

CITY OF MARENGO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2009

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 | 35-38 | |

Officials

| Name | Title | Term Expires |
|------|-------|--------------|
|------|-------|--------------|

Elected Officials

| | | |
|------------------|----------------------------------|---------------|
| 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 | Resigned August 15, 2008 |
| Brent Nelson | Administrator/Clerk | Indefinite (started September 23, 2009) |
| Barbara Barrick | Financial Manager | Indefinite (resigned August 14, 2009) |
| 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, 2009 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, 2009, 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 23, 2009 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, 2008 (which are not presented herein) and expressed an unqualified opinion for the year ended June 30, 2008 and qualified opinions for the lack of inclusion of the financial information of the Friends of Marengo Public Library for the years ended June 30, 2007 and 2006. 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 23, 2009

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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities, other than debt proceeds, increased 19%, or approximately \$349,000, from the fiscal 2008 year to the fiscal 2009 year. This increase is due to increases in charges for service and grants received.

Governmental activities disbursements increased 14%, or approximately \$345,000, in fiscal year 2009 from the fiscal year 2008. This change was primarily due to capital projects.

The City's total cash basis net assets decreased approximately \$688,000 from June 30, 2008 to June 30, 2009. The assets of the governmental activities decreased approximately \$695,000 while the assets of the business-type activities increased by approximately \$7,000.

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, community and economic development, 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 is the Marengo Memorial Hospital.

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 Central Business District Renovation; (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 decreased from \$1,754,167 a year ago to \$1,058,905. 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>2009</u> | <u>2008</u> |
| Receipts and Transfers | | |
| Program Receipts | | |
| Charges for services | \$ 248,978 | \$ 125,221 |
| Operating grants, contributions and restricted interest | 710,010 | 330,061 |
| Capital grants, contributions and restricted interest | — | 19,676 |
| General Receipts | | |
| Property tax | 914,213 | 892,543 |
| Local option sales tax | 307,806 | 295,825 |
| Unrestricted miscellaneous, intergovernmental, interest and sale of assets | 29,288 | 198,093 |
| Debt proceeds | — | 1,450,000 |
| Total Receipts | <u>2,210,295</u> | <u>3,311,419</u> |
| Disbursements | | |
| Public safety | 310,702 | 445,906 |
| Public works | 304,143 | 354,275 |
| Health and social services | 74,817 | 68,617 |
| Culture and recreation | 240,267 | 306,399 |
| Community and economic development | 10,064 | 2,302 |
| General government | 147,180 | 155,447 |
| Debt service | 478,930 | 361,598 |
| Capital projects | 1,277,134 | 804,132 |
| Transfers, net | 62,320 | — |
| Total Disbursements | <u>2,905,557</u> | <u>2,498,676</u> |
| Change in Cash Basis Net Assets | (695,262) | 812,743 |
| Cash Basis Net Assets - Beginning of Year | <u>1,754,167</u> | <u>941,424</u> |
| Cash Basis Net Assets - End of Year | <u>\$ 1,058,905</u> | <u>\$ 1,754,167</u> |

The City's total receipts for governmental activities decreased by 33%, or \$1,101,124. The decrease was mainly due to the receipt of debt proceeds in the prior year.

The total cost of all programs and services increased by \$406,881, or 16%. The majority of this increase was due to an increase in debt service payments and additional capital project expenditures.

Changes in Cash Basis Net Assets of Business-Type Activities

| | Years Ended June 30, | |
|--|-----------------------------|--------------------------|
| | 2009 | 2008 |
| Receipts and Transfers | | |
| Program Receipts | | |
| Charges for Services | | |
| Water | \$ 500,060 | \$ 504,610 |
| Sanitary Sewer | 246,220 | 245,313 |
| Storm Sewer | 19,566 | 21,077 |
| Interest | 8,722 | 8,263 |
| Intergovernmental | 6,016 | — |
| Debt proceeds | 208,487 | 2,431,044 |
| Transfers, net | 62,320 | — |
| Total Receipts | <u>1,051,391</u> | <u>3,210,307</u> |
| Disbursements and Transfers | | |
| Water | 728,044 | 2,995,555 |
| Sanitary Sewer | 252,196 | 204,747 |
| Storm Sewer | 63,739 | 23,352 |
| Total Disbursements | <u>1,043,979</u> | <u>3,223,654</u> |
| Change in Cash Basis Net Assets | 7,412 | (13,347) |
| Cash Basis Net Assets - Beginning of Year | <u>422,966</u> | <u>436,313</u> |
| Cash Basis Net Assets - End of Year | <u>\$ 430,378</u> | <u>\$ 422,966</u> |

Total business-type activities receipts for the fiscal year were \$1,051,391 compared to \$3,210,307 last year. The decrease was primarily due to the receipt of debt proceeds in the prior year. The cash balance increased by \$7,412, or 2%, from the prior year. Total disbursements for the fiscal year decreased by 68%, or \$2,179,675. The decrease is primarily due to expenditures in the prior year for the water plant.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$1,058,905, a decrease of more than \$695,000 from last year's total of \$1,754,167.

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

The General Fund cash balance increased \$152,628 from the prior year to \$335,961. This increase was largely due to an overall decrease in expenditures and receiving more miscellaneous revenue.

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 Local Option Sales Tax Fund cash balance increased approximately \$27,000 over the prior year due to an increase in receipts.

The Tax Increment Financing Fund cash balance increased approximately \$8,000 to \$222,098 during the fiscal year. This increase is due to an increase in property valuations within the T.I.F. district.

The Road Use Tax 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 in the prior year to account for a capital project. The cash balance decreased approximately \$866,000 due to a large portion of the project being completed in the current year.

The Debt Service Fund reported a decrease in cash of \$18,245 due to larger amounts paid for debt service.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility cash balance decreased by \$14,699 to \$234,991 due to more repair expenditures in the current year.

The Sanitary Sewer System cash balance decreased by \$2,324 to \$150,140 due to more repair expenditures in the current year.

Component Unit - The City has one component unit, Marengo Memorial Hospital (Hospital). 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 March 26, 2009 and was for additional expenditures that were not in the original budget, such as park equipment, a civil defense siren and repairs and for transfers between funds. All items paid were from donations or existing funds. The second amendment was approved May 26, 2009. The amendment was for a comprehensive plan, hospital payments made, increased mosquito control costs and a donation to the Lake Iowa Nature Center.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$2,824,000 in general obligation debt, \$2,572,748 in water revenue debt and \$77,000 in sewer revenue debt for a total debt outstanding of \$5,473,748. The water revenue debt outstanding is the amount drawn to date of \$2,921,748 from a maximum loan total available of \$3,200,000 less \$349,000 of principal repaid.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,824,000 is significantly below its constitutional debt limit of \$5,074,652.

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 2010 budget, tax rates and fees that will be charged for various City activities.

During fiscal year 2010, the City expects to pay for needed wastewater improvement through rate adjustments and current wastewater fund balance, The City will also be issuing debt for CBD Phase 2 of approximately \$1,500,000.

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, Brent Nelson, 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, 2009

| Functions/Programs | Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | | Component Unit |
|---|----------------------|------------------------|--|--|---------------------------------|---------------------|---------------------|
| | Disbursements | Charges for Service | Operating Grants, Contributions and Restricted Interest | Governmental Activities | Business- Type Activities | Total | |
| Governmental Activities | | | | | | | |
| Public safety | \$ 310,702 | \$ 83,435 | \$ — | \$ (227,267) | \$ — | \$ (227,267) | \$ — |
| Public works | 304,143 | 53,503 | 210,328 | (40,312) | — | (40,312) | — |
| Health and social services..... | 74,817 | 6,500 | — | (68,317) | — | (68,317) | — |
| Culture and recreation..... | 240,267 | 95,190 | 239,279 | 94,202 | — | 94,202 | — |
| Community and economic development | 10,064 | — | — | (10,064) | — | (10,064) | — |
| General government..... | 147,180 | 10,350 | — | (136,830) | — | (136,830) | — |
| Debt service..... | 478,930 | — | — | (478,930) | — | (478,930) | — |
| Capital projects..... | 1,277,134 | — | 260,403 | (1,016,731) | — | (1,016,731) | — |
| Total Governmental Activities | 2,843,237 | 248,978 | 710,010 | (1,884,249) | — | (1,884,249) | — |
| Business-Type Activities | | | | | | | |
| Water | 728,044 | 500,060 | — | — | (227,984) | (227,984) | — |
| Sanitary sewer..... | 252,196 | 246,220 | — | — | (5,976) | (5,976) | — |
| Storm sewer | 63,739 | 19,566 | — | — | (44,173) | (44,173) | — |
| Total Business-Type Activities..... | 1,043,979 | 765,846 | — | — | (278,133) | (278,133) | — |
| Total Primary Government | \$ 3,887,216 | \$ 1,014,824 | \$ 710,010 | (1,884,249) | (278,133) | (2,162,382) | — |
| Component Unit - Memorial Hospital | \$ 15,132,138 | \$ 15,120,469 | \$ 292,183 | — | — | — | 280,514 |
| General Receipts | | | | | | | |
| Property Tax Levied for | | | | | | | |
| General purposes..... | | | | 428,652 | — | 428,652 | — |
| Memorial hospital..... | | | | 42,213 | — | 42,213 | — |
| Insurance | | | | 18,341 | — | 18,341 | — |
| Employee benefits..... | | | | 115,824 | — | 115,824 | — |
| Debt service | | | | 138,440 | — | 138,440 | — |
| Tax increment financing..... | | | | 170,743 | — | 170,743 | — |
| Local option sales tax..... | | | | 307,806 | — | 307,806 | — |
| Miscellaneous..... | | | | 4,957 | — | 4,957 | — |
| Intergovernmental not restricted to specific purpose..... | | | | — | 6,016 | 6,016 | — |
| Unrestricted interest on investments | | | | 16,506 | 8,722 | 25,228 | — |
| Sale of assets | | | | 7,825 | — | 7,825 | — |
| Debt proceeds | | | | — | 208,487 | 208,487 | — |
| Transfers | | | | (62,320) | 62,320 | — | — |
| Total General Receipts and Transfers | | | | 1,188,987 | 285,545 | 1,474,532 | — |
| Change in Cash Basis Net Assets | | | | (695,262) | 7,412 | (687,850) | 280,514 |
| Cash Basis Net Assets - Beginning of Year | | | | 1,754,167 | 422,966 | 2,177,133 | 4,189,601 |
| Cash Basis Net Assets - End of Year | | | | \$ 1,058,905 | \$ 430,378 | \$ 1,489,283 | \$ 4,470,115 |
| Cash Basis Net Assets | | | | | | | |
| Restricted | | | | | | | |
| Donor designations or legal provisions | | | | \$ 871,367 | \$ — | \$ 871,367 | \$ 3,648,264 |
| Customer deposits | | | | — | 39,889 | 39,889 | — |
| Debt service | | | | 19,477 | — | 19,477 | 821,851 |
| Debt covenants | | | | — | 40,056 | 40,056 | — |
| Unrestricted | | | | 168,061 | 350,433 | 518,494 | — |
| Total Cash Basis Net Assets | | | | \$ 1,058,905 | \$ 430,378 | \$ 1,489,283 | \$ 4,470,115 |

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, 2009

| | Major | | | | | Nonmajor | Total | |
|---|-------------------|-------------------|-------------------------|--------------------------------------|------------------|-------------------|---------------------|--------------------|
| | General | Special Revenue | | Capital Projects | | Debt Service | | Governmental Funds |
| | | Local Option Tax | Tax Increment Financing | Central Business District Renovation | Debt Service | Debt Service | | |
| Receipts | | | | | | | | |
| Property taxes | \$ 489,206 | \$ — | \$ — | \$ — | \$ 138,440 | \$ 115,824 | \$ 743,470 | |
| T.I.F. collections | — | — | 170,743 | — | — | — | 170,743 | |
| Other city tax | — | 307,806 | — | — | — | — | 307,806 | |
| Licenses and permits..... | 10,350 | — | — | — | — | — | 10,350 | |
| Use of money and property | 4,074 | 3,258 | 6,167 | 92 | 2,103 | 812 | 16,506 | |
| Intergovernmental..... | 83,332 | — | — | 250,000 | — | 210,328 | 543,660 | |
| Charges for services..... | 119,584 | — | — | — | — | 500 | 120,084 | |
| Miscellaneous..... | 279,448 | — | — | 50 | — | 10,353 | 289,851 | |
| Total Receipts | 985,994 | 311,064 | 176,910 | 250,142 | 140,543 | 337,817 | 2,202,470 | |
| Disbursements | | | | | | | | |
| Public safety | 310,702 | — | — | — | — | — | 310,702 | |
| Public works | 46,975 | 62,341 | — | — | — | 194,827 | 304,143 | |
| Health and social services..... | 74,817 | — | — | — | — | — | 74,817 | |
| Culture and recreation..... | 240,267 | — | — | — | — | — | 240,267 | |
| Community and economic development | 6,943 | — | 3,121 | — | — | — | 10,064 | |
| General government..... | 120,326 | — | — | — | 1,200 | 25,654 | 147,180 | |
| Debt service..... | — | — | — | — | 478,930 | — | 478,930 | |
| Capital projects..... | 109,648 | — | — | 1,115,771 | — | 51,715 | 1,277,134 | |
| Total Disbursements | 909,678 | 62,341 | 3,121 | 1,115,771 | 480,130 | 272,196 | 2,843,237 | |
| Receipts Over (Under) Disbursements..... | 76,316 | 248,723 | 173,789 | (865,629) | (339,587) | 65,621 | (640,767) | |
| Other Financing Sources (Uses) | | | | | | | | |
| Sale of capital assets..... | 7,825 | — | — | — | — | — | 7,825 | |
| Transfers in..... | 105,219 | — | — | — | 321,342 | 40,319 | 466,880 | |
| Transfers out | (36,732) | (221,513) | (165,736) | — | — | (105,219) | (529,200) | |
| Total Other Financing Sources (Uses) | 76,312 | (221,513) | (165,736) | — | 321,342 | (64,900) | (54,495) | |
| Increase (Decrease) in Cash Balances..... | 152,628 | 27,210 | 8,053 | (865,629) | (18,245) | 721 | (695,262) | |
| Cash Balances - Beginning of Year..... | 183,333 | 99,987 | 214,045 | 1,023,470 | 37,722 | 195,610 | 1,754,167 | |
| Cash Balances - End of Year | \$ 335,961 | \$ 127,197 | \$ 222,098 | \$ 157,841 | \$ 19,477 | \$ 196,331 | \$ 1,058,905 | |
| Cash Basis Fund Balances | | | | | | | | |
| Reserved | | | | | | | | |
| Donor or legal provisions..... | \$ 167,900 | \$ 127,197 | \$ 222,098 | \$ 157,841 | \$ — | \$ 196,331 | \$ 871,367 | |
| Debt service..... | — | — | — | — | 19,477 | — | 19,477 | |
| Unreserved | | | | | | | | |
| General Fund..... | 168,061 | — | — | — | — | — | 168,061 | |
| Total Cash Basis Fund Balances | \$ 335,961 | \$ 127,197 | \$ 222,098 | \$ 157,841 | \$ 19,477 | \$ 196,331 | \$ 1,058,905 | |

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, 2009

| | Major | | Nonmajor | |
|---|-------------------|-------------------|------------------|-------------------|
| | Water | Sanitary Sewer | Storm Sewer | Total |
| Operating Receipts | | | | |
| Charges for service | \$ 490,178 | \$ 245,751 | \$ 19,566 | \$ 755,495 |
| Miscellaneous..... | 9,882 | 469 | — | 10,351 |
| Total Operating Receipts..... | 500,060 | 246,220 | 19,566 | 765,846 |
| Operating Disbursements | | | | |
| Business-type activities | 248,218 | 226,491 | 21,632 | 496,341 |
| Operating Receipts Over (Under) | | | | |
| Operating Disbursements | 251,842 | 19,729 | (2,066) | 269,505 |
| Nonoperating Receipts (Disbursements) | | | | |
| Intergovernmental..... | — | — | 6,016 | 6,016 |
| Interest on investments | 4,798 | 3,652 | 272 | 8,722 |
| Capital outlay..... | (214,083) | — | (42,107) | (256,190) |
| Debt service..... | (265,743) | (25,705) | — | (291,448) |
| Total Nonoperating Receipts (Disbursements)..... | (475,028) | (22,053) | (35,819) | (532,900) |
| Receipts Under Disbursements | (223,186) | (2,324) | (37,885) | (263,395) |
| Other Financing Sources (Uses) | | | | |
| Debt proceeds | 208,487 | — | — | 208,487 |
| Operating transfers in..... | — | — | 62,320 | 62,320 |
| Total Other Financing Sources (Uses) | 208,487 | — | 62,320 | 270,807 |
| Increase (Decrease) in Cash Balances | (14,699) | (2,324) | 24,435 | 7,412 |
| Cash Balances - Beginning of Year..... | 249,690 | 152,464 | 20,812 | 422,966 |
| Cash Balances - End of Year | \$ 234,991 | \$ 150,140 | \$ 45,247 | \$ 430,378 |
| Cash Basis Fund Balances | | | | |
| Reserved | | | | |
| Customer deposits | \$ 39,889 | \$ — | \$ — | \$ 39,889 |
| Debt covenants | 25,725 | 14,331 | — | 40,056 |
| Unreserved | 169,377 | 135,809 | 45,247 | 350,433 |
| Total Cash Basis Fund Balances | \$ 234,991 | \$ 150,140 | \$ 45,247 | \$ 430,378 |

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, 2009, the City recognized cash receipts of \$42,413, composed of property taxes - \$42,213 and interest - \$200 collected for the Hospital and remitted \$59,861 to the Hospital. At June 30, 2009, the City held \$1,211 in the General Fund restricted for the Hospital.

Excluded Component Unit

Friends of the Marengo Public Library (Friends) (an Iowa nonprofit corporation) is a component unit that is legally separate from the City. Friends is governed by its own board. Friends was formed for the direct benefit of the Marengo Public Library (Library). Economic resources received by Friends are used for the direct benefit of the Library and, therefore, the City's constituents.

Friends has a calendar year end. Friends does not prepare financial statements; therefore, audited financial statements are not available. Management has elected to exclude the cash transactions of Friends from City financial statements as the amounts for 2009 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 *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.

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 wastewater 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, 2009, disbursements exceeded amounts budgeted in the Public Works, Debt Service and Business-Type Activities Functions. In addition, during the year ended June 30, 2009, disbursements in the Health and Social Services and Culture and Recreation functional areas were allowed to exceed budgeted amounts prior to being amended.

Notes to the Financial Statements

(2) Deposits and Investments

The City's deposits in banks at June 30, 2009 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 investments in certificates of deposit with the Iowa Public Agency Investment Trust which are valued at their cost of \$385,167.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

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 |
| 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 | 245,000 | 61,958 | 205,000 | 62,610 | — | — | 450,000 | 124,568 |
| 2015-19.. | 835,000 | 192,139 | 1,124,000 | 216,810 | — | — | 1,959,000 | 408,949 |
| 2020-24.. | 470,000 | 44,930 | 758,000 | 45,930 | — | — | 1,228,000 | 90,860 |
| | <u>\$ 2,824,000</u> | <u>\$ 657,790</u> | <u>\$ 2,851,000</u> | <u>\$ 633,900</u> | <u>\$ 77,000</u> | <u>\$ 3,635</u> | <u>\$ 5,752,000</u> | <u>\$ 1,295,325</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, 2009, the City has drawn \$2,921,749 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. The actual outstanding balance at June 30, 2009 was \$2,572,748.

(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 \$3,484,900. For the current year, principal and interest paid and total customer net receipts were \$257,216 and \$265,743, 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 \$80,635. For the current year, principal and interest paid and total customer net receipts were \$25,655 and \$60,823, 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.
5. Maintain insurance on or self-insure the insurable portions of the wastewater treatment system.

Except for sufficient rates being established to cause net revenue to be at least 110% of bond payments and maintaining appropriate insurance coverage (see Page 38, item 09-C-8), the City was in compliance with these requirements at June 30, 2009.

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.

Notes to the Financial Statements

(3) Long-Term Debt

3. Monthly transfers will be made to the debt sinking fund equal to one-twelfth of the next principal payment and one-sixth of the next interest payment such that adequate cash is available in the sinking fund to pay debt service when due.
4. 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, 2009.

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 4% 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 requires monthly payments of \$23,830, 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, 2009, the remaining balance on this note is \$984,999.

Maturities required on Hospital debt are as follows:

| Year Ending June 30, | Revenue Notes | | Note Payable | Total Principal | Interest | Total |
|---------------------------------------|----------------------------|----------------------------|--------------------------|----------------------------|----------------------------|-----------------------------|
| | Series 2005 | Series 2004 | | | | |
| 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..... | — | 280,000 | — | 280,000 | 416,555 | 696,555 |
| 2015-2019 | 4,000,000 | 1,630,000 | — | 5,630,000 | 1,091,500 | 6,721,500 |
| 2020-2024 | — | <u>2,120,000</u> | — | <u>2,120,000</u> | <u>398,670</u> | <u>2,518,670</u> |
| Total | 4,000,000 | 5,035,000 | 984,999 | 10,019,999 | 3,773,616 | 13,793,615 |
| Less current maturities..... | — | <u>235,000</u> | <u>246,653</u> | <u>481,653</u> | <u>499,192</u> | <u>980,845</u> |
| Total Long-Term Debt | <u>\$ 4,000,000</u> | <u>\$ 4,800,000</u> | <u>\$ 738,346</u> | <u>\$ 9,538,346</u> | <u>\$ 3,274,424</u> | <u>\$ 12,812,770</u> |

Notes to the Financial Statements

(3) Long-Term Debt

A summary of changes in debt for the year ended June 30, 2009 follows:

| | Beginning Balance | Additions | Principal Payments | Ending Balance |
|--|------------------------------|--------------------|-------------------------------|-----------------------------|
| Hospital Revenue Notes, Series 2005..... | \$ 4,000,000 | \$ — | \$ — | \$ 4,000,000 |
| Hospital Revenue Notes, Series 2004..... | 5,260,000 | — | 225,000 | 5,035,000 |
| Note payable, equipment..... | <u>1,118,542</u> | <u>—</u> | <u>133,543</u> | <u>984,999</u> |
| Totals | <u>\$ 10,378,542</u> | <u>\$ —</u> | <u>\$ 358,543</u> | <u>\$ 10,019,999</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 4.1% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$36,763, \$37,088 and \$36,206, 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, 2009 is as follows:

| Transfer To | Transfer From | Amount |
|--------------------------|-------------------------|--------------------------|
| General | Special Revenue | |
| | Employee Benefits | \$ 103,958 |
| | Permanent | |
| | Cemetery Trust | <u>1,261</u> |
| | | <u>105,219</u> |
| Special Revenue | | |
| Road Use Tax Fund | General | <u>16,519</u> |
| Capital Projects | Special Revenue | |
| Roberts Avenue Project | Local Option Sales Tax | <u>18,500</u> |
| Capital Projects | Special Revenue | |
| 2007 Street Improvements | Local Option Sales Tax | <u>5,300</u> |
| Proprietary | | |
| Storm Sewer | General | |
| | Special Revenue | 20,213 |
| | Local Option Sales Tax | <u>42,107</u> |
| | | <u>62,320</u> |
| Debt Service | Special Revenue | |
| | Local Option Sales Tax | 155,606 |
| | Tax Increment Financing | <u>165,736</u> |
| | | <u>321,342</u> |
| Total | | <u>\$ 529,200</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.

Notes to the Financial Statements

(8) Construction and Other Commitments

The City Council approved engineering and construction contracts for the Central Business District Renovation totaling approximately \$1,600,000. This project is primarily funded with general obligation bond proceeds and a Community Attraction and Tourism (CAT) Grant. At June 30, 2009, outstanding construction commitments of approximately \$300,000 remain on this project.

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, 2009

| | Governmental Funds - Actual | Enterprise Funds Actual | Total | Budget | | Over (Under) Final Budget |
|--|--------------------------------|-------------------------------|----------------------------|----------------------------|----------------------------|------------------------------------|
| | | | | Original | Final | |
| Receipts | | | | | | |
| Property tax..... | \$ 743,470 | \$ — | \$ 743,470 | \$ 712,732 | \$ 712,732 | \$ 30,738 |
| T.I.F. collections..... | 170,743 | — | 170,743 | 166,200 | 166,200 | 4,543 |
| Other city tax..... | 307,806 | — | 307,806 | 292,926 | 292,926 | 14,880 |
| Licenses and permits..... | 10,350 | — | 10,350 | 3,500 | 3,500 | 6,850 |
| Use of money and property | 16,506 | 8,722 | 25,228 | 11,800 | 11,800 | 13,428 |
| Intergovernmental..... | 543,660 | 6,016 | 549,676 | 244,940 | 244,940 | 304,736 |
| Charges for service..... | 120,084 | 755,495 | 875,579 | 923,300 | 923,300 | (47,721) |
| Special assessments..... | — | — | — | 8,000 | — | — |
| Miscellaneous..... | 289,851 | 10,351 | 300,202 | 47,500 | 125,300 | 174,902 |
| Total Receipts..... | <u>2,202,470</u> | <u>780,584</u> | <u>2,983,054</u> | <u>2,410,898</u> | <u>2,480,698</u> | <u>502,356</u> |
| Disbursements | | | | | | |
| Public safety..... | 310,702 | — | 310,702 | 318,850 | 332,850 | (22,148) |
| Public works..... | 304,143 | — | 304,143 | 268,900 | 261,100 | 43,043 |
| Health and social services | 74,817 | — | 74,817 | 50,900 | 74,900 | (83) |
| Culture and recreation..... | 240,267 | — | 240,267 | 227,340 | 332,340 | (92,073) |
| Community and economic development..... | 10,064 | — | 10,064 | 6,000 | 13,000 | (2,936) |
| General government..... | 147,180 | — | 147,180 | 132,850 | 163,650 | (16,470) |
| Debt service..... | 478,930 | — | 478,930 | 317,700 | 405,700 | 73,230 |
| Capital projects..... | 1,277,134 | — | 1,277,134 | 1,560,000 | 1,560,000 | (282,866) |
| Business-type activities.... | — | 1,043,979 | 1,043,979 | 847,000 | 866,000 | 177,979 |
| Total Disbursements... | <u>2,843,237</u> | <u>1,043,979</u> | <u>3,887,216</u> | <u>3,729,540</u> | <u>4,009,540</u> | <u>(122,324)</u> |
| Receipts Over (Under) | | | | | | |
| Disbursements..... | <u>(640,767)</u> | <u>(263,395)</u> | <u>(904,162)</u> | <u>(1,318,642)</u> | <u>(1,528,842)</u> | <u>624,680</u> |
| Other Financing Sources (Uses) | | | | | | |
| Debt proceeds..... | — | 208,487 | 208,487 | 1,500,000 | 1,500,000 | (1,291,513) |
| Sale of assets..... | 7,825 | — | 7,825 | — | — | 7,825 |
| Transfers in..... | 466,880 | 62,320 | 529,200 | 296,600 | 296,600 | 232,600 |
| Transfers out..... | (529,200) | — | (529,200) | (296,600) | (296,600) | (232,600) |
| Other Financing Sources (Uses), Net | <u>(54,495)</u> | <u>270,807</u> | <u>216,312</u> | <u>1,500,000</u> | <u>1,500,000</u> | <u>(1,283,688)</u> |
| Receipts and Other Financing Sources Over (Under) | | | | | | |
| Disbursements and Other Financing Uses .. | (695,262) | 7,412 | (687,850) | 181,358 | (28,842) | (659,008) |
| Balances - Beginning of Year..... | 1,754,167 | 422,966 | 2,177,133 | 824,361 | 2,692,491 | (515,358) |
| Balances - End of Year .. | <u>\$ 1,058,905</u> | <u>\$ 430,378</u> | <u>\$ 1,489,283</u> | <u>\$ 1,005,719</u> | <u>\$ 2,663,649</u> | <u>\$(1,174,366)</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, 2009

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 \$280,000. 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 \$177,979. Capital projects disbursements were below budget by a larger amount.

During the year ended June 30, 2009, disbursements exceeded amounts budgeted in Public Works, Debt Service and Business-Type Activities. In addition, during the year ended June 30, 2009, disbursements in the Health and Social Services and Culture and Recreation functional areas were allowed to exceed amounts budgeted prior to being amended.

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, 2009

| | General | Insurance | Police Reserve | Library Miscellaneous | Capital Reserve | Memorial Building | Total |
|---|--------------------------|-------------------------|----------------------|--------------------------|-------------------------|------------------------|--------------------------|
| Receipts | | | | | | | |
| Property taxes | \$ 428,652 | \$ 18,341 | \$ — | \$ — | \$ — | \$ 42,213 | \$ 489,206 |
| Licenses and permits..... | 10,350 | — | — | — | — | — | 10,350 |
| Use of money and property | 3,869 | — | — | 5 | — | 200 | 4,074 |
| Intergovernmental..... | 83,332 | — | — | — | — | — | 83,332 |
| Charges for services..... | 119,584 | — | — | — | — | — | 119,584 |
| Miscellaneous..... | 238,298 | — | — | 1,135 | 40,015 | — | 279,448 |
| Total Receipts | <u>884,085</u> | <u>18,341</u> | <u>—</u> | <u>1,140</u> | <u>40,015</u> | <u>42,413</u> | <u>985,994</u> |
| Disbursements | | | | | | | |
| Public safety | 310,702 | — | — | — | — | — | 310,702 |
| Public works | 46,975 | — | — | — | — | — | 46,975 |
| Health and social services..... | 14,956 | — | — | — | — | 59,861 | 74,817 |
| Culture and recreation..... | 238,979 | — | — | 1,288 | — | — | 240,267 |
| Community and economic development | 6,943 | — | — | — | — | — | 6,943 |
| General government..... | 86,407 | 33,919 | — | — | — | — | 120,326 |
| Capital projects..... | 109,648 | — | — | — | — | — | 109,648 |
| Total Disbursements | <u>814,610</u> | <u>33,919</u> | <u>—</u> | <u>1,288</u> | <u>—</u> | <u>59,861</u> | <u>909,678</u> |
| Receipts Over (Under) Disbursements..... | <u>69,475</u> | <u>(15,578)</u> | <u>—</u> | <u>(148)</u> | <u>40,015</u> | <u>(17,448)</u> | <u>76,316</u> |
| Other Financing Sources (Uses) | | | | | | | |
| Sale of assets | 7,825 | — | — | — | — | — | 7,825 |
| Transfers in..... | 105,219 | — | — | — | — | — | 105,219 |
| Intrafund transfers (net)..... | (124,827) | — | — | 145,916 | (21,089) | — | — |
| Transfers out | (36,732) | — | — | — | — | — | (36,732) |
| Total Other Financing Sources (Uses) | <u>(48,515)</u> | <u>—</u> | <u>—</u> | <u>145,916</u> | <u>(21,089)</u> | <u>—</u> | <u>76,312</u> |
| Increase (Decrease) in Cash Balances..... | <u>20,960</u> | <u>(15,578)</u> | <u>—</u> | <u>145,768</u> | <u>18,926</u> | <u>(17,448)</u> | <u>152,628</u> |
| Cash Balances - Beginning of Year..... | 86,381 | 33,998 | 293 | 2,208 | 41,794 | 18,659 | 183,333 |
| Cash Balances - End of Year | <u>\$ 107,341</u> | <u>\$ 18,420</u> | <u>\$ 293</u> | <u>\$ 147,976</u> | <u>\$ 60,720</u> | <u>\$ 1,211</u> | <u>\$ 335,961</u> |
| Cash Basis Fund Balances | | | | | | | |
| Reserved | | | | | | | |
| Donor or legal provisions..... | \$ — | \$ 18,420 | \$ 293 | \$ 147,976 | \$ — | \$ 1,211 | \$ 167,900 |
| Unreserved..... | 107,341 | — | — | — | 60,720 | — | 168,061 |
| Total Cash Basis Fund Balances | <u>\$ 107,341</u> | <u>\$ 18,420</u> | <u>\$ 293</u> | <u>\$ 147,976</u> | <u>\$ 60,720</u> | <u>\$ 1,211</u> | <u>\$ 335,961</u> |

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

As of and for the Year Ended June 30, 2009

| | <u>Special Revenue</u> | | <u>Capital Projects</u> | | | | | <u>Permanent</u> | <u>Total</u> | |
|--|-------------------------|--------------------------|---------------------------------|---------------------------|-------------------------------|--------------------------|-----------------------------|------------------------|-------------------------|--------------------------|
| | <u>Road Use Tax</u> | <u>Employee Benefits</u> | <u>2007 Street Improvements</u> | <u>Library Renovation</u> | <u>Roberts Avenue Project</u> | <u>Horse Shoe Courts</u> | <u>Tennis Court Project</u> | <u>Pool Renovation</u> | | <u>Cemetery Trust</u> |
| Receipts | | | | | | | | | | |
| Property taxes | \$ — | \$ 115,824 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 115,824 |
| Use of money and property | — | 812 | — | — | — | — | — | — | — | 812 |
| Intergovernmental..... | 210,328 | — | — | — | — | — | — | — | — | 210,328 |
| Charges for services..... | — | — | — | — | — | — | — | — | 500 | 500 |
| Miscellaneous..... | — | — | — | — | — | 10,353 | — | — | — | 10,353 |
| Total Receipts..... | <u>210,328</u> | <u>116,636</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>10,353</u> | <u>—</u> | <u>—</u> | <u>500</u> | <u>337,817</u> |
| Disbursements | | | | | | | | | | |
| Public Works..... | 194,827 | — | — | — | — | — | — | — | — | 194,827 |
| General government..... | 25,654 | — | — | — | — | — | — | — | — | 25,654 |
| Capital projects..... | — | — | 5,300 | 12,114 | 18,500 | 9,614 | 6,187 | — | — | 51,715 |
| Total Disbursements..... | <u>220,481</u> | <u>—</u> | <u>5,300</u> | <u>12,114</u> | <u>18,500</u> | <u>9,614</u> | <u>6,187</u> | <u>—</u> | <u>—</u> | <u>272,196</u> |
| Receipts Over (Under) Disbursements..... | <u>(10,153)</u> | <u>116,636</u> | <u>(5,300)</u> | <u>(12,114)</u> | <u>(18,500)</u> | <u>739</u> | <u>(6,187)</u> | <u>—</u> | <u>500</u> | <u>65,621</u> |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Transfers in..... | 16,519 | — | 5,300 | — | 18,500 | — | — | — | — | 40,319 |
| Transfers out | — | (103,958) | — | — | — | — | — | — | (1,261) | (105,219) |
| Total Other Financing Sources (Uses) | <u>16,519</u> | <u>(103,958)</u> | <u>5,300</u> | <u>—</u> | <u>18,500</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>(1,261)</u> | <u>(64,900)</u> |
| Increase (Decrease) in Cash Balances..... | <u>6,366</u> | <u>12,678</u> | <u>—</u> | <u>(12,114)</u> | <u>—</u> | <u>739</u> | <u>(6,187)</u> | <u>—</u> | <u>(761)</u> | <u>721</u> |
| Cash Balances - Beginning of Year..... | 17,425 | 1,233 | — | 13,335 | — | — | 101,503 | 8,079 | 54,035 | 195,610 |
| Cash Balances - End of Year..... | <u>\$ 23,791</u> | <u>\$ 13,911</u> | <u>\$ —</u> | <u>\$ 1,221</u> | <u>\$ —</u> | <u>\$ 739</u> | <u>\$ 95,316</u> | <u>\$ 8,079</u> | <u>\$ 53,274</u> | <u>\$ 196,331</u> |
| Cash Basis Fund Balances | | | | | | | | | | |
| Reserved | | | | | | | | | | |
| Donor/legal provisions..... | <u>\$ 23,791</u> | <u>\$ 13,911</u> | <u>\$ —</u> | <u>\$ 1,221</u> | <u>\$ —</u> | <u>\$ 739</u> | <u>\$ 95,316</u> | <u>\$ 8,079</u> | <u>\$ 53,274</u> | <u>\$ 196,331</u> |

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

As of and for the Year Ended June 30, 2009

| | Water | Water Bond Sinking | System Improvements | Water Deposits | Water Revolving | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Operating Receipts | | | | | | |
| Charges for service | \$ 490,178 | \$ — | \$ — | \$ — | \$ — | \$ 490,178 |
| Miscellaneous | 3,458 | — | — | 6,424 | — | 9,882 |
| Total Operating Receipts | 493,636 | — | — | 6,424 | — | 500,060 |
| Operating Disbursements | | | | | | |
| Business-type activities | <u>243,628</u> | <u>—</u> | <u>—</u> | <u>4,590</u> | <u>—</u> | <u>248,218</u> |
| Operating Receipts Over Operating Disbursements | <u>250,008</u> | <u>—</u> | <u>—</u> | <u>1,834</u> | <u>—</u> | <u>251,842</u> |
| Nonoperating Receipts (Disbursements) | | | | | | |
| Interest on investments | 958 | — | — | — | 3,840 | 4,798 |
| Water capital outlay | — | — | (214,083) | — | — | (214,083) |
| Debt service..... | — | (265,743) | — | — | — | (265,743) |
| Total Nonoperating Receipts (Disbursements)..... | <u>958</u> | <u>(265,743)</u> | <u>(214,083)</u> | <u>—</u> | <u>3,840</u> | <u>(475,028)</u> |
| Receipts Over (Under) Disbursements..... | 250,966 | (265,743) | (214,083) | 1,834 | 3,840 | (223,186) |
| Other Financing Sources (Uses) | | | | | | |
| Debt proceeds | — | — | 208,487 | — | — | 208,487 |
| Intrafund transfers (net) | <u>(263,286)</u> | <u>260,286</u> | <u>—</u> | <u>—</u> | <u>3,000</u> | <u>—</u> |
| Increase (Decrease) in Cash Balances..... | (12,320) | (5,457) | (5,596) | 1,834 | 6,840 | (14,699) |
| Cash Balances - Beginning of Year..... | <u>44,734</u> | <u>31,182</u> | <u>45,604</u> | <u>38,055</u> | <u>90,115</u> | <u>249,690</u> |
| Cash Balances - End of Year | <u>\$ 32,414</u> | <u>\$ 25,725</u> | <u>\$ 40,008</u> | <u>\$ 39,889</u> | <u>\$ 96,955</u> | <u>\$ 234,991</u> |
| Cash Basis Fund Balance | | | | | | |
| Reserved | | | | | | |
| Customer deposits | \$ — | \$ — | \$ — | \$ 39,889 | \$ — | \$ 39,889 |
| Debt covenants | — | 25,725 | — | — | — | 25,725 |
| Unreserved | <u>32,414</u> | <u>—</u> | <u>40,008</u> | <u>—</u> | <u>96,955</u> | <u>169,377</u> |
| Total Cash Basis Fund Balance | <u>\$ 32,414</u> | <u>\$ 25,725</u> | <u>\$ 40,008</u> | <u>\$ 39,889</u> | <u>\$ 96,955</u> | <u>\$ 234,991</u> |

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, 2009

| | Sewer Rental | Sewer Sinking | Sewer Replace- ment | Sewer Revolving | Total |
|--|-------------------|------------------|---------------------------|--------------------|-------------------|
| Operating Receipts | | | | | |
| Charges for service | \$ 245,751 | \$ — | \$ — | \$ — | \$ 245,751 |
| Miscellaneous..... | 469 | — | — | — | 469 |
| Total Operating Receipts | 246,220 | — | — | — | 246,220 |
| Operating Disbursements | | | | | |
| Business-type activities | 226,491 | — | — | — | 226,491 |
| Operating Receipts Over Operating Disbursements | 19,729 | — | — | — | 19,729 |
| Nonoperating Receipts (Disbursements) | | | | | |
| Interest on investments | 3,652 | — | — | — | 3,652 |
| Debt service..... | — | (25,705) | — | — | (25,705) |
| Total Nonoperating Receipts (Disburse- ments) | 3,652 | (25,705) | — | — | (22,053) |
| Receipts Over (Under) Disbursements | 23,381 | (25,705) | — | — | (2,324) |
| Other Financing Sources (Uses) | | | | | |
| Intrafund transfers (net) | (34,510) | 24,510 | — | 10,000 | — |
| Increase (Decrease) in Cash Balances | (11,129) | (1,195) | — | 10,000 | (2,324) |
| Cash Balances - Beginning of Year | 115,391 | 15,526 | 9,266 | 12,281 | 152,464 |
| Cash Balances - End of Year | \$ 104,262 | \$ 14,331 | \$ 9,266 | \$ 22,281 | \$ 150,140 |
| Cash Basis Fund Balance | | | | | |
| Reserved - debt covenants.... | \$ — | \$ 14,331 | \$ — | \$ — | \$ 14,331 |
| Unreserved..... | 104,262 | — | 9,266 | 22,281 | 135,809 |
| Total Cash Basis Fund Balance | \$ 104,262 | \$ 14,331 | \$ 9,266 | \$ 22,281 | \$ 150,140 |

Schedule of Indebtedness

Year Ended June 30, 2009

| | 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 | 3.80 - 4.50% | \$ 670,000 | \$ — | \$ 50,000 | \$ 620,000 | \$ 27,680 |
| Refunding | 620,000 | 12-15-04 | 3.35 - 3.85 | 390,000 | — | 80,000 | 310,000 | 13,703 |
| Corporate purpose..... | 1,250,000 | 5-15-08 | 2.65 - 4.15 | 1,250,000 | — | 65,000 | 1,185,000 | 46,744 |
| General Obligation Notes | | | | | | | | |
| Equipment | 200,000 | 8-23-07 | 4.67 | 136,000 | — | 67,000 | 69,000 | 6,351 |
| Corporate purpose..... | 1,000,000 | 6-1-05 | 3.45 - 4.00 | <u>735,000</u> | <u>—</u> | <u>95,000</u> | <u>640,000</u> | <u>27,053</u> |
| Total General Obligation..... | | | | <u>\$ 3,181,000</u> | <u>\$ —</u> | <u>\$ 357,000</u> | <u>\$ 2,824,000</u> | <u>\$ 121,531</u> |
| Water Revenue Bonds | \$ 3,200,000* | 6-1-07 | 3.00% | <u>\$ 2,541,261</u> | <u>\$ 208,487</u> | <u>\$ 177,000</u> | <u>\$ 2,572,748</u> | <u>\$ 80,743</u> |
| Sewer Revenue Bonds..... | \$ 360,000 | 10-15-91 | 3.00% | <u>\$ 100,000</u> | <u>\$ —</u> | <u>\$ 23,000</u> | <u>\$ 77,000</u> | <u>\$ 2,655</u> |

*Maximum available. Drawn to date is \$2,921,748.

Schedule of Bond and Note Maturities

At June 30, 2009

General Obligation Bonds and Notes

| | Refunding Issued 12-15-04 | | Corporate Purpose Issued 6-1-05 | | Library Renovation Issued 4-15-06 | | Equipment Issued 8-23-07 | | Corporate Purpose Issued 5-15-08 | | Total |
|-------------------|------------------------------|--------------------------|------------------------------------|--------------------------|--------------------------------------|--------------------------|-----------------------------|-------------------------|-------------------------------------|----------------------------|----------------------------|
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 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..... | | <u>\$ 310,000</u> | | <u>\$ 640,000</u> | | <u>\$ 620,000</u> | | <u>\$ 69,000</u> | | <u>\$ 1,185,000</u> | <u>\$ 2,824,000</u> |

Revenue Bonds

| | Water Revenue Issued 6-1-07 | | Sewer Revenue Issued 10-15-91 | |
|-------------------|--------------------------------|----------------------------|----------------------------------|-------------------------|
| | Interest Rates | Amount* | Interest Rates | Amount |
| 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..... | | <u>\$ 2,851,000</u> | | <u>\$ 77,000</u> |

*Subject to a maximum draw down of \$3,200,000. At June 30, 2009, \$2,921,749 had been drawn down and \$2,572,748 was outstanding.

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

Years Ended June 30, 2006 Through 2009

| | 2009 | 2008 | 2007 | 2006 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Receipts | | | | |
| Property tax | \$ 743,470 | \$ 695,512 | \$ 704,943 | \$ 688,920 |
| T.I.F. collections | 170,743 | 197,031 | 203,582 | 157,925 |
| Other city tax | 307,806 | 295,825 | 303,514 | 251,704 |
| Licenses and permits..... | 10,350 | 5,624 | 3,674 | 3,997 |
| Use of money and property | 16,506 | 23,131 | 41,626 | 31,155 |
| Intergovernmental..... | 543,660 | 307,431 | 641,212 | 268,078 |
| Charges for service | 120,084 | 125,221 | 107,170 | 91,580 |
| Miscellaneous..... | <u>289,851</u> | <u>101,644</u> | <u>706,924</u> | <u>206,385</u> |
| Total Receipts | <u>\$ 2,202,470</u> | <u>\$ 1,751,419</u> | <u>\$ 2,712,645</u> | <u>\$ 1,699,744</u> |
| Disbursements | | | | |
| Operating | | | | |
| Public safety..... | \$ 310,702 | \$ 445,906 | \$ 320,710 | \$ 321,519 |
| Public works..... | 304,143 | 354,275 | 271,406 | 345,537 |
| Health and social services | 74,817 | 68,617 | 58,982 | 79,072 |
| Culture and recreation | 240,267 | 306,399 | 220,982 | 258,648 |
| Community and economic development..... | 10,064 | 2,302 | — | — |
| General government | 147,180 | 155,447 | 157,281 | 143,827 |
| Debt service..... | 478,930 | 361,598 | 308,371 | 547,815 |
| Capital projects..... | <u>1,277,134</u> | <u>804,132</u> | <u>1,796,718</u> | <u>1,029,909</u> |
| Total Disbursements | <u>\$ 2,843,237</u> | <u>\$ 2,498,676</u> | <u>\$ 3,134,450</u> | <u>\$ 2,726,327</u> |

Schedule of Sanitary Sewer System Rates

Year Ended June 30, 2009

Approximately 1,100 customers at June 30, 2009.

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, 2009

| Policy | Coverage Dates | Amount of Coverage |
|--|-----------------|----------------------|
| Property | | |
| Blanket (including certified acts of terrorism) | 4/1/09 - 4/1/10 | \$4,188,003 |
| Liability | | |
| Products/completed operations | 4/1/09 - 4/1/10 | 5,000,000 |
| General aggregate | 4/1/09 - 4/1/10 | 5,000,000 |
| Personal/advertising injury | 4/1/09 - 4/1/10 | 1,000,000 |
| Each occurrence | 4/1/09 - 4/1/10 | 1,000,000 |
| Damage to premises | 4/1/09 - 4/1/10 | 100,000 |
| Medical expense | 4/1/09 - 4/1/10 | 5,000 |
| Employment practices (occurrence and aggregate deductible \$2,500 per claim) | 4/1/09 - 4/1/10 | 1,000,000 |
| Crime | | |
| Public employee dishonesty | 4/1/09 - 4/1/10 | 1,000,000 |
| Inland Marine | | |
| Contractors equipment | 4/1/09 - 4/1/10 | 363,464 |
| Scheduled property floater (miscellaneous) | 4/1/09 - 4/1/10 | 101,700 |
| Automobile | | |
| Liability | 4/1/09 - 4/1/10 | 1,000,000 |
| Uninsured | 4/1/09 - 4/1/10 | 50,000 |
| Underinsured | 4/1/09 - 4/1/10 | 50,000 |
| Physical damage | 4/1/09 - 4/1/10 | Loss less deductible |
| Comprehensive | 4/1/09 - 4/1/10 | Loss less deductible |
| Collision | 4/1/09 - 4/1/10 | Loss less deductible |
| Medical | 4/1/09 - 4/1/10 | 5,000 |
| Workers' Compensation | | |
| Bodily injury by accident/accident | 4/1/09 - 4/1/10 | 500,000 |
| Bodily injury by disease/employee | 4/1/09 - 4/1/10 | 500,000 |
| Bodily injury by disease/limit | 4/1/09 - 4/1/10 | 500,000 |
| Umbrella | | |
| Occurrence | 4/1/09 - 4/1/10 | 2,000,000 |
| Aggregate | 4/1/09 - 4/1/10 | 2,000,000 |
| Products completed aggregated | 4/1/09 - 4/1/10 | 2,000,000 |
| Bodily injury by disease aggregate | 4/1/09 - 4/1/10 | 2,000,000 |
| Public Official Error and Omissions | | |
| Occurrence | 4/1/09 - 4/1/10 | 1,000,000 |
| Aggregate | 4/1/09 - 4/1/10 | 5,000,000 |
| Insured's deductible per loss | 4/1/09 - 4/1/10 | 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, 2009, which, along with the discretely presented component unit, collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2009. 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 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 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 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 09-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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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. While we have expressed our conclusions on the City's responses, we did not audit the City of Marengo's responses and, accordingly, we express no opinion on them.

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

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
December 23, 2009

Schedule of Findings

Part I: Findings Related to the Financial Statements

09-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. For example, we noted that the same person who prepares and records cash receipts and disbursements also is preparing the monthly bank reconciliation and makes adjusting journal entries to the City's general ledger. We recognize that 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. One suggestion is that a member of management review the monthly bank statements and reconciliations to search for large or unusual transactions, amounts or transfers. We further recommend that the member of management review the adjusting journal entries made for the month along with the documentation supporting the need for the entry.

Current Year Finding - We found that duties have been separated where possible; however, limited staff size hinders optimum separation and the weaknesses noted above continue to exist.

Auditor's Recommendation - We reiterate our prior year recommendations.

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.

09-IC-2 Unsupported Cost Allocations

Prior Year Finding and Recommendation - 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 does exist that supports compensation and benefits for the positions to be recorded in the General Fund as General Government Function disbursements.

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

Schedule of Findings

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.

Current Year Finding - We found that there was not a review of cost allocations.

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

City's Response - Management will ensure that this review is completed this year.

Auditor's Conclusion - Response accepted.

09-IC-3 Investments

Current Year Finding - We noted a certificate of deposit matured in December, 2008 and was not renewed or redeemed until August, 2009. No interest was earned during that period.

Auditor's Recommendation - We recommend that the City implement procedures to ensure certificates of deposit are renewed or cashed promptly to prevent the loss of interest income on City investments.

City's Response - Management will establish and implement procedures so that certificates of deposit are renewed or cashed promptly.

Auditor's Conclusion - Response accepted.

09-IC-4 Financial Statement Preparation

Current Year Finding - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles. As is inherent in many organizations of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply cash basis accounting principles in preparing the financial statements and the related disclosures.

Auditor's Recommendation - The City should obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

City's Response - The City will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Auditor's Conclusion - Response accepted.

Schedule of Findings

Part II: Compliance and Other Matters

09-C-1 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the Public Works, Debt Service and Business-Type Activities Functions. We also noted disbursements exceeded budgeted amounts before the budget was amended during the year in Health and Social Services 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."

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.

09-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.

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

09-C-4 Business Transactions - Business transactions between the City of Marengo and City officials and employees which we believe appear to be conflicts of interest are as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|--|-----------------|
| Travis Schlabach, Fireman Owner of S & S Plumbing | Equipment rental, parts and repairs | \$18,864 |
| Dan Wirtanen, Fireman Owner of Wirtanen Concrete | Repairs Horseshoe courts | 2,425 17,963 |
| Mark Swift, Fireman Owner of Brown's Hardware | Supplies | 3,901 |
| John Smith, Fireman Owner of Marengo Outdoor Power | Equipment and repairs | 9,737 |
| Denny Roberts, Fireman Owner of Computer Solutions | Technology and repairs | 2,437 |

In accordance with Chapter 362.5 of the Code of Iowa, the above transactions, except for the horseshoe court transactions with Fireman Wirtanen, may represent conflicts of interest since a competitive bidding process was not utilized and they were in excess of \$1,500. The horseshoe court transaction with Fireman Wirtanen does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

Auditor's Recommendation - The City should use a competitive bidding process in the future or consider alternatives for the services noted above.

Schedule of Findings

City's Response - The transactions were normal expenses (repairs, supply costs, equipment rental and computer services). A competitive bidding process is not always practical; however, we will endeavor to competitively bid the work when practicable in the future.

Auditor's Conclusion - Response accepted.

09-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.

09-C-6 Council Minutes - We noted approval of an increase in a capital project contract was not documented in the minutes. We noted no other transactions that we believe should have been approved in the Council minutes but were not.

Auditor's Recommendation - The City should document all contract change orders in the minutes.

City's Response - The City will document all contract change orders in the future.

Auditor's Conclusion - Response accepted.

09-C-7 Deposits and Investments - The City did not reinvest a matured certificate of deposit in a timely manner. We noted no other instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

Auditor's Recommendation - The City should establish procedures to monitor investments each month to ensure timely reinvestment of funds.

City's Response - We will implement procedures to ensure funds are invested timely.

Auditor's Conclusion - Response accepted.

09-C-8 Revenue Bonds and Notes - The City did not meet audit completion deadlines dates for which a waiver was obtained. However, the City did not comply with the requirement of setting sufficient rates to cause net revenue to equal 110% of bond and interest payments due in the fiscal year for the water revenue bonds. Additionally, we noted that the insurance policy had not been updated to include the new water treatment plant, tower and generator which were put into service two years ago.

Auditor's Recommendation - In order to meet the compliance terms of the debt resolution and to ensure revenue generates cash sufficient to make debt principal and interest payments when due, we recommend that the City increase water rates to provide net revenue at least equal to 110% of debt service. In addition, we recommend insurance coverage be reviewed by a member of management annually to ensure the City's assets are appropriately insured.

City's Response - The City is reviewing rates and will increase rates if necessary to meet debt resolution requirements. We are also working with our insurance agent to obtain appropriate coverage.

Auditor's Conclusion - Response accepted.