

City of Marcus

Marcus, Iowa

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

June 30, 2011

City of Marcus

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-9
Basic Financial Statements:	
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	10
Government Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	11
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	12
Notes to Financial Statements	13-21
Supplementary Information:	
Schedule of Indebtedness	22
Bond and Note Maturities	23
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	24
Notes to Other Information - Budgetary Reporting	25
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Schedule of Findings and Responses	28-31

City of Marcus

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Darrell Downs	Mayor	December 2011
Carl Nelson	Mayor ProTem	December 2011
Matt Schmillen	Council Member	December 2011
Conrad Ebert	Council Member	December 2013
Don Drefke	Council Member	December 2011
Harold Klassen	Council Member	December 2013
Beverly Alesch	Clerk	Indefinite
Charles Knudson	Attorney	Indefinite



Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council
City of Marcus
Marcus, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marcus, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Marcus' management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with 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 provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marcus, Iowa, as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1 to the financial statements.



To the Honorable Mayor and
Members of the City Council
City of Marcus
Marcus, Iowa

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2012 on our consideration of the City of Marcus' internal control over financial reporting and on 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 on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marcus' basic financial statements. The supplementary information included on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marcus' basic financial statements. The management's discussion and analysis on pages 4 through 9 and the budgetary comparison information on pages 24 and 25 are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Sioux City, Iowa
February 1, 2012

A handwritten signature in cursive script that reads "King Reonach Poeser" followed by a date "2/1/12".

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Marcus (the City) 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 Financial Highlights

- The City's largest governmental activities functional disbursements was approximately \$228,346 for debt service for the year ended 2011.
- The City's total cash basis net assets decreased 0.54 percent, or approximately \$8,000, from June 30, 2010 to June 30, 2011. Of this amount, the net assets of the governmental activities increased approximately \$72,000 due to local option sales tax receipts of \$52,000 and a private donor contribution of \$15,000 which the City did not spend. The net assets of the business type activities decreased by approximately \$80,000 for water tower repairs and an operational audit.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Supplementary Information provides detailed information about the City's indebtedness and debt maturities.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

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

Reporting the City's Financial Activities

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$1,455,071 to \$1,527,214.

**Changes in Cash Basis Net Assets of Governmental Activities
Year Ended June 30, 2011**

Receipts:	
Program receipts:	
Charges for service	\$ 43,427
Operating grants and contributions	115,428
Capital grants and contributions	31,210
General receipts:	
Property tax	477,974
Local option sales tax	103,174
Unrestricted interest	18,385
Other general receipts	<u>23,806</u>
Total receipts	<u>\$ 813,404</u>
Disbursements:	
Public safety	\$ 89,667
Public works	148,341
Culture and recreation	153,952
Community and economic development	25,465
General government	95,490
Debt service	<u>228,346</u>
Total disbursements	<u>\$ 741,261</u>
Increase in cash basis net assets	\$ 72,143
Cash basis net assets beginning of year	<u>1,455,071</u>
Cash basis net assets end of year	<u><u>\$ 1,527,214</u></u>

This summary reflects an increase of 5.0 percent for the governmental activities net assets. Total governmental activities receipts reported in fiscal year 2011 were \$813,404. Governmental activities program receipts totaled \$190,065 for the fiscal year 2011 with approximately \$115,000 or 60.7 percent being operating grant and contribution receipts. Governmental activities general receipts totaled \$623,339 and accounted for 76.6 percent of total governmental activities receipts.

Governmental activities disbursements totaled \$741,261 for fiscal year 2011. Debt service disbursements totaled \$228,346 or 30.8 percent of total governmental activities disbursements.

**Changes in Cash Basis Net Assets of Business Type Activities
Year Ended June 30, 2011**

Receipts:	
Program receipts:	
Charges for service:	
Water utility	\$ 121,059
Sewer utility	158,008
Solid waste utility	104,065
General receipts:	
Unrestricted interest	3,305
Miscellaneous	<u>670</u>
Total receipts	<u>\$ 387,107</u>
Disbursements:	
Water utility	\$ 193,867
Sewer utility	156,352
Solid waste utility	<u>116,884</u>
Total disbursements	<u>\$ 467,103</u>
Decrease in cash balance	\$ (79,996)
Cash basis net assets beginning of year	<u>(132)</u>
Cash basis net assets end of year	<u>\$ (80,128)</u>

The business activities net assets balance decreased because of costs related to the water tower repairs and an operational audit. Business type activities receipts totaled \$387,107 for the fiscal year 2011. The program receipts totaled \$383,132 and accounted for 99.0 percent of the total receipts. Business type activities general receipts totaled \$3,975 for the fiscal year 2011.

Business type activities disbursements totaled \$467,103 for the fiscal year 2011. The water utility fund disbursements totaled \$193,867 or 41.5 percent of the total business type activities disbursements, the sewer utility fund disbursements totaled \$156,352 or 33.5 percent of the total business type activities disbursements, and the solid waste utility fund disbursements totaled \$116,884 or 25.0 percent of the total business type activities disbursements.

Individual Major Governmental Fund Analysis

As City of Marcus completed the year, its governmental funds reported a combined fund balance of \$1,527,214, an increase of \$72,143 above last year's total of \$1,455,071. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance was \$961,106 at the end of the fiscal year, an increase of \$33,947 partially due to a private donor contribution that the City did not spend during the fiscal year.
- The Road Use Tax Fund cash balance was \$29,765 at the end of the fiscal year, a decrease of \$470 from the prior year.
- The Urban Renewal Tax Increment Fund cash balance was \$194,710 at the end of the fiscal year, a decrease of \$18,744 from the previous year. The decrease was attributable to reduction in the amount transferred from the local option sales tax fund.
- The Local Option Sales Tax Fund cash balance was \$139,334 at the end of the fiscal year, an increase of \$51,927 from the previous year. The increase was attributable to the City not currently having any community betterment projects in progress for which the ballot specified as the allowable purpose.
- The Debt Service Fund cash balance was \$95,040 at the end of the fiscal year, an increase of \$6,523 from the prior year.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance was \$101,129 at the end of the fiscal year, a decrease of \$70,233 from the prior year due to the water tower repairs.
- The Sewer Fund cash balance increased by \$2,619 to a deficit balance of \$59,155, due primarily to additional charges for services received.
- The Solid Waste Fund cash balance decreased by \$12,382 to a deficit balance of \$122,102 because of dumpster repairs and costs for an operational audit.

Budgetary Highlights

Over the course of the year, the City amended its budget. The amendment was approved on May 25, 2011 and resulted in an increase in miscellaneous sources to reflect donations received from private sources and an increase in disbursements to provide for additional disbursements in certain City departments.

Debt Administration

At June 30, 2011, the City had \$1,682,662 in notes and other long-term debt.

Outstanding Debt at Year-End June 30, 2011

General obligation notes	\$	920,000
Revenue notes		588,000
Other notes		174,662
Total	\$	<u>1,682,662</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$920,000 is below its constitutional debt limit of \$2.3 million.

Economic Factors and Next Year's Budgets and Rates

The City of Marcus' elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the state of the economy.

The water, sewer, and solid waste funds have experienced increases in utility rates during the year ended June 30, 2011.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget decreased to \$1,075,549 from the prior year budget. The City expects to decrease disbursements during 2012 because of the major repairs to the water tower should not be recurring. The City has added no major new programs or initiatives to the 2012 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$189,301 by the end of fiscal year 2012.

Contacting the City's Financial Management

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

BASIC FINANCIAL STATEMENTS

City of Marcus
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2011

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Public safety	\$ 89,667	\$ -	\$ -	\$ 7,036	\$ (82,631)	\$ -	\$ (82,631)
Public works	148,341	-	103,688	6,053	(38,600)	-	(38,600)
Culture and recreation	153,952	19,733	8,805	18,121	(107,293)	-	(107,293)
Community and economic development	25,465	20,507	1,000	-	(3,958)	-	(3,958)
General government	95,490	3,187	1,935	-	(90,368)	-	(90,368)
Debt service	228,346	-	-	-	(228,346)	-	(228,346)
Total governmental activities	741,261	43,427	115,428	31,210	(551,196)	-	(551,196)
Business Type Activities:							
Water	193,867	121,059	-	-	-	(72,808)	(72,808)
Sewer	156,352	158,008	-	-	-	1,656	1,656
Solid waste	116,884	104,065	-	-	-	(12,819)	(12,819)
Total business type activities	467,103	383,132	-	-	-	(83,971)	(83,971)
Total	1,208,364	426,559	115,428	31,210	(551,196)	(83,971)	(635,167)

General Receipts:

Property tax levied for:		
General purposes	246,185	-
Employee benefits	63,599	-
Tax increment financing	20,245	-
Debt service	140,741	-
Emergency	7,204	-
Local option sales tax	103,174	-
Unrestricted interest	18,385	3,305
Miscellaneous	23,806	670
Total general receipts	623,339	3,975
Change in cash basis net assets	72,143	(79,996)
Cash basis net assets beginning of year	1,455,071	(132)
Cash basis net assets end of year	\$ 1,527,214	\$ (80,128)

Cash Basis Net Assets:

Restricted:		
Donor authorization	\$ 432,193	\$ -
Urban renewal purposes	194,710	-
Community betterment and property tax reduction	139,334	-
Debt service	95,040	43,830
Employee benefits	107,259	-
Streets	29,765	-
Culture and recreation	27,315	-
Unrestricted	501,598	(123,958)
Total cash basis net assets	\$ 1,527,214	\$ (80,128)

City of Marcus
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2011

	Special Revenue			Nonmajor		Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Special Revenue - Employee Benefits	Governmental Funds
RECEIPTS:						
Property taxes	\$ 253,389	\$ -	\$ 20,245	\$ -	\$ 63,599	\$ 477,974
Other city taxes	-	-	-	103,174	-	103,174
Licenses and permits	1,130	-	-	-	-	1,130
Intergovernmental	11,317	109,124	-	-	-	120,441
Charges for services	28,822	-	-	-	-	28,822
Interest	14,493	-	2,428	1,464	-	18,385
Miscellaneous	63,478	-	-	-	-	63,478
Total receipts	<u>372,629</u>	<u>109,124</u>	<u>22,673</u>	<u>104,638</u>	<u>63,599</u>	<u>813,404</u>
DISBURSEMENTS:						
Current:						
Public safety	75,214	-	-	-	14,453	89,667
Public works	15,904	109,594	-	-	22,843	148,341
Culture and recreation	147,908	-	-	-	6,044	153,952
Community and economic development	25,465	-	-	-	-	25,465
General government	74,191	-	-	-	21,299	95,490
Debt service	-	-	63,176	-	-	228,346
Total disbursements	<u>338,682</u>	<u>109,594</u>	<u>63,176</u>	<u>-</u>	<u>64,639</u>	<u>741,261</u>
Excess (deficiency) of receipts over (under) disbursements	<u>33,947</u>	<u>(470)</u>	<u>(40,503)</u>	<u>104,638</u>	<u>(1,040)</u>	<u>72,143</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	21,759	-	-	52,711
Transfers out	-	-	-	(52,711)	-	(52,711)
Total other financing sources (uses)	-	-	<u>21,759</u>	<u>(52,711)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	33,947	(470)	(18,744)	51,927	(1,040)	72,143
Cash balance beginning of year	927,159	30,235	213,454	87,407	108,299	1,455,071
Cash balance end of year	<u>\$ 961,106</u>	<u>\$ 29,765</u>	<u>\$ 194,710</u>	<u>\$ 139,334</u>	<u>\$ 107,259</u>	<u>\$ 1,527,214</u>
CASH BASIS FUND BALANCES:						
Restricted	\$ 459,508	\$ 29,765	\$ 194,710	\$ 139,334	\$ 107,259	\$ 1,025,616
Assigned	62,685	-	-	-	-	62,685
Unassigned	438,913	-	-	-	-	438,913
Total cash basis fund balances	<u>\$ 961,106</u>	<u>\$ 29,765</u>	<u>\$ 194,710</u>	<u>\$ 139,334</u>	<u>\$ 107,259</u>	<u>\$ 1,527,214</u>

See notes to financial statements.

City of Marcus
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2011

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
OPERATING RECEIPTS:				
Charges for services	\$ 121,059	\$ 158,008	\$ 104,065	\$ 383,132
Miscellaneous	280	-	390	670
Total operating receipts	<u>121,339</u>	<u>158,008</u>	<u>104,455</u>	<u>383,802</u>
OPERATING DISBURSEMENTS:				
Personal services	53,211	35,439	61,806	150,456
Contractual services	10,287	15,804	37,818	63,909
Supplies and other expenses	20,073	4,457	3,083	27,613
Repairs and maintenance	100,298	5,563	12,469	118,330
Utilities	9,998	4,319	1,708	16,025
Total operating disbursements	<u>193,867</u>	<u>65,582</u>	<u>116,884</u>	<u>376,333</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(72,528)</u>	<u>92,426</u>	<u>(12,429)</u>	<u>7,469</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):				
Interest receipts	2,295	963	47	3,305
Debt service	-	(90,770)	-	(90,770)
Total non-operating receipts (disbursements)	<u>2,295</u>	<u>(89,807)</u>	<u>47</u>	<u>(87,465)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(70,233)</u>	<u>2,619</u>	<u>(12,382)</u>	<u>(79,996)</u>
Net change in cash balances	(70,233)	2,619	(12,382)	(79,996)
Cash balance beginning of year	171,362	(61,774)	(109,720)	(132)
Cash balance end of year	<u>\$ 101,129</u>	<u>\$ (59,155)</u>	<u>\$ (122,102)</u>	<u>\$ (80,128)</u>
CASH BASIS FUND BALANCES:				
Restricted for debt service	\$ -	\$ 43,830	\$ -	\$ 43,830
Unrestricted	101,129	(102,985)	(122,102)	(123,958)
Total cash basis fund balances	<u>\$ 101,129</u>	<u>\$ (59,155)</u>	<u>\$ (122,102)</u>	<u>\$ (80,128)</u>

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Marcus, Iowa, is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1871 and operates under the Home Rule provision of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste removal for its citizens.

Reporting Entity - For financial reporting purposes, City of Marcus has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The City also participates in several jointly governed organizations that provide goods or services to the 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: Cherokee County Assessor's Conference Board, Cherokee County Emergency Management Commission, Cherokee County Landfill Commission and Cherokee County Joint E911 Service Board.

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information of all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following 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.

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. 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 and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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 not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for receipt of the City's share of the one percent local option sales tax which is restricted for property tax reduction and community betterment projects.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general obligation debt.

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The City reports the following major proprietary funds:

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

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

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

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

When the City's separate bank account has commingled restricted, assigned or unassigned resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to assigned fund balance and last to unassigned fund balances.

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

Governmental Cash Basis Fund Balances - In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council has set aside in separate bank accounts for use on specific purposes.

Unassigned - All amounts not included in restricted or assigned classifications.

Budgets and Budgetary Accounting - The budgetary comparison and related disclosures are reported as Other Information.

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 2 - CASH:

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. During the year ended June 30, 2011, the City held no investments.

NOTE 3 - NOTES PAYABLE:

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Other Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 120,000	\$ 44,055	\$ 75,000	\$ 17,640	\$ 22,212	\$ 7,725	\$ 217,212	\$ 69,420
2013	125,000	38,528	77,000	15,390	23,236	6,701	225,236	60,619
2014	130,000	32,715	80,000	13,080	24,288	5,649	234,288	51,444
2015	135,000	26,475	84,000	10,680	15,603	4,549	234,603	41,704
2016	140,000	19,897	88,000	7,580	16,303	3,849	244,303	31,326
2017-2020	270,000	18,548	184,000	8,340	73,020	7,588	527,020	34,476
	<u>\$ 920,000</u>	<u>\$ 180,218</u>	<u>\$ 588,000</u>	<u>\$ 72,710</u>	<u>\$ 174,662</u>	<u>\$ 36,061</u>	<u>\$ 1,682,662</u>	<u>\$ 288,989</u>

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

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,375,000 of sewer revenue notes issued in March 1998 and March 1999. Proceeds from the notes provided financing for the construction of a four cell lagoon. The notes are payable solely from sewer customer net receipts and are payable through 2018. Annual principal and interest payments on the notes are expected to require 61 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$660,710. For the current year, principal and interest paid and total customer net receipts were \$90,770 and \$158,008, respectively.

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 3 - NOTES PAYABLE (CONTINUED):

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

- a. Net revenues from user rates shall be deposited in the sewer fund each month in an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12th of the expenses payable on an annual basis such as insurance.
- b. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- c. Sufficient monthly transfers shall be made to a separate sewer revenue note principal and interest sinking account for the purpose of making the note principal and interest payments when due.
- d. Additional monthly transfers to a sewer revenue debt service reserve account shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying principal at maturity or interest on the notes when insufficient money is available in the sinking account. In each month the deposit requirement is equal to 25 percent of the amount required to be deposited in the sinking account.

The City has not collected enough receipts to cover sufficient operating needs of the sewer fund and the City has not funded the sewer revenue debt service reserve account as required above.

The total amount of interest costs paid during the year was \$77,194.

NOTE 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.

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 4 - PENSION AND RETIREMENT BENEFITS (CONTINUED):

Most regular plan members are required to contribute 4.50 percent of their annual covered salary and the City is required to contribute 6.95 percent of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 totaled \$15,534, equal to the required contributions for the year.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 5 active members and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Blue Cross and Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$654 for single coverage and \$1,281 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$76,032 and plan members eligible for benefits contributed \$7,309 to the plan.

NOTE 6 - COMPENSATED ABSENCES:

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 25,109
Sick Leave	39,319
	<u>\$ 64,428</u>

The liability has been computed based on rates of pay in effect at June 30, 2011.

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 7 - FUND BALANCES:

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. Governmental fund balances consist of the following at June 30, 2011:

Restricted for:	
Donor authorization	\$ 432,193
Urban renewal purposes	194,710
Community betterment and property tax reduction	139,334
Employee benefits	107,259
Debt service	95,040
Streets	29,765
Culture and recreation	<u>27,315</u>
Total restricted fund balance	<u>\$ 1,025,616</u>
Assigned for:	
Equipment	\$ 29,700
Library	21,875
Public works	6,367
Other purposes	<u>4,743</u>
Total assigned fund balance	<u>\$ 62,685</u>

NOTE 8 - INTERFUND TRANSFERS:

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

	Local Option Sales Tax Fund <u>Transfers Out</u>
Urban Renewal Tax Increment	\$ 21,759
Debt Service	<u>30,952</u>
Total transfers in	<u>\$ 52,711</u>

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

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 9 - RELATED PARTY TRANSACTIONS:

The City had business transactions between the City and City officials totaling \$16,501 during the year ended June 30, 2011.

NOTE 10 - INDUSTRIAL DEVELOPMENT REVENUE BONDS:

The City has issued a total of \$900,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$823,985 is outstanding at June 30, 2011. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

NOTE 11 - RISK MANAGEMENT:

The City of Marcus is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

City of Marcus
Notes to Financial Statements
June 30, 2011

NOTE 11 - RISK MANAGEMENT (CONTINUED):

The City of Marcus' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Marcus' contributions to the Pool for the year ended June 30, 2011 were \$23,501.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

The City of Marcus also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$8,648 and bond coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

City of Marcus
Schedule of Indebtedness
For the Year Ended June 30, 2011

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Notes:									
	08/15/2006	5.90% - 6.50%	\$ 260,000	\$ 200,000	-	\$ 25,000	\$ 175,000	\$ 12,615	\$ -
	07/31/2007	4.10% - 4.60%	850,000	835,000	-	90,000	745,000	36,655	-
				<u>\$ 1,035,000</u>		<u>\$ 115,000</u>	<u>\$ 920,000</u>	<u>\$ 49,270</u>	<u>\$ -</u>
Revenue Notes:									
	03/25/1998	3.00%	\$ 952,189	\$ 469,000	-	\$ 51,000	\$ 418,000	\$ 14,070	\$ -
	03/25/1998	3.00%	175,811	87,000	-	9,000	78,000	2,610	-
	03/10/1999	3.00%	247,000	103,000	-	11,000	92,000	3,090	-
				<u>\$ 659,000</u>		<u>\$ 71,000</u>	<u>\$ 588,000</u>	<u>\$ 19,770</u>	<u>\$ -</u>
Other Note Payables:									
	09/08/2000	5.50%	\$ 320,000	\$ 202,687	-	\$ 202,687	\$ -	\$ 3,024	\$ -
	09/09/2010	4.50%	162,784	-	162,784	15,022	147,762	5,130	-
	07/29/2010	4.75%	36,900	-	36,900	10,000	26,900	-	-
				<u>\$ 202,687</u>		<u>\$ 227,709</u>	<u>\$ 174,662</u>	<u>\$ 8,154</u>	<u>\$ -</u>

**City of Marcus
Bond and Note Maturities
June 30, 2011**

General Obligation Notes

Year Ending June 30,	Marcus Business Park Capital Loan Notes Series 2006B		Marcus General Obligation Capital Loan Notes Series 2007		Total
	Interest Rate	Amount	Interest Rate	Amount	
2012	6.15%	\$ 25,000	4.20%	\$ 95,000	\$ 120,000
2013	6.25%	25,000	4.25%	100,000	125,000
2014	6.30%	30,000	4.35%	100,000	130,000
2015	6.35%	30,000	4.45%	105,000	135,000
2016	6.40%	30,000	4.50%	110,000	140,000
2017	6.50%	35,000	4.55%	115,000	150,000
2018		-	4.60%	120,000	120,000
		<u>\$ 175,000</u>		<u>\$ 745,000</u>	<u>\$ 920,000</u>

Revenue Notes

Year Ending June 30,	Sewer Notes March 10, 1999		Sewer Notes March 25, 1998		Sewer Notes March 25, 1998		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2012	3.00%	\$ 12,000	3.00%	\$ 53,000	3.00%	\$ 10,000	\$ 75,000
2013	3.00%	12,000	3.00%	55,000	3.00%	10,000	77,000
2014	3.00%	12,000	3.00%	57,000	3.00%	11,000	80,000
2015	3.00%	13,000	3.00%	60,000	3.00%	11,000	84,000
2016	3.00%	14,000	3.00%	62,000	3.00%	12,000	88,000
2017	3.00%	14,000	3.00%	64,000	3.00%	12,000	90,000
2018	3.00%	15,000	3.00%	67,000	3.00%	12,000	94,000
		<u>\$ 92,000</u>		<u>\$ 418,000</u>		<u>\$ 78,000</u>	<u>\$ 588,000</u>

Other Notes Payable

Year Ending June 30,	Country View Development September 9, 2010		Case 570 MXT Loader July 29, 2010		Total
	Interest Rate	Amount	Interest Rate	Amount	
2012	4.50%	\$ 13,637	4.75%	\$ 8,575	\$ 22,212
2013	4.50%	14,275	4.75%	8,961	23,236
2014	4.50%	14,924	4.75%	9,364	24,288
2015	4.50%	15,603	-	-	15,603
2016	4.50%	16,303	-	-	16,303
2017	4.50%	17,055	-	-	17,055
2018	4.50%	17,832	-	-	17,832
2019	4.50%	18,643	-	-	18,643
2020	4.50%	19,490	-	-	19,490
		<u>\$ 147,762</u>		<u>\$ 26,900</u>	<u>\$ 174,662</u>

OTHER INFORMATION

City of Marcus
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
For the Year Ended June 30, 2011

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Total
	Funds	Funds		Original	Final	Variance
	<u>Actual</u>	<u>Actual</u>				
RECEIPTS:						
Property tax	\$ 457,729	\$ -	\$ 457,729	\$ 443,930	\$ 443,930	\$ 13,799
Tax increment financing	20,245	-	20,245	21,000	21,000	(755)
Other city tax	103,174	-	103,174	91,639	91,639	11,535
Licenses and permits	1,130	-	1,130	575	575	555
Use of money and property	18,385	3,305	21,690	35,325	35,325	(13,635)
Intergovernmental	120,441	-	120,441	112,707	112,707	7,734
Charges for services	28,822	383,132	411,954	381,935	387,641	24,313
Miscellaneous	63,478	670	64,148	4,400	43,799	20,349
Total receipts	<u>813,404</u>	<u>387,107</u>	<u>1,200,511</u>	<u>1,091,511</u>	<u>1,136,616</u>	<u>63,895</u>
DISBURSEMENTS:						
Public safety	89,667	-	89,667	84,598	98,709	9,042
Public works	148,341	-	148,341	191,840	303,502	155,161
Culture and recreation	153,952	-	153,952	128,315	168,725	14,773
Community and economic development	25,465	-	25,465	11,538	41,154	15,689
General government	95,490	-	95,490	104,792	104,792	9,302
Debt service	228,346	-	228,346	234,694	234,694	6,348
Business type activities	-	467,103	467,103	423,092	523,068	55,965
Total disbursements	<u>741,261</u>	<u>467,103</u>	<u>1,208,364</u>	<u>1,178,869</u>	<u>1,474,644</u>	<u>\$ 266,280</u>
Excess (deficiency) of receipts over (under) disbursements	72,143	(79,996)	(7,853)	(87,358)	(338,028)	
Other financing sources (uses), net	-	-	-	-	-	
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	72,143	(79,996)	(7,853)	(87,358)	(338,028)	
Balances beginning of year	<u>1,455,071</u>	<u>(132)</u>	<u>1,454,939</u>	<u>1,179,192</u>	<u>1,179,192</u>	
Balances end of year	<u>\$ 1,527,214</u>	<u>\$ (80,128)</u>	<u>\$ 1,447,086</u>	<u>\$ 1,091,834</u>	<u>\$ 841,164</u>	

City of Marcus
Notes to Other Information -
Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Other Information. 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. 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 Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$45,105 and budgeted disbursements by \$295,775. The budget amendment is reflected in the final budgeted amounts.



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

To the Honorable Mayor and
Members of the City Council
City of Marcus
Marcus, Iowa

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marcus, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 1, 2012. 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

Management of the City of Marcus is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Marcus' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Marcus' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying schedule of findings and responses to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marcus' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 or other matters which are described in Part II of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the City of Marcus' operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of Marcus. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Marcus' responses to findings identified in our audit are described in the schedule of findings and responses. We did not audit the City of Marcus' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Marcus and other parties to whom the City of Marcus may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

King Reinach Pappas & Co LLP

Sioux City, Iowa
February 1, 2012

City of Marcus
Schedule of Findings and Responses
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

MATERIAL WEAKNESSES:

11-I-A Segregation of Duties:

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

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

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

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

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

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

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

City of Marcus
Schedule of Findings and Responses
Year Ended June 30, 2011

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

Condition and Effect - As a result of the finding noted in item 11-I-C and the implementation of GASB 54, the City's financial statements were not in accordance with OCBOA.

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

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

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

11-I-C Savings Transfers and CD Purchases:

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

Condition and Effect - Movement of cash between different cash accounts in the same fund was recorded as transfer and fund balance activity. This resulted in transfers being out of balance and an incorrect fund balance. The purchase of certificates of deposit is recorded as a disbursement and adjustment to fund balance. The receipt of a donation was not recorded when used to purchase a certificate of deposit. See also 11-I-B.

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

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

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

**City of Marcus
Schedule of Findings and Responses
Year Ended June 30, 2011**

Part II: Other Findings Related to Required Statutory Reporting:

- 11-II-A *Certified Budget* - We noted no instances of noncompliance.
- 11-II-B *Questionable Disbursements* - No disbursements were noted that did not appear to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 11-II-C *Travel Expense* - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 11-II-D *Business Transactions* - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Matt Schmillen, Council Member, Schmillen Construction	Supplies and Repairs	<u>\$ 11,050</u>
Conrad Ebert, Council Member Ebert Construction	Supplies and Repairs	<u>\$ 5,451</u>

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Council Members do not appear to represent conflicts of interest if the total transactions with an individual were less than \$1,500 during the fiscal year.

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

Response - We will consult legal counsel.

- 11-II-E *Bond Coverage* - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 11-II-F *Council Minutes* - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 11-II-G *Deposits and Investments* - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy.

City of Marcus
Schedule of Findings and Responses
Year Ended June 30, 2011

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

11-II-H *Financial Condition* - The Sewer Fund and Solid Waste Fund had deficit balances at June 30, 2011 totaling \$59,155 and \$122,102, respectively.

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

Response - The Sewer and Solid Waste fund deficit balances were a result of recurring deficits of receipts under disbursements. The City will consider increasing customer rates to bring the funds to a sound financial position.

11-II-I *Revenue Notes* - The City is required to establish a reserve account for the lesser of: (a) the maximum amount of the principal and interest coming due on the Notes in any succeeding fiscal year, (b) 10 percent of the stated principal amount of the Notes, or (c) 125 percent of the average amount of principal and interest due on the Notes in any succeeding Fiscal Year. The reserve account has not been fully funded. The City is required to collect user rates sufficient to meet the current expenses of the month plus an amount equal to 1/12th of the expenses payable on an annual basis. See item 11-II-H.

Recommendation - The City should investigate alternatives to eliminate the deficits noted in item 11-II-H and raise the appropriate funds to fully fund the reserve account and monitor the balance each year to determine compliance with the requirement.

Response - The City will consider increasing customer rates to bring the funds to a sound financial position and fully fund the reserve account.

11-II-J *Competitive Bids* - The City did not seek competitive bids for the water tower improvement project. In accordance with Chapter 26.14 of the Code of Iowa, projects with estimated costs less than the required bid threshold amount but greater than the threshold amount established by the bid threshold committee per Chapter 314.1B of the Code of Iowa, for cities with a population of less than 50,000 should seek bids for projects costing \$46,000 or more.

Recommendation - The City should ensure that competitive bids are obtained for future projects.

Response - We will seek bids in the future for projects over the threshold.