u>	<u>(2,275)</u>	<u>302,180</u>
Nonoperating Receipts (Disbursements)				
Interest on investments	3,923	4,046	294	8,263
Capital outlay.....	(2,506,797)	—	—	(2,506,797)
Debt service.....	(222,646)	(25,391)	—	(248,037)
Total Nonoperating Receipts (Disbursements).....	<u>(2,725,520)</u>	<u>(21,345)</u>	<u>294</u>	<u>(2,746,571)</u>
Receipts Over (Under) Disbursements	(2,487,022)	44,612	(1,981)	(2,444,391)
Other Financing Sources (Uses)				
Debt proceeds	<u>2,431,044</u>	—	—	<u>2,431,044</u>
Increase (Decrease) in Cash Balances	(55,978)	44,612	(1,981)	(13,347)
Cash Balances - Beginning of Year.....	<u>305,668</u>	<u>107,852</u>	<u>22,793</u>	<u>436,313</u>
Cash Balances - End of Year.....	<u>\$ 249,690</u>	<u>\$ 152,464</u>	<u>\$ 20,812</u>	<u>\$ 422,966</u>
Cash Basis Fund Balances				
Reserved				
Customer deposits	\$ 38,055	\$ —	\$ —	\$ 38,055
Debt covenants.....	31,182	15,526	—	46,708
Unreserved.....	<u>180,453</u>	<u>136,938</u>	<u>20,812</u>	<u>338,203</u>
Total Cash Basis Fund Balances	<u>\$ 249,690</u>	<u>\$ 152,464</u>	<u>\$ 20,812</u>	<u>\$ 422,966</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Marengo, Iowa, is a political subdivision of the State of Iowa located in Iowa County. It was first incorporated in 1859 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and council members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government 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, 2008, the city recognized cash receipts of \$53,698, composed of property taxes - \$40,771, interest - \$613 and emergency management assistance - \$12,314, collected for the Hospital and remitted \$53,686 to the Hospital. At June 30, 2008, the City held \$18,659 in the General Fund restricted for the Hospital. In addition, the Hospital remitted cash to the City of \$110,000 in exchange for the City tennis court property.

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 as the amounts for 2008 are not material.

(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 *Central Business District (CBD) Renovation Fund* is used to account for the renovation of the downtown which is financed primarily with general obligation debt and a Community Attraction Grant from the state of Iowa.

The *2007 Street Improvements Fund* is used to account for the street improvements which is primarily financed with local option sales taxes.

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.

Measurement Focus and 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. During the year ended June 30, 2008, disbursements exceeded amounts budgeted in the Health and Social Services, General Government and Business-Type Activities Functions.

Notes to the Financial Statements

(2) Deposits and Investments

The City's deposits in banks at June 30, 2008 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.

The City has an investment in a certificate of deposit with the Iowa Public Agency Investment Trust which is valued at its cost of \$75,000.

Interest Rate Risk

At June 30, 2008, the City's investments are all certificates of deposit that mature within 365 days.

Credit Risk

The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation		Water Revenue		Sewer Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 357,000	\$ 121,406	\$ 177,000	\$ 90,840	\$ 23,000	\$ 2,705	\$ 557,000	\$ 214,951
2010	364,000	107,210	183,000	85,530	24,000	1,989	571,000	194,729
2011	300,000	94,277	188,000	80,040	26,000	1,227	514,000	175,544
2012	300,000	83,967	194,000	74,400	27,000	419	521,000	158,786
2013	310,000	73,309	199,000	68,580	—	—	509,000	141,889
2014-18..	925,000	228,048	1,091,000	249,540	—	—	2,016,000	477,588
2019-23..	625,000	146,789	996,000	75,810	—	—	1,621,000	222,599
	<u>\$ 3,181,000</u>	<u>\$ 855,006</u>	<u>\$ 3,028,000</u>	<u>\$ 724,740</u>	<u>\$ 100,000</u>	<u>\$ 6,340</u>	<u>\$ 6,309,000</u>	<u>\$ 1,586,086</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, 2008, the City has drawn \$2,713,261 of available proceeds, including the initiation fee. The annual debt service requirement above is based upon the loan agreement for the total drawdown of funds available.

(3) Long-Term Debt

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$3,200,000 in water revenue bonds issued in April, 2007. Proceeds from the notes provided financing for the construction of water system improvements. The bonds are payable solely from water customer net receipts and are payable through 2022. Annual principal and interest payments on the notes are expected to require less than 90% of net receipts. The total principal and interest remaining to be paid on the notes is \$3,752,740. For the current year, principal and interest paid and total customer net receipts were \$222,646 and \$270,035, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$360,000 in sewer revenue bonds issued in November, 1991. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2012. Annual principal and interest payments on the notes are expected to require less than 90% of net receipts. The total principal and interest remaining to be paid on the notes is \$106,340. For the current year, principal and interest paid and total customer net receipts were \$25,391 and \$74,003, respectively.

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.

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 110% 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.

Notes to the Financial Statements

(3) Long-Term Debt

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. A waiver was received for this provision.

The City was in compliance with these requirements at June 30, 2008.

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.

The Hospital has a note agreement to finance the purchase of certain equipment. The note initially requires monthly payments of \$9,000, including interest at 4.5%, with the final payment due April, 2013. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2008, the remaining balance on this note is \$1,118,542.

Maturities required on Hospital debt are as follows:

Year Ending June 30,	Revenue Notes		Note Payable	Total Principal	Interest	Total
	Series 2005	Series 2004				
2009.....	\$ —	\$ 225,000	\$ 133,543	\$ 358,543	\$ 517,042	\$ 875,585
2010.....	—	235,000	246,653	481,653	499,192	980,845
2011.....	—	245,000	257,992	502,992	478,453	981,445
2012.....	—	255,000	269,853	524,853	456,302	981,155
2013.....	—	270,000	210,501	480,501	432,944	913,445
2014-2018	4,000,000	1,550,000	—	5,550,000	1,362,000	6,912,000
2019-2023	—	2,005,000	—	2,005,000	515,275	2,520,275
2024.....	—	475,000	—	475,000	29,450	504,450
Total	4,000,000	5,260,000	1,118,542	10,378,542	4,290,658	14,669,200
Less current maturities.....	—	225,000	133,543	358,543	517,042	875,585
Total Long-Term Debt	\$ 4,000,000	\$ 5,035,000	\$ 984,999	\$ 10,019,999	\$ 3,773,616	\$ 13,793,615

Notes to the Financial Statements

(3) Long-Term Debt

A summary of changes in debt for the year ended June 30, 2008 follows:

	Beginning Balance	Additions	Principal Payments	Ending Balance
Hospital Revenue Notes, Series 2005.....	\$ 4,000,000	\$ —	\$ —	\$ 4,000,000
Hospital Revenue Notes, Series 2004.....	5,480,000	—	220,000	5,260,000
Note payable, equipment.....	—	1,153,093	34,551	1,118,542
Totals	<u>\$ 9,480,000</u>	<u>\$ 1,153,093</u>	<u>\$ 254,551</u>	<u>\$ 10,378,542</u>

(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 3.9% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$37,088, \$36,206 and \$34,287, 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.

Notes to the Financial Statements

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue Nonmajor Governmental	<u>\$ 108,244</u>
Special Revenue Road Use Tax Fund	General	<u>38,372</u>
Capital Projects Center Business District Renovation	Special Revenue Local Option Sales Tax	<u>36,501</u>
2007 Street Improvements	Local Option Sales Tax Capital Projects Nonmajor Governmental	275,983 <u>55,588</u> <u>331,571</u>
Nonmajor Governmental	Special Revenue Local Option Sales Tax Capital Projects Nonmajor Governmental	35,103 <u>7,811</u> <u>42,914</u>
Debt Service	Special Revenue Local Option Sales Tax Tax Increment Financing	113,156 <u>104,693</u> <u>217,849</u>
Total		<u>\$ 775,451</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 and Other Commitments

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). At June 30, 2008, approximately \$1,040,000 remained to be paid on the project.

The City Council approved engineering and construction contracts for Phase I of the Central Business District Renovation for approximately \$1,294,000. This project is primarily funded with general obligation bond proceeds and a Community Attraction and Tourism (CAT) Grant. At June 30, 2008, outstanding construction payables and commitments of approximately \$215,000 remain on this project. Due to the spring-time flooding, the final invoice for utility usage was not received in time to be paid before year end. Only 11 monthly payments were made for the year. The payment made in July for normal June payment was approximately \$12,000.

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, 2008

	Governmental Funds - Actual	Enterprise Funds Actual	Net	Budget		Net Over (Under) Final Budget
				Original	Final	
Receipts						
Property tax.....	\$ 695,512	\$ —	\$ 695,512	\$ 663,897	\$ 663,897	\$ 31,615
T.I.F. collections.....	197,031	—	197,031	196,000	196,000	1,031
Other city tax.....	295,825	—	295,825	279,897	279,897	15,928
Licenses and permits.....	5,624	—	5,624	4,100	4,100	1,524
Use of money and property	23,131	8,263	31,394	4,300	4,300	27,094
Intergovernmental.....	307,431	—	307,431	226,400	376,300	(68,869)
Charges for service.....	125,221	759,480	884,701	793,320	793,320	91,381
Miscellaneous.....	101,644	11,520	113,164	18,300	57,100	56,064
Total Receipts.....	<u>1,751,419</u>	<u>779,263</u>	<u>2,530,682</u>	<u>2,186,214</u>	<u>2,374,914</u>	<u>155,768</u>
Disbursements						
Public safety.....	445,906	—	445,906	430,100	461,100	(15,194)
Public works.....	354,275	—	354,275	397,400	570,400	(216,125)
Health and social services	68,617	—	68,617	51,200	68,600	17
Culture and recreation.....	306,399	—	306,399	220,080	310,380	(3,981)
Community and economic development.....	2,302	—	2,302	8,500	8,500	(6,198)
General government.....	155,447	—	155,447	129,700	133,200	22,247
Debt service.....	361,598	—	361,598	363,900	363,900	(2,302)
Capital projects.....	804,132	—	804,132	2,649,500	3,704,500	(2,900,368)
Business-type activities....	—	3,223,654	3,223,654	754,250	754,250	2,469,404
Total Disbursements...	<u>2,498,676</u>	<u>3,223,654</u>	<u>5,722,330</u>	<u>5,004,630</u>	<u>6,374,830</u>	<u>(652,500)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements.....						
	<u>(747,257)</u>	<u>(2,444,391)</u>	<u>(3,191,648)</u>	<u>(2,818,416)</u>	<u>(3,999,916)</u>	<u>808,268</u>
Other Financing Sources (Uses)						
Debt proceeds.....	1,450,000	2,431,044	3,881,044	2,475,000	4,425,000	(543,956)
Sale of land.....	110,000	—	110,000	—	—	110,000
Transfers in.....	775,451	—	775,451	687,300	687,300	88,151
Transfers out.....	(775,451)	—	(775,451)	(687,300)	(687,300)	(88,151)
Other Financing Sources, Net.....	<u>1,560,000</u>	<u>2,431,044</u>	<u>3,991,044</u>	<u>2,475,000</u>	<u>4,425,000</u>	<u>(433,956)</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses ..						
	812,743	(13,347)	799,396	(343,416)	425,084	374,312
Balances - Beginning of Year.....	<u>941,424</u>	<u>436,313</u>	<u>1,377,737</u>	<u>978,863</u>	<u>978,863</u>	<u>398,874</u>
Balances - End of Year ..	<u>\$ 1,754,167</u>	<u>\$ 422,966</u>	<u>\$ 2,177,133</u>	<u>\$ 635,447</u>	<u>\$ 1,403,947</u>	<u>\$ 773,186</u>

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, 2008

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 nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, General Government, Debt Service, Capital Projects and Business-Type Activities. 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 \$1,370,200. These budget amendments are reflected in the final budgeted amounts.

State-mandated budget forms do not provide for separate capital outlay and debt service by business-type activities. Instead, all disbursements for enterprise funds are to be budgeted as a single line item. The City budgeted its enterprise funds capital outlay as governmental funds capital projects. The payments were properly reported as business-type activities. As a result, business-type activities disbursements exceeded the budget by \$2,469,404. Capital projects disbursements were below budget by a larger amount.

The City budgeted a portion of City Administrator/Clerk and Finance Manager salaries, taxes and benefits in the Public Works Function in the Road Use Tax (Governmental) Fund. The salaries, taxes and benefits were properly reported in the General Government Function. As a result, General Government Function disbursements exceeded the budget by \$22,247. Public Works Function disbursements were below budget by a larger amount.

Due to larger than expected contributions for Community Projects, Health and Social Services Function disbursements exceeded the budget by \$17. On May 26, 2008, immediately prior to the final budget amendment, disbursements exceeded the budget by \$17,317.

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, 2008

	General	Insurance	Police Reserve	Library Miscellaneous	Recreation Commission	Capital Reserve	Memorial Building	Total
Receipts								
Property taxes	\$ 414,252	\$ 46,372	\$ —	\$ —	\$ —	\$ —	\$ 40,771	\$ 501,395
Licenses and permits.....	5,624	—	—	—	—	—	—	5,624
Use of money and property	2,969	—	—	—	—	—	613	3,582
Intergovernmental.....	90,251	—	—	—	—	—	—	90,251
Charges for services.....	123,821	—	—	—	—	—	—	123,821
Miscellaneous.....	66,426	—	343	2,265	1,004	11,981	—	82,019
Total Receipts	703,343	46,372	343	2,265	1,004	11,981	41,384	806,692
Disbursements								
Public safety	445,856	—	50	—	—	—	—	445,906
Public works	138,340	—	—	—	—	—	—	138,340
Health and social services.....	14,931	—	—	—	—	—	53,686	68,617
Culture and recreation.....	302,035	—	—	2,843	1,521	—	—	306,399
General government.....	87,346	38,844	—	—	—	—	—	126,190
Total Disbursements	988,508	38,844	50	2,843	1,521	—	53,686	1,085,452
Receipts Over (Under) Disbursements.....	(285,165)	7,528	293	(578)	(517)	11,981	(12,302)	(278,760)
Other Financing Sources (Uses)								
Debt proceeds	200,000	—	—	—	—	—	—	200,000
Transfers in.....	108,244	—	—	—	—	—	—	108,244
Intrafund transfers (net).....	(7,314)	—	—	—	—	(5,000)	12,314	—
Transfers out	(33,230)	—	—	—	—	(5,142)	—	(38,372)
Total Other Financing Sources (Uses).....	267,700	—	—	—	—	(10,142)	12,314	269,872
Increase (Decrease) in Cash Balances.....	(17,465)	7,528	293	(578)	(517)	1,839	12	(8,888)
Cash Balances - Beginning of Year.....	103,846	26,470	—	2,786	517	39,955	18,647	192,221
Cash Balances - End of Year	\$ 86,381	\$ 33,998	\$ 293	\$ 2,208	\$ —	\$ 41,794	\$ 18,659	\$ 183,333
Cash Basis Fund Balances								
Reserved								
Donor or legal provisions	\$ —	\$ 33,998	\$ 293	\$ 2,208	\$ —	\$ —	\$ 18,659	\$ 55,158
Unreserved.....	86,381	—	—	—	—	41,794	—	128,175
Total Cash Basis Fund Balances	\$ 86,381	\$ 33,998	\$ 293	\$ 2,208	\$ —	\$ 41,794	\$ 18,659	\$ 183,333

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

As of and for the Year Ended June 30, 2008

	Special Revenue Employee Benefits	Capital Projects				Pool Renovation	Permanent Cemetery Trust	Total
		Capital Projects	Library Renovation	Highway 6 Intersection	Tennis Court Project			
Receipts								
Property taxes	\$ 63,857	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 63,857
Use of money and property	2,779	51	—	—	—	—	1,261	4,091
Charges for services.....	—	—	—	—	—	—	1,400	1,400
Miscellaneous	—	—	654	18,249	—	722	—	19,625
Total Receipts	66,636	51	654	18,249	—	722	2,661	88,973
Disbursements								
Capital projects.....	—	66,760	135,584	6,500	686	—	—	209,530
Receipts Over (Under) Disbursements.....	66,636	(66,709)	(134,930)	11,749	(686)	722	2,661	(120,557)
Other Financing Sources (Uses)								
Sale of capital assets.....	—	—	—	—	110,000	—	—	110,000
Transfers in.....	—	—	—	42,914	—	—	—	42,914
Transfers out	(108,244)	(925)	—	(54,663)	(7,811)	—	—	(171,643)
Total Other Financing Sources (Uses).....	(108,244)	(925)	—	(11,749)	102,189	—	—	(18,729)
Increase (Decrease) in Cash Balances.....	(41,608)	(67,634)	(134,930)	—	101,503	722	2,661	(139,286)
Cash Balances - Beginning of Year.....	42,841	67,634	148,265	—	—	7,357	51,374	317,471
Cash Balances - End of Year.....	\$ 1,233	\$ —	\$ 13,335	\$ —	\$ 101,503	\$ 8,079	\$ 54,035	\$ 178,185
Cash Basis Fund Balances								
Reserved								
Donor/legal provisions	\$ 1,233	\$ —	\$ 13,335	\$ —	\$ 101,503	\$ 8,079	\$ 54,035	\$ 178,185

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

As of and for the Year Ended June 30, 2008

	Water	Water Bond Sinking	Water Reserve	System Improvements	Water Deposits	Water Revolving	Total
Operating Receipts							
Charges for service	\$ 494,475	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 494,475
Miscellaneous	4,535	—	—	—	5,600	—	10,135
Total Operating Receipts	499,010	—	—	—	5,600	—	504,610
Operating Disbursements							
Business-type activities	<u>261,171</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,941</u>	<u>—</u>	<u>266,112</u>
Operating Receipts Over Operating Disbursements	237,839	—	—	—	659	—	238,498
Nonoperating Receipts (Disbursements)							
Interest on investments	3,923	—	—	—	—	—	3,923
Water capital outlay	—	—	—	(2,506,797)	—	—	(2,506,797)
Debt service.....	—	(222,646)	—	—	—	—	(222,646)
Total Nonoperating Receipts (Disbursements).....	3,923	(222,646)	—	(2,506,797)	—	—	(2,725,520)
Receipts Over (Under) Disbursements.....	241,762	(222,646)	—	(2,506,797)	659	—	(2,487,022)
Other Financing Sources (Uses)							
Debt proceeds	—	—	—	2,431,044	—	—	2,431,044
Intrafund transfers (net)	(262,024)	237,024	(32,500)	32,500	—	25,000	—
Increase (Decrease) in Cash Balances.....	(20,262)	14,378	(32,500)	(43,253)	659	25,000	(55,978)
Cash Balances - Beginning of Year.....	64,996	16,804	32,500	88,857	37,396	65,115	305,668
Cash Balances - End of Year	\$ 44,734	\$ 31,182	\$ —	\$ 45,604	\$ 38,055	\$ 90,115	\$ 249,690
Cash Basis Fund Balance							
Reserved							
Customer deposits	\$ —	—	\$ —	\$ —	\$ 38,055	\$ —	\$ 38,055
Debt covenants	—	31,182	—	—	—	—	31,182
Unreserved	44,734	—	—	45,604	—	90,115	180,453
Total Cash Basis Fund Balance	\$ 44,734	\$ 31,182	\$ —	\$ 45,604	\$ 38,055	\$ 90,115	\$ 249,690

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, 2008

	Sewer Rental	Sewer Sinking	Sewer Replace- ment	Sewer Revolving	Total
Operating Receipts					
Charges for service	\$ 243,928	\$ —	\$ —	\$ —	\$ 243,928
Miscellaneous.....	<u>1,385</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,385</u>
Total Operating Receipts	<u>245,313</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>245,313</u>
Operating Disbursements					
Business-type activities	<u>179,356</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>179,356</u>
Operating Receipts Over Operating Disbursements	<u>65,957</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>65,957</u>
Nonoperating Receipts (Disbursements)					
Interest on investments	4,046	—	—	—	4,046
Debt service.....	<u>—</u>	<u>(25,391)</u>	<u>—</u>	<u>—</u>	<u>(25,391)</u>
Total Nonoperating Receipts (Disburse- ments)	<u>4,046</u>	<u>(25,391)</u>	<u>—</u>	<u>—</u>	<u>(21,345)</u>
Receipts Over (Under) Disbursements	70,003	(25,391)	—	—	44,612
Other Financing Sources (Uses)					
Intrafund transfers (net)	<u>(32,461)</u>	<u>24,461</u>	<u>—</u>	<u>8,000</u>	<u>—</u>
Increase (Decrease) in Cash Balances	37,542	(930)	—	8,000	44,612
Cash Balances - Beginning of Year	<u>77,849</u>	<u>16,456</u>	<u>9,266</u>	<u>4,281</u>	<u>107,852</u>
Cash Balances - End of Year	<u>\$ 115,391</u>	<u>\$ 15,526</u>	<u>\$ 9,266</u>	<u>\$ 12,281</u>	<u>\$ 152,464</u>
Cash Basis Fund Balance					
Reserved - debt covenants....	\$ —	\$ 15,526	\$ —	\$ —	\$ 15,526
Unreserved.....	<u>115,391</u>	<u>—</u>	<u>9,266</u>	<u>12,281</u>	<u>136,938</u>
Total Cash Basis Fund Balance	<u>\$ 115,391</u>	<u>\$ 15,526</u>	<u>\$ 9,266</u>	<u>\$ 12,281</u>	<u>\$ 152,464</u>

Schedule of Indebtedness

Year Ended June 30, 2008

	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%	\$ 715,000	\$ —	\$ 45,000	\$ 670,000	\$ 29,345
Refunding	620,000	12-15-04	2.95 - 3.85	470,000	—	80,000	390,000	16,063
Corporate purpose.....	1,250,000	5-15-08	2.50 - 4.15	—	1,250,000	—	1,250,000	—
General Obligation Notes								
Equipment	200,000	8-23-07	4.67	—	200,000	64,000	136,000	7,213
Corporate purpose.....	1,000,000	6-1-05	3.25 - 4.00	<u>825,000</u>	<u>—</u>	<u>90,000</u>	<u>735,000</u>	<u>29,977</u>
Total General Obligation.....				<u>\$ 2,010,000</u>	<u>\$ 1,450,000</u>	<u>\$ 279,000</u>	<u>\$ 3,181,000</u>	<u>\$ 82,598</u>
Water Revenue Bonds	\$ 3,200,000*	6-1-07	3.00%	<u>\$ 282,217</u>	<u>\$ 2,431,044</u>	<u>\$ 172,000</u>	<u>\$ 2,541,261</u>	<u>\$ 42,646</u>
Sewer Revenue Bonds.....	\$ 360,000	10-15-91	3.00%	<u>\$ 122,000</u>	<u>\$ —</u>	<u>\$ 22,000</u>	<u>\$ 100,000</u>	<u>\$ 3,391</u>

*Maximum available

Schedule of Bond and Note Maturities

At June 30, 2008

General Obligation Bonds and Notes											
	Refunding		Corporate Purpose		Library Renovation		Equipment		Corporate Purpose		Total
	Issued 12-15-04		Issued 6-1-05		Issued 4-15-06		Issued 8-23-07		Issued 5-15-08		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2009.....	3.15%	\$ 80,000	3.35%	\$ 95,000	3.75%	\$ 50,000	4.67%	\$ 67,000	2.50%	\$ 65,000	\$ 357,000
2010.....	3.35	80,000	3.45	95,000	3.80	50,000	4.67	69,000	2.65	70,000	364,000
2011.....	3.55	80,000	3.55	100,000	3.85	50,000	—	—	2.85	70,000	300,000
2012.....	3.70	75,000	3.65	105,000	3.90	50,000	—	—	3.00	70,000	300,000
2013.....	3.85	75,000	3.75	110,000	3.95	50,000	—	—	3.15	75,000	310,000
2014.....	—	—	3.90	115,000	4.05	55,000	—	—	3.30	75,000	245,000
2015.....	—	—	4.00	115,000	4.10	55,000	—	—	3.45	80,000	250,000
2016.....	—	—	—	—	4.20	55,000	—	—	3.60	80,000	135,000
2017.....	—	—	—	—	4.30	60,000	—	—	3.75	85,000	145,000
2018.....	—	—	—	—	4.40	60,000	—	—	3.90	90,000	150,000
2019.....	—	—	—	—	4.45	65,000	—	—	4.00	90,000	155,000
2020.....	—	—	—	—	4.50	70,000	—	—	4.05	95,000	165,000
2021.....	—	—	—	—	—	—	—	—	4.10	100,000	100,000
2022.....	—	—	—	—	—	—	—	—	4.10	100,000	100,000
2023.....	—	—	—	—	—	—	—	—	4.15	105,000	105,000
Total.....		\$ 390,000		\$ 735,000		\$ 670,000		\$ 136,000		\$ 1,250,000	\$ 3,181,000

Revenue Bonds				
	Water Revenue		Sewer Revenue	
	Issued 6-1-07		Issued 10-15-91	
	Interest Rates	Amount*	Interest Rates	Amount
2009.....	3.00%	\$ 177,000	3.00%	\$ 23,000
2010.....	3.00	183,000	3.00	24,000
2011.....	3.00	188,000	3.00	26,000
2012.....	3.00	194,000	3.00	27,000
2013.....	3.00	199,000	—	—
2014.....	3.00	205,000	—	—
2015.....	3.00	212,000	—	—
2016.....	3.00	218,000	—	—
2017.....	3.00	225,000	—	—
2018.....	3.00	231,000	—	—
2019.....	3.00	238,000	—	—
2020.....	3.00	245,000	—	—
2021.....	3.00	253,000	—	—
2022.....	3.00	260,000	—	—
2023.....	—	—	—	—
Total.....		\$ 3,028,000		\$ 100,000

*Subject to a maximum draw down of \$3,200,000. At June 30, 2008, \$2,713,262 had been drawn down.

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

Years Ended June 30, 2005 Through 2008

	2008	2007	2006	2005
Receipts				
Property tax	\$ 695,512	\$ 704,943	\$ 688,920	\$ 680,412
T.I.F. collections	197,031	203,582	157,925	151,178
Other city tax	295,825	303,514	251,704	285,873
Licenses and permits.....	5,624	3,674	3,997	5,438
Use of money and property	23,131	41,626	31,155	6,716
Intergovernmental.....	307,431	641,212	268,078	416,405
Charges for service	125,221	107,170	91,580	103,593
Miscellaneous.....	<u>101,644</u>	<u>706,924</u>	<u>206,385</u>	<u>69,274</u>
Total Receipts	<u>\$ 1,751,419</u>	<u>\$ 2,712,645</u>	<u>\$ 1,699,744</u>	<u>\$ 1,718,889</u>
Disbursements				
Operating				
Public safety.....	\$ 445,906	\$ 320,710	\$ 321,519	\$ 264,493
Public works.....	354,275	271,406	345,537	259,939
Health and social services	68,617	58,982	79,072	12,999
Culture and recreation	306,399	220,982	258,648	273,456
Community and economic development.....	2,302	—	—	—
General government	155,447	157,281	143,827	169,052
Debt service.....	361,598	308,371	547,815	1,066,082
Capital projects.....	<u>804,132</u>	<u>1,796,718</u>	<u>1,029,909</u>	<u>464,204</u>
Total Disbursements	<u>\$ 2,498,676</u>	<u>\$ 3,134,450</u>	<u>\$ 2,726,327</u>	<u>\$ 2,510,225</u>

Schedule of Sanitary Sewer System Rates

Year Ended June 30, 2008

Approximately 1,100 customers at June 30, 2008.

Rates for

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

Each additional 1,000 gallons water used	\$3.00
--	--------

Surcharges/Additional Charges

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

User discharging toxic pollutants which cause increased treatment costs	Each subject to Council determination
---	---------------------------------------

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

Users with Private Water Systems

Residential

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

Businesses

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

Monthly sewer maintenance and improvement fee	1.50
---	------

Schedule of Insurance

Year Ended June 30, 2008

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket (including certified acts of terrorism)	4/1/08 - 4/1/09	\$2,565,231
Valuable papers and records	4/1/08 - 4/1/09	100,000
Liability		
Products/completed operations	4/1/08 - 4/1/09	5,000,000
General aggregate	4/1/08 - 4/1/09	5,000,000
Personal/advertising injury	4/1/08 - 4/1/09	2,000,000
Each occurrence	4/1/08 - 4/1/09	1,000,000
Damage to premises	4/1/08 - 4/1/09	100,000
Medical expense	4/1/08 - 4/1/09	5,000
Employment practices (occurrence and aggregate deductible \$2,500 per claim)	4/1/08 - 4/1/09	1,000,000
Crime		
Public employee dishonesty	6/1/08 - 6/1/09	\$75,000 per employee
Inland Marine		
Contractors equipment	4/1/08 - 4/1/09	363,464
Scheduled property floater (miscellaneous)	4/1/08 - 4/1/09	101,700
Automobile		
Liability	4/1/08 - 4/1/09	2,000,000
Uninsured	4/1/08 - 4/1/09	50,000
Underinsured	4/1/08 - 4/1/09	50,000
Physical damage	4/1/08 - 4/1/09	Loss less deductible
Comprehensive	4/1/08 - 4/1/09	Loss less deductible
Collision	4/1/08 - 4/1/09	Loss less deductible
Medical	4/1/08 - 4/1/09	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/08 - 4/1/09	500,000
Bodily injury by disease/employee	4/1/08 - 4/1/09	500,000
Bodily injury by disease/limit	4/1/08 - 4/1/09	500,000
Umbrella		
Occurrence	4/1/08 - 4/1/09	1,000,000
Aggregate	4/1/08 - 4/1/09	1,000,000
Products completed aggregated	4/1/08 - 4/1/09	1,000,000
Bodily injury by disease aggregate	4/1/08 - 4/1/09	1,000,000
Public Official Error and Omissions		
Occurrence	4/1/08 - 4/1/09	2,000,000
Aggregate	4/1/08 - 4/1/09	2,000,000
Insured's deductible per loss	4/1/08 - 4/1/09	1,000

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, 2008, which, along with the discretely presented component unit, collectively comprise the City's basic financial statements, and have issued our report thereon dated December 4, 2008. 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 significant deficiency in internal control over financial reporting that we consider to be 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 08-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*. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 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

Waterloo, Iowa
December 4, 2008

Schedule of Findings and Questioned Costs

Part I: Findings Related to the Financial Statements

08-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.

08-IC-2 Unsupported Cost Allocations

Finding - The City is recording portions of the City Administrator/Clerk and the Finance Manager/Treasurer compensation and benefits (General Fund, General Government Function) direct to the Water Fund (Business-Type Activities), Sanitary Sewer Fund (Business-Type Activities) and Road Use Tax Fund (Public Works Function) without documentation, such as time sheets clearly indicating the amount of time and work performed, which support the direct charges.

Charges to funds and functions should be supported by adequate documentation. Job descriptions indicate that the City Administrator/Clerk and Finance Manager/Treasurer positions are administrative in nature and city-wide in scope. Documentation thus exists that supports compensation and benefits for the positions to be recorded in the General Fund as General Government Function disbursements.

During the budget process, in order to allocate indirect costs to funds and functions, payroll and benefits of the City Administrator/Clerk were allocated at 32% for each water and sanitary sewer activities, 31% for street activities and 5% for general city-wide administrative activities and the Finance Manager/Treasurer at 35% water, 15% sanitary sewer, 20% to streets and 30% for general city-wide administrative activities. Payroll, taxes and benefits were charged to the funds and functions in those percentages when paid as direct expenses.

As a result, \$28,057 of governmental activities, General Government Function disbursements were originally recorded as Public Works Function disbursements. A year-end correction was made to reclassify the disbursements to the correct function. The correction created a budget deficit for the General Government Function. In addition, Water and Sanitary Sewer funds reported direct disbursements for payroll, payroll taxes and benefits without proper documentation.

Schedule of Findings and Questioned Costs

Auditor's Recommendation - In order to support charges to funds and functions, we recommend that documentation supporting direct disbursements charged to funds and functions be maintained on file. In order to ensure that each enterprise fund report all costs as if it were a separate business, we recommend that the City develop documentation to support indirect cost allocations for all costs in the General Fund, General Government Function which should be charged to each enterprise fund and for each enterprise fund that should be charged to other funds. Based on the documentation, develop an indirect cost plan to charge a percentage of monthly direct disbursements as indirect costs to each enterprise fund and the General Fund. Establish receipt and disbursement accounts within the General Fund, General Government Function and each enterprise fund and record monthly entries to each account for applicable amounts. To prevent actual functional expenses from exceeding the budget, we recommend that the City amend the fiscal year 2009 budget for expectations of functional disbursements at gross, including indirect costs and indirect receipts as indirect charges for services.

City's Response - We concur with the finding. We intend to amend our budget for the year ending June 30, 2009. We will review allocations of costs and determine whether the benefits of an indirect cost plan and allocation schedule exceed the cost involved in designing and implementing the plan and allocation schedule.

Auditor's Conclusion - Response accepted.

08-IC-3 Earnings of Permanent Fund Investments

Finding - The City is recording nonpermanent fund receipts and cash balances in its Cemetery Permanent Fund.

Permanent funds are established to account for assets which cannot be expended and are determined by donor or state legal action. Earnings of permanent funds are available for expenditure, thus they are not part of the permanent fund and should be recorded in the General Fund or some other fund which is allowed to expend the earnings.

The City opened a new certificate of deposit (CD) to account for permanent funds. Interest earned is added to the face of the CD. (The prior CD paid cash at specified intervals which was deposited into the General Fund.) The entire CD balance is recorded as part of the cemetery permanent fund.

As a result, the General Fund underreported its receipts and balance in the amount of \$1,261. Cemetery Permanent Fund receipts and balance are over reported by the same amount.

Auditor's Recommendation - Record permanent fund earnings in the General Fund and allocate the CD balance between the General Fund and the Cemetery Permanent Fund.

City's Response - The City concurs and will transfer \$1,261 to the General Fund and will record future cash interest directly to the General Fund as it is added to the face of the CD. The CD will be allocated between the General Fund and the permanent fund, principal to permanent and interest to General.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Part II: Compliance and Other Matters

08-C-1 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the Health and Social Services, General Government and Business-Type Activities 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."

Auditor's 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.

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

Auditor's Conclusion - Response accepted.

08-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.

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

08-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.

08-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.

08-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.

08-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.

08-C-8 Revenue Bonds and Notes - Except for meeting audit completion deadline dates, for which a waiver was obtained, the City has complied with the revenue bond and note resolutions.