

CITY OF MARENGO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2012

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	
Other Information		
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental and Proprietary Funds	22-23	
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 Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		33-34
Schedule of Findings	35-39	

Officials

Name	Title	Term Expires
Elected Officials (Before January, 2012)		
Joe Seye	Mayor	January, 2012
William Kreis	Council Member and Mayor Pro Tem	January, 2014
Kelli Krutsinger	Council Member	January, 2012
Michael T. Curry	Council Member	January, 2012
Jamie Lillie	Council Member	January, 2014
Brian Imhoff	Council Member	January, 2014
Elected Officials (After January, 2012)		
Joe Seye	Mayor	January, 2014
William Kreis	Council Member and Mayor Pro Tem	January, 2014
Terry Brecht	Council Member	January, 2015
Michael T. Curry	Council Member	January, 2015
Jamie Lillie	Council Member	January, 2014
Brian Imhoff	Council Member	Resigned June 25, 2012
Appointed Officials		
Brent Nelson	Administrator/Clerk	Indefinite
Patricia Hanover	Financial Manager	Indefinite
Eric Tindal	Attorney	Indefinite
John Pilkington	Assistant Attorney	Indefinite
Lonnie Altenhofer	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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marengo, Iowa, as of and for the year ended June 30, 2012, 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 as of June 30, 2012, 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 January 15, 2013 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 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 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 six years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions for the years ended June 30, 2008 through 2011 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. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 general accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marengo's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and page 22 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
January 15, 2013

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities, other than transfers, decreased 0.5%, or approximately \$8,000, from the fiscal 2011 year to the fiscal 2012 year.

Governmental activities disbursements decreased 42.9%, or approximately \$1,180,000, in fiscal year 2012 from the fiscal year 2011. This change was primarily due to the completion of Phase II of the Central Business District Renovation Capital Project in fiscal year 2011.

The City's total cash basis net assets increased approximately \$232,000 from June 30, 2011 to June 30, 2012. The assets of the governmental activities increased approximately \$209,000 while the assets of the business-type activities increased by approximately \$23,000.

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.

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

Supplementary Information provides detailed information about the nonmajor governmental funds, the City's indebtedness 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, Local Option Tax and Tax Increment Financing (T.I.F); (c) the Capital Projects Funds; (d) the Debt Service Fund; and (e) Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds are used to account for the City's Enterprise Funds. The City has no internal service funds. Enterprise funds are used to report business-type activities. The City maintains three enterprise funds to provide separate information for water, sanitary sewer and storm sewer.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$1,241,124 a year ago to \$1,450,090. 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>2012</u>	<u>2011</u>
Receipts		
Program Receipts		
Charges for service	\$ 172,158	\$ 163,265
Operating grants, contributions and restricted interest	317,816	384,413
General Receipts		
Property tax	901,865	880,873
Local option sales tax	366,526	334,739
Unrestricted miscellaneous, intergovernmental, interest and sale of assets	13,442	16,981
Total Receipts	<u>1,771,807</u>	<u>1,780,271</u>
Disbursements		
Public safety	331,815	294,270
Public works	270,497	288,020
Health and social services	60,750	55,905
Culture and recreation	237,503	231,105
Community and economic development	9,191	15,456
General government	178,933	163,059
Debt service	423,280	443,744
Capital projects	56,221	1,256,963
Total Disbursements	<u>1,568,190</u>	<u>2,748,522</u>
Change in Cash Basis Net Assets Before Transfers	203,617	(968,251)
Transfers, net	<u>5,349</u>	<u>30,533</u>
Change in Cash Basis Net Assets	208,966	(937,718)
Cash Basis Net Assets - Beginning of Year	<u>1,241,124</u>	<u>2,178,842</u>
Cash Basis Net Assets - End of Year	<u>\$ 1,450,090</u>	<u>\$ 1,241,124</u>

The City's total receipts for governmental activities decreased by 0.5%, or \$8,464.

The total cost of all programs and services decreased by \$1,180,332, or 42.9%. The majority of this decrease was due to the completion of Phase II of the Central Business District Renovation Capital Project in fiscal year 2011.

Changes in Cash Basis Net Assets of Business-Type Activities

	Years Ended June 30,	
	2012	2011
Receipts		
Program Receipts		
Charges for Services		
Water	\$ 557,422	\$ 511,599
Sanitary Sewer	285,320	257,026
Storm Sewer	20,350	20,673
Interest	318	449
Total Receipts	863,410	789,747
Disbursements		
Water	571,120	533,422
Sanitary Sewer	259,852	326,779
Storm Sewer	4,250	10,750
Total Disbursements	835,222	870,951
Change in Cash Basis Net Assets Before Transfers	28,188	(81,204)
Transfers, net	(5,349)	(30,533)
Change in Cash Basis Net Assets	22,839	(111,737)
Cash Basis Net Assets - Beginning of Year	311,418	423,155
Cash Basis Net Assets - End of Year	\$ 334,257	\$ 311,418

Total business-type activities receipts for the fiscal year were \$863,410 compared to \$789,747 last year. The increase was primarily due to water and sewer rate increases. Total disbursements for the fiscal year decreased by 4.1%, or \$35,729. The decrease is primarily due to emergency sewer repairs in fiscal year 2011.

The cash balance increased by \$22,839, or 7.3%, from the prior year, mainly due to fewer repairs needed in the current year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$1,450,090, an increase of \$208,966 from last year's total of \$1,241,124.

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 \$217 from the prior year to \$352,917.

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 Special Revenue, Road Use Tax Fund cash balance increased \$62,959 to \$113,920. This increase is due to less expenses in the current year.

The Special Revenue, Local Option Sales Tax Fund cash balance increased \$210,318 over the prior year due to an increase in local option sales tax and conservative street repairs in the current year.

The Special Revenue, Tax Increment Financing Fund cash balance decreased \$55,543 to \$98,181 during the fiscal year. This decrease is due to using these funds for debt payments.

The Debt Service Fund cash balance increased \$35,894 due to decreased debt service payments.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility cash balance decreased by \$13,571 to \$194,006 due to revenue being less than expenditures, including debt payments.

The Sanitary Sewer System cash balance increased by \$20,128 to \$67,472 due to fewer emergency repairs required.

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 once. Disbursements exceeded budget for Public Safety, Health and Social Services, Culture and Recreation and General Government. The City will monitor to make sure budgeted amounts are not exceeded.

DEBT ADMINISTRATION

As of June 30, 2012, the City had \$3,140,000 in general obligation debt and \$2,263,000 in water revenue debt for a total debt outstanding of \$5,403,000.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,140,000 is below its constitutional debt limit of \$4,726,593.

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 2013 budget, tax rates and fees that will be charged for various City activities.

The City received a Notice of Findings of Violation and Order for Compliance from the Environmental Protection Agency regarding the sanitary sewer collection and treatment system. The City will work with an engineer to address the issues and to determine associated costs and the best method to finance the required changes.

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, 2012

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total	
Governmental Activities							
Public safety	\$ 331,815	\$ 44,006	\$ 21,312	\$ (266,497)	\$ —	\$ (266,497)	\$ —
Public works	270,497	51,005	242,454	22,962	—	22,962	—
Health and social services	60,750	17,496	—	(43,254)	—	(43,254)	—
Culture and recreation	237,503	50,558	36,793	(150,152)	—	(150,152)	—
Community and economic development	9,191	—	17,257	8,066	—	8,066	—
General government	178,933	9,093	—	(169,840)	—	(169,840)	—
Debt service	423,280	—	—	(423,280)	—	(423,280)	—
Capital projects	56,221	—	—	(56,221)	—	(56,221)	—
Total Governmental Activities	1,568,190	172,158	317,816	(1,078,216)	—	(1,078,216)	—
Business-Type Activities							
Water	571,120	557,422	—	—	(13,698)	(13,698)	—
Sanitary sewer	259,852	285,320	—	—	25,468	25,468	—
Storm sewer	4,250	20,350	—	—	16,100	16,100	—
Total Business-Type Activities	835,222	863,092	—	—	27,870	27,870	—
Total Primary Government	\$ 2,403,412	\$ 1,035,250	\$ 317,816	(1,078,216)	27,870	(1,050,346)	—
Component Unit - Memorial Hospital	\$ 24,622,519	\$ 14,574,623	\$ 290,846	—	—	—	(9,757,050)
General Receipts and Transfers							
Property Tax Levied for							
General purposes				620,820	—	620,820	—
Debt service				107,874	—	107,874	—
Tax increment financing				173,171	—	173,171	—
Local option sales tax				366,526	—	366,526	—
Unrestricted interest on investments				10,659	318	10,977	—
Miscellaneous				4	—	4	—
Sale of capital assets				2,779	—	2,779	—
Proceeds from revenue bonds				—	—	—	7,490,000
Transfers				5,349	(5,349)	—	—
Total General Receipts and Transfers				1,287,182	(5,031)	1,282,151	7,490,000
Change in Cash Basis Net Assets				208,966	22,839	231,805	(2,267,050)
Cash Basis Net Assets - Beginning of Year				1,241,124	311,418	1,552,542	5,808,808
Cash Basis Net Assets - End of Year				\$ 1,450,090	\$ 334,257	\$ 1,784,347	\$ 3,541,758
Cash Basis Net Assets							
Restricted							
Nonexpendable							
Debt service				\$ 59,662	\$ —	\$ 59,662	\$ 754,716
Local option tax				611,003	—	611,003	—
Tax increment financing				98,181	—	98,181	—
Other purpose				305,384	39,475	344,859	—
Streets				113,920	—	113,920	—
Nonspendable				63,811	—	63,811	—
Unrestricted				198,129	294,782	492,911	2,787,042
Total Cash Basis Net Assets				\$ 1,450,090	\$ 334,257	\$ 1,784,347	\$ 3,541,758

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, 2012

	General	Major Special Revenue				Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Tax	Tax Increment Financing	Debt Service		
Receipts							
Property taxes	\$ 498,771	\$ —	\$ —	\$ —	\$ 107,874	\$ 122,049	\$ 728,694
Tax increment financing	—	—	—	173,171	—	—	173,171
Other city tax	—	—	366,526	—	—	—	366,526
Licenses and permits.....	9,093	—	—	—	—	—	9,093
Use of money and property	4,871	17	3,875	378	500	1,018	10,659
Intergovernmental	50,585	239,784	—	—	—	—	290,369
Charges for services.....	146,503	—	—	—	—	1,300	147,803
Miscellaneous.....	25,456	—	—	—	—	17,257	42,713
Total Receipts	735,279	239,801	370,401	173,549	108,374	141,624	1,769,028
Disbursements							
Public safety	331,815	—	—	—	—	—	331,815
Public works	90,442	142,180	37,875	—	—	—	270,497
Health and social services.....	60,750	—	—	—	—	—	60,750
Culture and recreation	237,503	—	—	—	—	—	237,503
Community and economic development.....	2,528	—	—	—	—	6,663	9,191
General government.....	143,771	34,662	—	—	500	—	178,933
Debt service	—	—	—	—	423,280	—	423,280
Capital projects.....	—	—	—	—	—	56,221	56,221
Total Disbursements	866,809	176,842	37,875	—	423,780	62,884	1,568,190
Receipts Over (Under) Disbursements	(131,530)	62,959	332,526	173,549	(315,406)	78,740	200,838
Other Financing Sources (Uses)							
Sale of capital asset	2,779	—	—	—	—	—	2,779
Transfers in	128,968	—	—	—	351,300	—	480,268
Transfers out	—	—	(122,208)	(229,092)	—	(123,619)	(474,919)
Total Other Financing Sources (Uses).....	131,747	—	(122,208)	(229,092)	351,300	(123,619)	8,128
Net Change in Cash Balances	217	62,959	210,318	(55,543)	35,894	(44,879)	208,966
Cash Balances - Beginning of Year	352,700	50,961	400,685	153,724	23,768	259,286	1,241,124
Cash Balances - End of Year	\$ 352,917	\$ 113,920	\$ 611,003	\$ 98,181	\$ 59,662	\$ 214,407	\$ 1,450,090
Cash Basis Fund Balances							
Restricted for							
Debt service	\$ —	\$ —	\$ —	\$ —	\$ 59,662	\$ —	\$ 59,662
Local option tax	—	—	611,003	—	—	—	611,003
Tax increment financing.....	—	—	—	98,181	—	—	98,181
Road use tax	—	113,920	—	—	—	—	113,920
Other purpose	150,803	—	—	—	—	154,581	305,384
Nonspendable	—	—	—	—	—	63,811	63,811
Assigned for other purposes.....	106,704	—	—	—	—	—	106,704
Unassigned	95,410	—	—	—	—	(3,985)	91,425
Total Cash Basis Fund Balances	\$ 352,917	\$ 113,920	\$ 611,003	\$ 98,181	\$ 59,662	\$ 214,407	\$ 1,450,090

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, 2012

	Major		Nonmajor	
	Water	Sanitary Sewer	Storm Sewer	Total
Operating Receipts				
Charges for service	\$ 546,070	\$ 285,171	\$ 19,538	\$ 850,779
Miscellaneous.....	<u>11,352</u>	<u>149</u>	<u>812</u>	<u>12,313</u>
Total Operating Receipts	<u>557,422</u>	<u>285,320</u>	<u>20,350</u>	<u>863,092</u>
Operating Disbursements				
Business-type activities	<u>287,435</u>	<u>232,434</u>	<u>4,250</u>	<u>524,119</u>
Operating Receipts Over				
Operating Disbursements	<u>269,987</u>	<u>52,886</u>	<u>16,100</u>	<u>338,973</u>
Nonoperating Receipts (Disbursements)				
Interest on investments	127	9	182	318
Debt service	<u>(283,685)</u>	<u>(27,418)</u>	<u>—</u>	<u>(311,103)</u>
Net Nonoperating Receipts (Disbursements).....	<u>(283,558)</u>	<u>(27,409)</u>	<u>182</u>	<u>(310,785)</u>
Receipts Over (Under) Disbursements	(13,571)	25,477	16,282	28,188
Other Financing Uses				
Transfers out	<u>—</u>	<u>(5,349)</u>	<u>—</u>	<u>(5,349)</u>
Net Change in Cash Balances	(13,571)	20,128	16,282	22,839
Cash Balances - Beginning of Year	<u>207,577</u>	<u>47,344</u>	<u>56,497</u>	<u>311,418</u>
Cash Balances - End of Year	<u>\$ 194,006</u>	<u>\$ 67,472</u>	<u>\$ 72,779</u>	<u>\$ 334,257</u>
Cash Basis Fund Balances				
Restricted for				
Customer deposits	\$ 39,475	\$ —	\$ —	\$ 39,475
Unrestricted	<u>154,531</u>	<u>67,472</u>	<u>72,779</u>	<u>294,782</u>
Total Cash Basis Fund Balances	<u>\$ 194,006</u>	<u>\$ 67,472</u>	<u>\$ 72,779</u>	<u>\$ 334,257</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

These financial statements present the City of Marengo (the primary government) and its discretely presented component unit, the Marengo Memorial Hospital (Hospital).

Discrete Component Unit

The Hospital is organized under Chapter 37 of the Code of Iowa and is dependent upon the City Council to levy memorial taxes and approve all debt issues. The Hospital is governed by its own Board of Trustees and issues its own financial statements prepared in accordance with generally accepted accounting principles. During the year ended June 30, 2012, the City recognized cash receipts of \$41,581, composed of property taxes - \$41,561 and interest - \$20 collected for the Hospital and remitted \$41,581 to the Hospital. At June 30, 2012, the City held no assets 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 2012 are not material.

Blended Component Unit

The Marengo Picnic in the Park, Inc. (Park), an Iowa nonprofit corporation, is currently governed by the City. Although the Organization is considered legally separate from the City, it receives its governance and administrative support from the City. Due to the nature of its relationship with the City, the Park is considered part of the primary government and is reported as a special revenue fund.

Notes to the Financial Statements

(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 nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 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, 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 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 that are not paid from other funds.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Special Revenue

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

The *Local Option Tax Fund* is used to account for the receipts of a 1% local sales tax for water, streets, sewer and storm sewer.

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

Debt Service

The *Debt Service Fund* is used to account for property tax and other receipts to be used 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications — committed, assigned and then unassigned fund balances.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent either because they are legally or contractually required to be maintained intact.

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 intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as other information. During the year ended June 30, 2012, disbursements exceeded amounts budgeted in the Public Safety, Health and Social Services, Culture and Recreation and General Government.

(2) Cash and Investments

The City's deposits in banks at June 30, 2012 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 \$82,112.

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.

Notes to the Financial Statements

(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		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 310,000	\$ 109,531	\$ 195,000	\$ 67,890	\$ 505,000	\$ 177,421
2014	335,000	101,493	202,000	62,040	537,000	163,533
2015	340,000	92,691	208,000	55,980	548,000	148,671
2016	230,000	82,960	215,000	49,740	445,000	132,700
2017	240,000	74,921	222,000	43,290	462,000	118,211
2018-22	1,205,000	234,229	1,221,000	104,430	2,426,000	338,659
2023-27	480,000	34,758	—	7,800	480,000	42,558
	<u>\$ 3,140,000</u>	<u>\$ 730,583</u>	<u>\$ 2,263,000</u>	<u>\$ 391,170</u>	<u>\$ 5,403,000</u>	<u>\$ 1,121,753</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. As of June 30, 2012, the City had finished the project and total drawdowns were \$3,177,000 including the initiation fee.

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 \$2,654,170. For the current year, principal, interest and fees paid and total customer net receipts were \$283,685 and \$290,721, 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.

Notes to the Financial Statements

(3) Long-Term Debt

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 (see page 39, item 12-II-G), the City was in compliance with these requirements at June 30, 2012.

Hospital Revenue Notes

The Hospital issued \$7,490,000 of Hospital Revenue Refunding Bonds, Series 2012. The proceeds of these bonds were used to achieve a current refunding of its Hospital Revenue Notes, Series 2005 and Series 2004. The Series 2012 bonds bear interest at rates ranging from 1% to 3.75%. Annual principal payments are due in amounts ranging from \$695,000 to \$855,000 through June, 2022.

The Series 2012 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Hospital. The terms of the trust indenture require the Hospital to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the health care facilities and require the Hospital to maintain debt service and sinking fund accounts and to maintain specified debt service coverage and liquidity ratios.

The Hospital issued Hospital Revenue Notes, Series 2005, in the original amount of \$4,000,000. Funds from the issuance of the Hospital Revenue Refunding Bonds, Series 2012, were deposited into an escrow account and were used to pay off the defeased Series 2005 notes principal and interest balances effective July 15, 2012.

The Hospital issued Hospital Revenue Notes, Series 2004, in the original amount of \$6,000,000. Funds from the issuance of the Hospital Revenue Refunding Bonds, Series 2012, were deposited into an escrow account and were used to pay off the defeased Series 2004 notes principal and interest balances effective July 15, 2012.

The Hospital entered into a note payable to financial the purchase of certain equipment. The note required monthly payments of \$23,830, including interest at 4.5%, with final payment due April, 2013. During 2012, the Hospital paid the note off in full.

A summary of the Hospital's future principal and interest payments as of June 30, 2012 is as follows:

Year	Principal	Interest	Total
2013	\$ 700,000	\$ 170,164	\$ 870,164
2014	695,000	175,863	870,863
2015	700,000	167,523	867,523
2016	715,000	155,273	870,273
2017	730,000	141,688	871,688
2018-2022	3,950,000	409,558	4,359,558
	<u>\$ 7,490,000</u>	<u>\$ 1,220,069</u>	<u>\$ 8,710,069</u>

Notes to the Financial Statements

(3) Long-Term Debt

A summary of changes in debt for the year ended June 30, 2012 follows:

	Beginning Balance	Additions	Principal Payments	Ending Balance
Hospital Revenue Refunding Bonds, Series 2012	\$ —	\$ 7,490,000	\$ —	\$ 7,490,000
Hospital Revenue Notes, Series 2005	4,000,000	—	4,000,000	—
Hospital Revenue Notes, Series 2004	4,555,000	—	4,555,000	—
Note payable, equipment.....	480,354	—	480,354	—
Totals.....	<u>\$ 9,035,354</u>	<u>\$ 7,490,000</u>	<u>\$ 9,035,354</u>	<u>\$ 7,490,000</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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$45,115, \$42,259 and \$38,096, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused compensatory time off and vacation hours for subsequent use or for payment. Unused compensatory time is paid at year end. Vacation hours are earned based on each employee's anniversary date and each employee is expected to take the earned time off. Payment is made for unused vacation hours at separation. These accumulations, which are not considered to be material by management, are not recognized as disbursements by the City until used or paid.

(6) Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 12 active and 0 retired members in the plan.

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

Notes to the Financial Statements

(6) Other Postemployment Benefits (OPEB)

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$525 for single coverage and \$1,610 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2012, the City contributed \$144,471 and plan members eligible for benefits contributed \$6,480 to the plan.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Employee Benefits	\$ 123,619
	Proprietary	
	Sewer	<u>5,349</u>
		<u>128,968</u>
Debt Service	Special Revenue	
	Local Option Sales Tax	122,208
	Tax Increment Financing	<u>229,092</u>
		<u>351,300</u>
Total		<u>\$ 480,268</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$38,196 during the year ended June 30, 2012.

(9) 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

(10) Construction and Other Commitments

The City Council approved well cleaning, sewer line televising and 2012 sanitary sewer extension projects totaling approximately \$147,000. At June 30, 2012, outstanding construction commitments of approximately \$147,000 remain on these projects.

Additionally, the City received a Notice of Findings of Violation and Order for Compliance from the United States Environmental Protection Agency (EPA) related to their sewer system in September, 2011. The plan, which has been approved by the EPA, will correct the inflow and infiltration in the sanitary sewer mains. This will be done in a phased approach, with an estimated cost of \$2.2 million. The City has applied a CDBG grant for some of the funding and will then issue Sewer Revenue Bonds to fund the remaining amount required for of the project. The City has received a loan through the Iowa Finance Authority for planning and design expenses related to this project.

(11) Subsequent Events

Management has evaluated subsequent events through January 15, 2013, the date which the financial statements were available to be issued.

Other Information



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

Year Ended June 30, 2012

	Governmental Funds - Actual	Proprietary Funds - Actual	Less Funds Not Required to be Budgeted	Net	Budget		Over (Under) Final Budget
					Original	Final	
Receipts							
Property tax.....	\$ 728,694	\$ —	\$ —	\$ 728,694	\$ 695,047	\$ 695,047	\$ 33,647
T.I.F. collections	173,171	—	—	173,171	170,000	170,000	3,171
Other city tax	366,526	—	—	366,526	287,802	287,802	78,724
Licenses and permits.....	9,093	—	—	9,093	8,000	8,000	1,093
Use of money and property	10,659	318	—	10,977	9,700	9,700	1,277
Intergovernmental	290,369	—	—	290,369	225,000	225,000	65,369
Charges for service	147,803	850,779	—	998,582	908,600	908,600	89,982
Miscellaneous.....	42,713	12,313	(17,257)	37,769	60,000	60,000	(22,231)
Total Receipts.....	<u>1,769,028</u>	<u>863,410</u>	<u>(17,257)</u>	<u>2,615,181</u>	<u>2,364,149</u>	<u>2,364,149</u>	<u>251,032</u>
Disbursements							
Public safety	331,815	—	—	331,815	326,000	326,000	5,815
Public works	270,497	—	—	270,497	289,100	315,100	(44,603)
Health and social services	60,750	—	—	60,750	53,500	53,500	7,250
Culture and recreation	237,503	—	—	237,503	229,100	229,100	8,403
Community and economic development	9,191	—	(6,663)	2,528	5,500	5,500	(2,972)
General government.....	178,933	—	—	178,933	171,700	171,700	7,233
Debt service	423,280	—	—	423,280	423,500	423,780	(500)
Capital projects.....	56,221	—	—	56,221	100,000	100,000	(43,779)
Business-type activities	—	835,222	—	835,222	918,500	918,500	(83,278)
Total Disbursements.....	<u>1,568,190</u>	<u>835,222</u>	<u>(6,663)</u>	<u>2,396,749</u>	<u>2,516,900</u>	<u>2,543,180</u>	<u>(146,431)</u>
Receipts Over (Under) Disbursements	200,838	28,188	(10,594)	218,432	(152,751)	(179,031)	397,463
Other Financing Sources, Net	<u>8,128</u>	<u>(5,349)</u>	<u>—</u>	<u>2,779</u>	<u>—</u>	<u>—</u>	<u>2,779</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	208,966	22,839	(10,594)	221,211	(152,751)	(179,031)	400,242
Balances - Beginning of Year	<u>1,241,124</u>	<u>311,418</u>	<u>(23,906)</u>	<u>1,528,636</u>	<u>1,004,767</u>	<u>1,528,635</u>	<u>1</u>
Balances - End of Year.....	<u>\$ 1,450,090</u>	<u>\$ 334,257</u>	<u>\$ (34,500)</u>	<u>\$ 1,749,847</u>	<u>\$ 852,016</u>	<u>\$ 1,349,604</u>	<u>\$ 400,243</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, 2012

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 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 enterprise 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, one budget amendment increased budgeted disbursements by \$26,280.

During the year ended June 30, 2012, disbursements exceeded amounts budgeted in the Public Safety, Health and Social Services, Culture and Recreation and General Government functions.

Supplementary Information

Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - General Fund

As of and for the Year Ended June 30, 2012

	General	Insurance	Police Reserve	Library Miscellaneous	Capital Reserve	Memorial Building	Library Renovation	Pool Renovations	Total
Receipts									
Property taxes	\$ 418,876	\$ 38,334	\$ —	\$ —	\$ —	\$ 41,561	\$ —	\$ —	\$ 498,771
Licenses and permits.....	9,093	—	—	—	—	—	—	—	9,093
Use of money and property	355	—	—	4,462	—	20	—	34	4,871
Intergovernmental	50,585	—	—	—	—	—	—	—	50,585
Charges for services.....	146,503	—	—	—	—	—	—	—	146,503
Miscellaneous.....	15,262	—	—	3,731	6,270	—	—	193	25,456
Total Receipts	640,674	38,334	—	8,193	6,270	41,581	—	227	735,279
Disbursements									
Public safety	331,815	—	—	—	—	—	—	—	331,815
Public works	90,442	—	—	—	—	—	—	—	90,442
Health and social services.....	19,169	—	—	—	—	41,581	—	—	60,750
Culture and recreation	232,893	—	—	4,528	—	—	—	82	237,503
Community and economic development.....	2,528	—	—	—	—	—	—	—	2,528
General government.....	90,996	52,775	—	—	—	—	—	—	143,771
Total Disbursements	767,843	52,775	—	4,528	—	41,581	—	82	866,809
Receipts Over (Under) Disbursements	(127,169)	(14,441)	—	3,665	6,270	—	—	145	(131,530)
Other Financing Sources (Uses)									
Sale of capital asset	2,779	—	—	—	—	—	—	—	2,779
Transfers in	123,619	—	—	—	5,349	—	—	—	128,968
Intrafund transfers (net)	9,591	—	—	(131)	(8,239)	—	(1,221)	—	—
Total Other Financing Sources (Uses)	135,989	—	—	(131)	(2,890)	—	(1,221)	—	131,747
Net Change in Cash Balances	8,820	(14,441)	—	3,534	3,380	—	(1,221)	145	217
Cash Balances - Beginning of Year	90,143	1,133	293	152,817	96,981	—	1,221	10,112	352,700
Cash Balances - End of Year	\$ 98,963	\$ (13,308)	\$ 293	\$ 156,351	\$ 100,361	\$ —	\$ —	\$ 10,257	\$ 352,917
Cash Basis Fund Balances									
Restricted									
Other purpose	\$ —	\$ —	\$ —	\$ 140,546	\$ —	\$ —	\$ —	\$ 10,257	\$ 150,803
Assigned for other purpose.....	—	—	293	6,050	100,361	—	—	—	106,704
Unassigned	98,963	(13,308)	—	9,755	—	—	—	—	95,410
Total Cash Basis Fund Balances	\$ 98,963	\$ (13,308)	\$ 293	\$ 156,351	\$ 100,361	\$ —	\$ —	\$ 10,257	\$ 352,917

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

As of and for the Year Ended June 30, 2012

	<u>Special Revenue Employee Benefits</u>	<u>Capital Projects</u>			<u>Permanent Cemetery Trust</u>	<u>Total</u>
		<u>Marengo Picnic in the Park</u>	<u>Central Business District Renovation</u>	<u>2012 Utility Extension</u>		
Receipts						
Property taxes	\$ 122,049	\$ —	\$ —	\$ —	\$ —	\$ 122,049
Use of money and property	161	—	3	—	854	1,018
Charges for services	—	—	—	—	1,300	1,300
Miscellaneous.....	—	17,257	—	—	—	17,257
Total Receipts	<u>122,210</u>	<u>17,257</u>	<u>3</u>	<u>—</u>	<u>2,154</u>	<u>141,624</u>
Disbursements						
Community and economic development	—	6,663	—	—	—	6,663
Capital projects.....	—	—	52,236	3,985	—	56,221
Total Disbursements	<u>—</u>	<u>6,663</u>	<u>52,236</u>	<u>3,985</u>	<u>—</u>	<u>62,884</u>
Receipts Over (Under) Disbursements	122,210	10,594	(52,233)	(3,985)	2,154	78,740
Other Financing Uses						
Transfers out	<u>(123,619)</u>	—	—	—	—	<u>(123,619)</u>
Net Change in Cash Balances	(1,409)	10,594	(52,233)	(3,985)	2,154	(44,879)
Cash Balances - Beginning of Year.....	<u>53,319</u>	<u>23,906</u>	<u>120,404</u>	<u>—</u>	<u>61,657</u>	<u>259,286</u>
Cash Balances - End of Year	<u>\$ 51,910</u>	<u>\$ 34,500</u>	<u>\$ 68,171</u>	<u>\$ (3,985)</u>	<u>\$ 63,811</u>	<u>\$ 214,407</u>
Cash Basis Fund Balances						
Restricted for						
Other purpose.....	\$ 51,910	\$ 34,500	\$ 68,171	\$ —	\$ —	\$ 154,581
Nonspendable	—	—	—	—	63,811	63,811
Unassigned	—	—	—	(3,985)	—	(3,985)
Total Cash Basis Fund Balances	<u>\$ 51,910</u>	<u>\$ 34,500</u>	<u>\$ 68,171</u>	<u>\$ (3,985)</u>	<u>\$ 63,811</u>	<u>\$ 214,407</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, 2012

	Water	Water Bond Sinking	System Improve- ments	Water Deposits	Water Revolving	Total
Operating Receipt						
Charges for service	\$ 546,070	\$ —	\$ —	\$ —	\$ —	\$ 546,070
Miscellaneous.....	<u>6,185</u>	<u>—</u>	<u>—</u>	<u>5,167</u>	<u>—</u>	<u>11,352</u>
Total Operating Receipts	<u>552,255</u>	<u>—</u>	<u>—</u>	<u>5,167</u>	<u>—</u>	<u>557,422</u>
Operating Disbursements						
Business-type activities	<u>282,893</u>	<u>—</u>	<u>—</u>	<u>4,542</u>	<u>—</u>	<u>287,435</u>
Receipts Over Operating Disbursements.....	<u>269,362</u>	<u>—</u>	<u>—</u>	<u>625</u>	<u>—</u>	<u>269,987</u>
Nonoperating Receipts (Disbursements)						
Interest on investments	111	—	—	—	16	127
Debt service	<u>—</u>	<u>(283,685)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(283,685)</u>
Net Nonoperating Receipts (Disbursements).....	<u>111</u>	<u>(283,685)</u>	<u>—</u>	<u>—</u>	<u>16</u>	<u>(283,558)</u>
Receipts Over (Under) Disbursements	269,473	(283,685)	—	625	16	(13,571)
Other Financing Sources (Uses)						
Intrafund transfers (net).....	<u>(214,667)</u>	<u>283,685</u>	<u>(69,018)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net Change in Cash Balances	54,806	—	(69,018)	625	16	(13,571)
Cash Balances - Beginning of Year.....	<u>(5,657)</u>	<u>—</u>	<u>69,018</u>	<u>38,850</u>	<u>105,366</u>	<u>207,577</u>
Cash Balances - End of Year	<u>\$ 49,149</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39,475</u>	<u>\$ 105,382</u>	<u>\$ 194,006</u>
Cash Basis Fund Balance						
Restricted for						
Customer deposits.....	\$ —	\$ —	\$ —	\$ 39,475	\$ —	\$ 39,475
Unrestricted	<u>49,149</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>105,382</u>	<u>154,531</u>
Total Cash Basis Fund Balances	<u>\$ 49,149</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39,475</u>	<u>\$ 105,382</u>	<u>\$ 194,006</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, 2012

	Sewer Rental	Sewer Sinking	Sewer Replace- ment	Sewer Revolving	Total
Operating Receipts					
Charges for service	\$ 285,171	\$ —	\$ —	\$ —	\$ 285,171
Miscellaneous.....	<u>149</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>149</u>
Total Operating Receipts	<u>285,320</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>285,320</u>
Operating Disbursements					
Business-type activities	<u>232,434</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>232,434</u>
Operating Receipts Over Operating Disbursements	<u>52,886</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>52,886</u>
Nonoperating Receipts (Disbursements)					
Interest on investments.....	9	—	—	—	9
Debt service.....	<u>—</u>	<u>(27,418)</u>	<u>—</u>	<u>—</u>	<u>(27,418)</u>
Net Nonoperating Receipts (Disburse- ments)	<u>9</u>	<u>(27,418)</u>	<u>—</u>	<u>—</u>	<u>(27,409)</u>
Receipts Over (Under) Disbursements	<u>52,895</u>	<u>(27,418)</u>	<u>—</u>	<u>—</u>	<u>25,477</u>
Other Financing Sources (Uses)					
Transfers out	—	—	—	(5,349)	(5,349)
Intrafund transfers (net)	<u>(27,418)</u>	<u>27,418</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Other Financing Sources (Uses)	<u>(27,418)</u>	<u>27,418</u>	<u>—</u>	<u>(5,349)</u>	<u>(5,349)</u>
Net Change in Cash Balances	25,477	—	—	(5,349)	20,128
Cash Balances - Beginning of Year	<u>(12,203)</u>	<u>—</u>	<u>9,266</u>	<u>50,281</u>	<u>47,344</u>
Cash Balances - End of Year	<u>\$ 13,274</u>	<u>\$ —</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ 67,472</u>
Cash Basis Fund Balance Unrestricted.....	<u>\$ 13,274</u>	<u>\$ —</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ 67,472</u>

Schedule of Indebtedness

Year Ended June 30, 2012

	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	3.95 - 4.50%	\$ 520,000	\$ —	\$ 50,000	\$ 470,000	\$ 21,980
Corporate purpose.....	1,250,000	5-15-08	3.15 - 4.15	1,045,000	—	70,000	975,000	39,281
Corporate purpose and refunding.....	2,070,000	4-15-10	2.00 - 4.00	<u>1,880,000</u>	<u>—</u>	<u>185,000</u>	<u>1,695,000</u>	<u>56,020</u>
Total General Obligation.....				<u>\$ 3,445,000</u>	<u>\$ —</u>	<u>\$ 305,000</u>	<u>\$ 3,140,000</u>	<u>\$ 117,281</u>
Water Revenue Bonds	\$ 3,200,000	6-1-07	3.00%	<u>\$ 2,456,188</u>	<u>\$ —</u>	<u>\$ 193,188</u>	<u>\$ 2,263,000</u>	<u>\$ 73,686</u>
Sewer Revenue Bonds.....	\$ 360,000	10-15-91	3.00%	<u>\$ 27,000</u>	<u>\$ —</u>	<u>\$ 27,000</u>	<u>\$ —</u>	<u>\$ 405</u>

Schedule of Bond and Note Maturities

As of June 30, 2012

General Obligation Bonds and Notes							
<u>Library Renovation</u>		<u>Corporate Purpose</u>		<u>Corporate Purpose</u>		<u>Total</u>	
<u>Issued 4-15-06</u>		<u>and Refunding</u>		<u>Issued 5-15-08</u>			
<u>Interest</u>	<u>Amount</u>	<u>Interest</u>	<u>Amount</u>	<u>Interest</u>	<u>Amount</u>		
<u>Rates</u>		<u>Rates</u>		<u>Rates</u>			
2013	3.95%	\$ 50,000	2.00%	\$ 185,000	3.15%	\$ 75,000	\$ 310,000
2014	4.05	55,000	2.00	205,000	3.30	75,000	335,000
2015	4.10	55,000	2.30	205,000	3.45	80,000	340,000
2016	4.20	55,000	2.30	95,000	3.60	80,000	230,000
2017	4.30	60,000	3.00	95,000	3.75	85,000	240,000
2018	4.40	60,000	3.00	100,000	3.90	90,000	250,000
2019	4.45	65,000	3.30	105,000	4.00	90,000	260,000
2020	4.50	70,000	3.30	105,000	4.05	95,000	270,000
2021		—	3.60	110,000	4.10	100,000	210,000
2022		—	3.60	115,000	4.10	100,000	215,000
2023		—	3.60	120,000	4.15	105,000	225,000
2024		—	3.60	125,000		—	125,000
2025		—	4.00	130,000		—	130,000
Total		<u>\$ 470,000</u>		<u>\$ 1,695,000</u>		<u>\$ 975,000</u>	<u>\$ 3,140,000</u>
Revenue Bonds							
Water Revenue							
Issued 6-1-07							
	Interest	Amount					
	Rates						
2013	3.00%	\$ 195,000					
2014	3.00	202,000					
2015	3.00	208,000					
2016	3.00	215,000					
2017	3.00	222,000					
2018	3.00	229,000					
2019	3.00	236,000					
2020	3.00	244,000					
2021	3.00	252,000					
2022	3.00	260,000					
Total		<u>\$ 2,263,000</u>					

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

Years Ended June 30, 2006 Through 2012

	2012	2011	2010	2009	2008	2007	2006
Receipts							
Property tax	\$ 728,694	\$ 710,258	\$ 716,162	\$ 743,470	\$ 695,512	\$ 704,943	\$ 688,920
Tax increment financing	173,171	170,615	189,854	170,743	197,031	203,582	157,925
Other city tax	366,526	334,739	284,167	307,806	295,825	303,514	251,704
Licenses and permits.....	9,093	9,369	10,382	10,350	5,624	3,674	3,997
Use of money and property	10,659	12,598	10,182	16,506	23,131	41,626	31,155
Intergovernmental	290,369	340,453	279,566	543,660	307,431	641,212	268,078
Charges for service	147,803	143,658	126,824	120,084	125,221	107,170	91,580
Miscellaneous.....	<u>45,492</u>	<u>55,242</u>	<u>177,924</u>	<u>289,851</u>	<u>101,644</u>	<u>706,924</u>	<u>206,385</u>
Total Receipts.....	<u>\$ 1,771,807</u>	<u>\$ 1,776,932</u>	<u>\$ 1,795,061</u>	<u>\$ 2,202,470</u>	<u>\$ 1,751,419</u>	<u>\$ 2,712,645</u>	<u>\$ 1,699,744</u>
Disbursements							
Operating							
Public safety	\$ 331,815	\$ 294,270	\$ 306,174	\$ 310,702	\$ 445,906	\$ 320,710	\$ 321,519
Public works.....	270,497	288,020	272,971	304,143	354,275	271,406	345,537
Health and social services	60,750	55,905	53,378	74,817	68,617	58,982	79,072
Culture and recreation.....	237,503	231,105	251,003	240,267	306,399	220,982	258,648
Community and economic development.....	9,191	15,456	106,472	10,064	2,302	—	—
General government	178,933	163,059	149,795	147,180	155,447	157,281	143,827
Debt service	423,280	443,744	1,244,142	478,930	361,598	308,371	547,815
Capital projects.....	<u>56,221</u>	<u>1,256,963</u>	<u>567,989</u>	<u>1,277,134</u>	<u>804,132</u>	<u>1,796,718</u>	<u>1,029,909</u>
Total Disbursements.....	<u>\$ 1,568,190</u>	<u>\$ 2,748,522</u>	<u>\$ 2,951,924</u>	<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, 2012

Approximately 1,080 customers at June 30, 2012.

Rates for July 1, 2011 to June 30, 2012

Basic monthly charge for residences or businesses within the corporate limits of the City	\$8.50
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Each additional 1,000 gallons water used	\$3.25
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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
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Users with Private Water Systems

Residential

One person	\$ 11.75
Two persons	15.00
Three persons	18.25
Four persons	21.50
Five persons	24.75
Six persons	28.00

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	\$0.003/1,000 gallon usage

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

Schedule of Insurance

Year Ended June 30, 2012

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket (including certified acts of terrorism)	4/1/12 - 4/1/13	\$ 6,851,605
Liability		
Products/completed operations	4/1/12 - 4/1/13	5,000,000
General aggregate	4/1/12 - 4/1/13	5,000,000
Personal/advertising injury	4/1/12 - 4/1/13	1,000,000
Each occurrence	4/1/12 - 4/1/13	1,000,000
Damage to premises	4/1/12 - 4/1/13	100,000
Medical expense	4/1/12 - 4/1/13	5,000
Employment practices (occurrence and aggregate deductible \$2,500 per claim)	4/1/12 - 4/1/13	1,000,000
Crime		
Public employee dishonesty	4/1/12 - 4/1/13	1,000,000
Inland Marine		
Contractors equipment	4/1/12 - 4/1/13	497,468
Scheduled property floater (miscellaneous)	4/1/12 - 4/1/13	100,000
Automobile		
Liability	4/1/12 - 4/1/13	1,000,000
Uninsured	4/1/12 - 4/1/13	50,000
Underinsured	4/1/12 - 4/1/13	50,000
Physical damage	4/1/12 - 4/1/13	Loss less deductible
Comprehensive	4/1/12 - 4/1/13	Loss less deductible
Collision	4/1/12 - 4/1/13	Loss less deductible
Medical	4/1/12 - 4/1/13	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/12 - 4/1/13	500,000
Bodily injury by disease/employee	4/1/12 - 4/1/13	500,000
Bodily injury by disease/limit	4/1/12 - 4/1/13	500,000
Umbrella		
Occurrence	4/1/12 - 4/1/13	2,000,000
Aggregate	4/1/12 - 4/1/13	2,000,000
Products completed aggregated	4/1/12 - 4/1/13	2,000,000
Bodily injury by disease aggregate	4/1/12 - 4/1/13	2,000,000
Public Official Error and Omissions		
Occurrence	4/1/12 - 4/1/13	1,000,000
Aggregate	4/1/12 - 4/1/13	5,000,000
Insured's deductible per loss	4/1/12 - 4/1/13	1,000

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A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's 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 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, 2012, which, along with the discretely presented component unit, collectively comprise the City's basic financial statements, as listed in the table of contents, and have issued our report thereon dated January 15, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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

The management of the City of Marengo is responsible for establishing and maintaining effective 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 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 all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

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 Marengo's 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 as items 12-I-R-1 and 12-I-R-3 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying schedule of findings as items 12-I-R-2 and 12-I-R-4 through 12-I-R-7 to be significant deficiencies.

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 or other matters 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, 2012 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 the 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
January 15, 2013

Schedule of Findings

Part I: Findings Related to the Financial Statements

12-I-R-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. We 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 journal entries are still not being reviewed.

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

City's Response - The City Council is aware of the condition. We have established a central file for all journal entries and will implement review processes of the journal entries. We will continue to review procedures and make changes when appropriate.

Auditor's Conclusion - Response accepted.

12-I-R-2 Component Unit

Prior Year Finding and Recommendation - Marengo Picnic in the Park, Inc., is an Iowa nonprofit corporation organized in 2006. When it was originally formed, this organization was not under the control of the City, but due to changes in the board, the accounting and control of the funds became under the control of the City. We recommend that the appropriate governing board be re-established for this organization and that the Articles of Incorporation be reviewed to ensure the organization is in compliance with them.

Current Year Finding - An appropriate governing board has not been re-established.

Auditor's Recommendation - We reiterate our prior year recommendation to re-establish the governing board.

City's Response - We will consult with our attorney to ensure compliance with the Articles of Incorporation. The City will consider procedures to limit their involvement in the component unit.

Auditor's Conclusion - Response accepted.

Schedule of Findings

12-I-R-3 Financial Statement Preparation

Prior Year Finding and Recommendation - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the cash basis of accounting. 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. The City should obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

Current Year Finding - We reiterate our prior year finding.

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

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.

12-I-R-4 Interfund Loans

Prior Year Finding and Recommendation - During our audit, we noted that interfund loans from the Local Option Tax Fund to the Tax Increment Financing Fund had been approved as transfers instead of loans by the City Council. Funds that are moved from one fund to another with the intent of repayment at a future date should be accounted for as an interfund loan rather than a transfer. The City should establish procedures to properly document interfund loans, including obtaining documentation for the current outstanding interfund loans.

Current Year Finding - We found that the documentation for the current outstanding interfund loans had not been completed.

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

City's Response - The City will obtain the appropriate documentation of the current outstanding interfund loan and establish procedures to make sure they are properly documented in the future.

Auditor's Conclusion - Response accepted.

Schedule of Findings

12-I-R-5 T.I.F. Certification

Prior Year Finding and Recommendation - We noted that the City does not annually reconcile the County's T.I.F. indebtedness to the City's records. We noted that it appears that the City's certified T.I.F. indebtedness may be understated, which reduces the amount of T.I.F. tax that will be received. The City should establish procedures to properly reconcile this on an annual basis and to make any required adjustments in the amount certified.

Current Year Finding - We found that the City had worked on an annual reconciliation and made some adjustments, but that this still does not reconcile between their records and the outstanding certified T.I.F.

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

City's Response - The City is still in the process of reviewing their records of T.I.F. indebtedness to the records held by the County and will determine if any adjustments are required.

Auditor's Conclusion - Response accepted.

12-I-R-6 Utility Delinquency and Utility Billings

Prior Year Finding and Recommendation - We found that some delinquent utility accounts did not have a formal payment agreement signed by the customer. Additionally, we noted no management review of delinquent accounts. The City should establish procedures to obtain formal payment agreements, review delinquent accounts on a timely basis and verify customer billing information from time to time.

Current Year Finding - We found that found that the City is reviewing delinquent utility accounts monthly, but have not obtained all payment agreements.

Auditor's Recommendation - We reiterate our prior year recommendation to obtain formal payment agreements.

City's Response - The City is in the process of obtaining or updating all payment agreements, The Financial Manager is now reviewing monthly delinquency reports.

Auditor's Conclusion - Response accepted.

12-I-R-7 Interest Income and Investments

Current Year Finding - We found that interest earned on several certificates of deposit was not recorded. Additionally, other interest income was recorded in the incorrect revenue account.

Auditor's Recommendation - The City should establish procedures to ensure timely and accurate recording of interest and reconciliation of certificates held by the City.

City's Response - The City will establish procedures to make sure interest is recorded timely and accurately and that certificates held by the City are periodically reconciled.

Auditor's Conclusion - Response accepted.

Schedule of Findings

Part II: Other Findings Related to Statutory Reporting

12-II-A Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in Public Safety, Health and Social Services, Culture and Recreation and General Government 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.

12-II-B Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.

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

12-II-D Business Transactions - Business transactions between the City of Marengo and City officials and employees which may 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	\$ 2,737
Mark Swift, Fireman Owner of Brown's Hardware	Supplies	6,264
Dan Wirtanen Owner of Wirtanen Concrete	Street repairs	3,870
Brian Miller Owner of Miller Excavating	Street, sewer and hydrant repairs	25,325

In accordance with Chapter 362.5 of the Code of Iowa, the above transactions may represent conflicts of interest since a competitive bidding process was not utilized and they were in excess of \$1,500.

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

City's Response - The transactions were normal expenses (repairs, supply costs and equipment rental). 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.

Schedule of Findings

- 12-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.
- 12-II-F Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 12-II-G Revenue Bonds and Notes** - The City did not meet audit completion deadline dates for which a waiver was obtained. Additionally, 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 and sewer revenue bonds.

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 and sewer 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 increased rates in February, 2011 and again effective July, 2012. We will review rates annually and will increase rates again, if necessary, to meet debt resolution requirements.

Auditor's Conclusion - Response accepted.