

CITY OF MARENGO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2013

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Officials

Name	Title	Term Expires
Elected Officials		
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
William Nielsen	Council Member	January, 2014
Appointed Officials		
Brent Nelson	Administrator/Clerk	Indefinite
Eric Tindal	Attorney	Indefinite
John Pilkington	Assistant Attorney	Indefinite
Lonnie Altenhofen	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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on the Special Revenue - Road Use Tax Fund

The Special Revenue - Road Use Tax Fund is reported as a major fund in the City's basic financial statements. During our audit, we noted material entries that were not documented or supported by the City's records; therefore, we were unable to satisfy ourselves that the fund balance as of June 30, 2013 was materially correct.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion on the Special Revenue - Road Use Tax Fund paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the major funds (except for the Road Use Tax Fund) of the City of Marengo as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund (except for the Road Use Tax Fund) and the aggregate remaining fund information of the City of Marengo as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

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 third paragraph of this report, the financial statements for the seven years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions for the years ended June 30, 2008 through 2012 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 27 through 34 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the unsupported entries in the Special Revenue - Road Use Tax Fund as described in the Basis for Qualified Opinion on the Special Revenue - Road Use Tax Fund paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

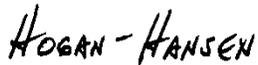
To the Honorable Mayor and
Members of the City Council
City of Marengo, Iowa
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Disclaimer of Opinion on Other Information

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. The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 25 and 26, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2014 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.



HOGAN - HANSEN

Waterloo, Iowa
June 10, 2014

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities, other than transfers, increased 63%, or approximately \$1,114,000, from the fiscal year 2012 to the fiscal year 2013. Net bond proceeds increased approximately \$1,139,000.

Governmental activities disbursements increased 6%, or approximately \$94,000 in fiscal year 2013 from the fiscal year 2012. Expenditures increased approximately \$69,000 in Public Works and \$53,000 in Capital Projects.

The City's total cash basis net position increased approximately \$1,162,000 from June 30, 2012 to June 30, 2013. The cash basis net position of the governmental activities increased approximately \$1,225,000 while the cash basis net position of the business-type activities decreased by approximately \$63,000.

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 Position. 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. The remaining statement provides financial information about activities for which the City of Marengo has fiduciary responsibilities.

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 position reports information that helps answer this question.

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

The statement of activities and net position 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 tax, 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 three 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 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.

3. Fiduciary funds are used to account for assets that belong to others and the City has a fiduciary responsibility.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$1,415,590 a year ago to \$2,640,744. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	<u>Years Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts		
Program Receipts		
Charges for service	\$ 165,387	\$ 172,158
Operating grants, contributions and restricted interest	285,427	317,816
General Receipts		
Property tax	919,660	901,865
Local option sales tax	354,820	366,526
Proceeds from corporate and refunding bonds, net	1,138,537	—
Miscellaneous unrestricted interest on investments and sale of assets	<u>21,988</u>	<u>13,442</u>
Total Receipts	<u>2,885,819</u>	<u>1,771,807</u>
Disbursements		
Public safety	322,332	331,815
Public works	339,754	270,497
Health and social services	66,631	60,750
Culture and recreation	230,055	237,503
Community and economic development	1,950	9,191
General government	172,452	178,933
Debt service	419,530	423,280
Capital projects	<u>109,480</u>	<u>56,221</u>
Total Disbursements	<u>1,662,184</u>	<u>1,568,190</u>
Change in Cash Basis Net Position Before Transfers	1,223,635	203,617
Transfers, net	<u>1,519</u>	<u>5,349</u>
Change in Cash Basis Net Position	1,225,154	208,966
Cash Basis Net Position - Beginning of Year, as Restated (Note 13)	<u>1,415,590</u>	<u>1,206,624</u>
Cash Basis Net Position - End of Year	<u>\$ 2,640,744</u>	<u>\$ 1,415,590</u>

The City's total receipts for governmental activities increased by 63%, or \$1,114,012, due to proceeds from corporate and refunding bonds issued in the current year.

The total cost of all programs and services increased by \$93,994, or 6%.

Changes in Cash Basis Net Position of Business-Type Activities

	Years Ended June 30,	
	2013	2012
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 594,566	\$ 557,422
Sanitary Sewer	281,920	285,320
Storm Sewer	19,141	20,350
Interest	199	318
Total Receipts	895,826	863,410
Disbursements		
Water	669,094	571,120
Sanitary Sewer	278,398	259,852
Storm Sewer	9,975	4,250
Total Disbursements	957,467	835,222
Change in Cash Basis Net Position Before Transfers	(61,641)	28,188
Transfers, net	(1,519)	(5,349)
Change in Cash Basis Net Position	(63,160)	22,839
Cash Basis Net Position - Beginning of Year	334,257	311,418
Cash Basis Net Position - End of Year	\$ 271,097	\$ 334,257

Total business-type activities receipts for the fiscal year were \$895,826 compared to \$863,410 last year. The increase was primarily due to water and sewer rate increases. Total disbursements for the fiscal year increased by 15%, or \$122,245.

The cash balance decreased by \$63,160, or 19%, from the prior year, mainly due to water tower maintenance needed in the current year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$2,640,744, an increase of \$1,225,154 from last year's restated total of \$1,415,590.

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 \$44,458 from the prior year to \$397,375.

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 service; 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 \$4,926 to \$118,846. This increase is due to receipts exceeding disbursements in the current year.

The Special Revenue, Local Option Sales Tax Fund cash balance increased \$192,502 over the prior year due to paying a larger portion of debt payments from tax increment financing, when applicable, instead of using local option sales tax funds for repayment.

The Special Revenue, Tax Increment Financing Fund cash balance decreased \$53,412 to \$44,769 during the fiscal year. This decrease is due to using these funds for debt payments.

The Debt Service Fund cash balance increased \$1,141,005 due to issuing corporate and refunding bonds.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility cash balance decreased by \$74,473 to \$119,533 due to water tower maintenance costs.

The Sanitary Sewer System cash balance increased by \$3,527 to \$70,999.

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 did not amend its budget. Disbursements exceeded budget for Public Works, Public Safety, Health and Social Services, Capital Projects and Business-Type Activities. The City will monitor to make sure budgeted amounts are not exceeded.

DEBT ADMINISTRATION

As of June 30, 2013, the City had \$3,965,000 in general obligation debt and \$2,068,000 in water revenue debt for total debt outstanding of \$6,033,000.

Debt increased slightly due to issuing general obligation corporate purpose refunding debt and using some of the proceeds to pay down other general obligation debt.

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 subject to the limit of \$3,220,000 is below its constitutional debt limit of \$4,743,000.

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 2014 budget, tax rates and fees that will be charged for various City activities.

The most significant project the City will undertake is the rehabilitation and repair of the sanitary sewer collection system. The City has designed the project, in part due to an order for compliance from the Environmental Protection Agency (E.P.A). The project will address inflow and infiltration (I&I) issues that the City currently experiences in the sewer collection system. The total estimated cost of the project is \$2.2 million to \$2.5 million and will consist of three phases, with the first phase to begin in the spring of 2014. The City obtained grant funding through the CDBG program in the amount of \$1.2 million (two separate awards) in fiscal year 2014 for the first two phases of the project and intends to apply for another \$600,000 for the third phase. The City will complete the funding for the project by issuing a revenue bond. Sewer rates will be analyzed and will require adjustment to be at a level that provides the necessary revenue for repayment of debt in connection with the project and continued maintenance of the sewer department.

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 Position - Cash Basis

As of and for the Year Ended June 30, 2013

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total	
Governmental Activities							
Public safety	\$ 322,332	\$ 39,131	\$ 9,501	\$ (273,700)	\$ —	\$ (273,700)	\$ —
Public works	339,754	51,856	246,099	(41,799)	—	(41,799)	—
Health and social services	66,631	19,543	—	(47,088)	—	(47,088)	—
Culture and recreation	230,055	45,918	29,827	(154,310)	—	(154,310)	—
Community and economic development	1,950	—	—	(1,950)	—	(1,950)	—
General government	172,452	8,939	—	(163,513)	—	(163,513)	—
Debt service	419,530	—	—	(419,530)	—	(419,530)	—
Capital projects	109,480	—	—	(109,480)	—	(109,480)	—
Total Governmental Activities	1,662,184	165,387	285,427	(1,211,370)	—	(1,211,370)	—
Business-Type Activities							
Water	669,094	594,566	—	—	(74,528)	(74,528)	—
Sanitary sewer	278,398	281,920	—	—	3,522	3,522	—
Storm sewer	9,975	19,141	—	—	9,166	9,166	—
Total Business-Type Activities	957,467	895,627	—	—	(61,840)	(61,840)	—
Total Primary Government	\$ 2,619,651	\$ 1,061,014	\$ 285,427	(1,211,370)	(61,840)	(1,273,210)	—
Component Unit - Memorial Hospital	\$ 15,628,839	\$ 16,067,343	\$ 318,814	—	—	—	757,318
General Receipts and Transfers							
Property Tax Levied for							
General purposes				657,876	—	657,876	—
Debt service				88,182	—	88,182	—
Tax increment financing				173,602	—	173,602	—
Local option sales tax				354,820	—	354,820	—
Unrestricted interest on investments				12,350	199	12,549	—
Miscellaneous				3,635	—	3,635	—
Sale of capital assets				6,003	—	6,003	300,000
Proceeds from corporate and refunding bonds, net				1,138,537	—	1,138,537	—
Transfers				1,519	(1,519)	—	—
Total General Receipts and Transfers				2,436,524	(1,320)	2,435,204	300,000
Change in Cash Basis Net Position				1,225,154	(63,160)	1,161,994	1,057,318
Cash Basis Net Position - Beginning of Year, as previously reported				1,450,090	334,257	1,784,347	3,541,758
Prior period adjustment (Note 13)				(34,500)	—	(34,500)	—
Cash Basis Net Position - Beginning of Year, as Restated				1,415,590	334,257	1,749,847	3,541,758
Cash Basis Net Position - End of Year				\$ 2,640,744	\$ 271,097	\$ 2,911,841	\$ 4,599,076
Cash Basis Net Position							
Restricted							
Nonexpendable				\$ 65,393	\$ —	\$ 65,393	\$ —
Expendable							
Debt service				1,200,667	—	1,200,667	843,750
Local option tax				803,505	—	803,505	—
Urban renewal purposes				44,769	—	44,769	—
Streets				118,846	—	118,846	—
Other purposes				195,877	47,066	242,943	—
Unrestricted				211,687	224,031	435,718	3,755,326
Total Cash Basis Net Position				\$ 2,640,744	\$ 271,097	\$ 2,911,841	\$ 4,599,076

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, 2013

	General	Major			Debt Service	Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Tax	Tax Increment Financing			
Receipts							
Property tax.....	\$ 519,575	\$ —	\$ —	\$ —	\$ 88,182	\$ 138,301	\$ 746,058
Tax increment financing	—	—	—	173,602	—	—	173,602
Other city tax	—	—	354,820	—	—	—	354,820
Licenses and permits.....	8,939	—	—	—	—	—	8,939
Use of money and property	4,826	1	5,131	111	1,665	616	12,350
Intergovernmental	39,857	242,101	—	—	—	—	281,958
Charges for service	136,152	—	—	—	—	1,149	137,301
Miscellaneous.....	26,251	—	—	—	—	—	26,251
Total Receipts	735,600	242,102	359,951	173,713	89,847	140,066	1,741,279
Disbursements							
Public safety	322,332	—	—	—	—	—	322,332
Public works	58,505	237,176	44,073	—	—	—	339,754
Health and social services.....	66,631	—	—	—	—	—	66,631
Culture and recreation.....	230,055	—	—	—	—	—	230,055
Community and economic development.....	1,950	—	—	—	—	—	1,950
General government.....	154,102	—	—	—	18,350	—	172,452
Debt service	—	—	—	—	419,530	—	419,530
Capital projects.....	—	—	—	—	—	109,480	109,480
Total Disbursements	833,575	237,176	44,073	—	437,880	109,480	1,662,184
Receipts Over (Under) Disbursements	(97,975)	4,926	315,878	173,713	(348,033)	30,586	79,095
Other Financing Sources (Uses)							
Refunding bonds issued.....	—	—	—	—	1,555,000	—	1,555,000
Premium on refunding bonds.....	—	—	—	—	3,537	—	3,537
Refunding principal paid	—	—	—	—	(420,000)	—	(420,000)
Sale of capital assets.....	6,003	—	—	—	—	—	6,003
Transfers in	136,430	—	—	—	350,501	69,768	556,699
Transfers out	—	—	(123,376)	(227,125)	—	(204,679)	(555,180)
Total Other Financing Sources (Uses)	142,433	—	(123,376)	(227,125)	1,489,038	(134,911)	1,146,059
Change in Cash Balances	44,458	4,926	192,502	(53,412)	1,141,005	(104,325)	1,225,154
Cash Balances - Beginning of Year, as previously reported ..	352,917	113,920	611,003	98,181	59,662	214,407	1,450,090
Prior period adjustment (Note 13).....	—	—	—	—	—	(34,500)	(34,500)
Cash Balances - Beginning of Year, as Restated	352,917	113,920	611,003	98,181	59,662	179,907	1,415,590
Cash Balances - End of Year	\$ 397,375	\$ 118,846	\$ 803,505	\$ 44,769	\$ 1,200,667	\$ 75,582	\$ 2,640,744
Cash Basis Fund Balances							
Nonspendable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 65,393	\$ 65,393
Restricted for							
Debt service	—	—	—	—	1,200,667	—	1,200,667
Local option tax	—	—	803,505	—	—	—	803,505
Urban renewal purposes.....	—	—	—	44,769	—	—	44,769
Streets.....	—	118,846	—	—	—	—	118,846
Other purposes.....	141,991	—	—	—	—	53,886	195,877
Assigned for other purposes.....	132,279	—	—	—	—	—	132,279
Unassigned	123,105	—	—	—	—	(43,697)	79,408
Total Cash Basis Fund Balances	\$ 397,375	\$ 118,846	\$ 803,505	\$ 44,769	\$ 1,200,667	\$ 75,582	\$ 2,640,744

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, 2013

	Major		Nonmajor	
	Water	Sanitary Sewer	Storm Sewer	Total
Operating Receipts				
Charges for service	\$ 586,959	\$ 281,832	\$ 19,141	\$ 887,932
Miscellaneous.....	7,607	88	—	7,695
Total Operating Receipts	594,566	281,920	19,141	895,627
Operating Disbursements				
Business-type activities	400,546	277,708	9,975	688,229
Operating Receipts Over				
Operating Disbursements	194,020	4,212	9,166	207,398
Nonoperating Receipts (Disbursements)				
Interest on investments	55	5	139	199
Capital outlay.....	—	(690)	—	(690)
Debt service	(268,548)	—	—	(268,548)
Net Nonoperating Receipts (Disbursements).....	(268,493)	(685)	139	(269,039)
Receipts Over (Under) Disbursements	(74,473)	3,527	9,305	(61,641)
Other Financing Sources (Uses)				
Transfers out	—	—	(1,519)	(1,519)
Change in Cash Balances	(74,473)	3,527	7,786	(63,160)
Cash Balances - Beginning of Year	194,006	67,472	72,779	334,257
Cash Balances - End of Year	\$ 119,533	\$ 70,999	\$ 80,565	\$ 271,097
Cash Basis Fund Balances				
Restricted for				
Customer deposits	\$ 47,066	\$ —	\$ —	\$ 47,066
Unrestricted.....	72,467	70,999	80,565	224,031
Total Cash Basis Fund Balances	\$ 119,533	\$ 70,999	\$ 80,565	\$ 271,097

See accompanying notes to the financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Fiduciary Funds

As of and for the Year Ended June 30, 2013

	Marengo Picnic in the Park, Inc.
Receipts	\$ 5,015
Disbursements	<u>2,779</u>
Change in Cash Balance	<u>2,236</u>
Cash Balance - Beginning of Year, as previously reported	—
Prior period adjustment (Note 13)	<u>34,500</u>
Cash Balance - Beginning of Year, as Restated	<u>34,500</u>
Cash Balance - End of Year	<u>\$ 36,736</u>

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, 2013, the City recognized cash receipts of \$42,731, composed of property tax - \$42,695 and interest - \$36 collected for the Hospital and remitted \$42,731 to the Hospital. As of June 30, 2013, the City held no assets in the General Fund restricted for the Hospital.

Excluded Component Units

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 2013 are not material.

Marengo Firefighters Association (Association), an Iowa nonprofit corporation, is a component unit that is legally separate from the City. The Association is governed by its own board and was formed for the direct benefit of the Marengo volunteer firefighters. Economic resources received by the Association are used for the direct benefit of the firefighters and, therefore, the City's constituents. The Association has a January 31 year end and does not prepare financial statements; therefore, audited financial statements are not available. Management has elected to exclude the cash transactions of the Association from City financial statements as the amounts for 2013 are not material.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Fiduciary 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 some administrative support from the City. Due to the nature of its relationship with the City, the Park is reported as a fiduciary fund.

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 position reports information on 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of activities and net position - cash basis presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The statement of activities and net position - cash basis 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, proprietary funds and fiduciary 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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.

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.

The City also reports a fiduciary fund.

The Marengo Picnic in the Park, Inc. is used to account for assets that are under governance by the City.

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 is both restricted and unrestricted cash basis net position 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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.

Proprietary 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.

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, 2013, disbursements exceeded amounts budgeted in the Public Safety, Public Works, Health and Social Services, Capital Projects and Business-Type Activities functions.

(2) Cash and Investments

The City's deposits in banks as of June 30, 2013 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 the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$852 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Notes to the Financial Statements

(2) Cash and Investments

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.

(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
2014	\$ 380,000	\$ 114,451	\$ 202,000	\$ 62,040	\$ 582,000	\$ 176,491
2015	1,130,000	100,413	208,000	55,980	1,338,000	156,393
2016	285,000	61,855	215,000	49,740	500,000	111,595
2017	295,000	56,155	222,000	43,290	517,000	99,445
2018	305,000	50,305	229,000	36,630	534,000	86,935
2019-23	1,315,000	152,380	992,000	75,600	2,307,000	227,980
2024-28	255,000	15,400	—	—	255,000	15,400
	<u>\$ 3,965,000</u>	<u>\$ 550,959</u>	<u>\$ 2,068,000</u>	<u>\$ 323,280</u>	<u>\$ 6,033,000</u>	<u>\$ 874,239</u>

General Obligation Corporate Purpose and Refunding Bonds

General Obligation Bonds issued March 13, 2013 were used to refund the General Obligation Bonds, Series 2006 in the amount of \$420,000; acquire equipment in the amount of \$350,000; and advance refund General Obligation Bonds issued in 2008 in the amount of \$745,000. The City approved a crossover refunding escrow agreement which required the City to authorize the issuance of \$1,555,000 General Obligation Corporate Purpose and Refunding Bonds. The trustee agreed to accept the cash from the bond proceeds, pay for all issuance costs of the bonds and invest the funds to be able to pay interest coming due on the portion of the 2013 bonds attributable to the 2008 refunding through and including June 1, 2015 and to pay the principal amount of \$745,000 on June 1, 2015, the early call date. At closing, \$770,328 of Series 2013A bond proceeds were transferred directly to the refunding escrow. The City is responsible for all scheduled principal and interest payments on the 2008 Refunded Bonds including the payment due on the crossover date.

The refunding resulted in an economic gain of \$79,045.

(3) Long-Term Debt

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$3,200,000 in water revenue bonds issued in April, 2007. Proceeds from the notes provided financing for the construction of water system improvements. The bonds are payable solely from water customer net receipts and are payable through 2022. Annual principal and interest payments on the notes are expected to require less than 90% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,391,280. For the current year, principal, interest and fees paid and total customer net receipts were \$268,548 and \$219,809, respectively.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

1. All of the bonds and the interest thereon shall be payable solely from the net revenue of the Utility and the balance in the sinking fund, both of which are pledged for payment. None of the bonds shall be a general obligation of the City, nor payable in any manner by taxation.
2. Loan proceeds shall be held by the Trustee (Wells Fargo Bank, National Association) and disbursed for costs of the Project.
3. Sufficient rates will be established and maintained which will cause net revenue of the Water Utility to be at least 110% of the bond principal and interest due in the fiscal year.
4. Monthly transfers will be made to the water revenue bond sinking fund equal to one-twelfth of the next principal payment and one-sixth of the next interest payment such that adequate cash is available in the sinking fund to pay debt service when due.
5. Maintain insurance on or self-insure the insurable portions of the wastewater treatment system.

Except for sufficient rates being established to cause net revenue to be at least 110% of bond payments (see page 41, item 13-II-H), the City was in compliance with these requirements as of June 30, 2013.

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 1.2% 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.

Notes to the Financial Statements

(3) Long-Term Debt

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, 2013 is as follows:

Year	Principal	Interest	Total
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	745,000	125,263	870,263
2019-2023	<u>3,205,000</u>	<u>284,295</u>	<u>3,489,295</u>
	<u>\$ 6,790,000</u>	<u>\$ 1,049,905</u>	<u>\$ 7,839,905</u>

A summary of changes in debt for the year ended June 30, 2013 follows:

	Beginning Balance	Additions	Principal Payments	Ending Balance
Hospital Revenue Refunding Bonds, Series 2012.....	<u>\$ 7,490,000</u>	<u>\$ —</u>	<u>\$ 700,000</u>	<u>\$ 6,790,000</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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$47,917, \$45,115 and \$42,259, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(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 11 active and no 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.

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 \$608 for single coverage and \$1,866 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2013, the City contributed \$163,353 and plan members eligible for benefits contributed \$5,400 to the plan.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue Employee Benefits	<u>\$ 136,430</u>
Capital Projects 2012 Utility Extension	Capital Projects Central Business District Renovations Nonmajor Enterprise Storm Sewer	68,249 <u>1,519</u> <u>69,768</u>
Debt Service	Special Revenue Local Option Tax Tax Increment Financing	123,376 <u>227,125</u> <u>350,501</u>
Total		<u>\$ 556,699</u>

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

Notes to the Financial Statements

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$122,231 during the year ended June 30, 2013.

(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.

(10) Construction and Other Commitments

The City had 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 received two Community Development Block Grants for some of the funding and will issue Sewer Revenue Bonds to fund the remaining amount required for the project. The City has received a loan through the Iowa Finance Authority for planning and design expenses related to this project.

(11) Deficit Balance

The Capital Projects Fund, 2012 Utility Extension had a deficit balance of \$43,697 as of June 30, 2013. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of grants, bond proceeds allocated to the project or transfers from other funds.

(12) Subsequent Events

Management has evaluated subsequent events through June 10, 2014, the date which the financial statements were available to be issued.

Since June 30, 2013, the City has purchased a skid loader for \$35,000 and a fire truck chassis for \$87,449.

The City received a \$600,000 Community Development Block Grant for Phase I of the Sanitary Sewer Rehabilitation Project in the Fall of 2013. This project was bid in January, 2014 and started in May, 2014. Additionally, the City received notice of an additional Community Development Block Grant for Phase II of the Sanitary Sewer Rehabilitation Project in the Spring of 2014, with bidding anticipated in the Fall of 2014.

In May, 2014, the City approved an Intent to Commit Funding up to \$750,000 for the construction of a YMCA in Marengo. This funding is contingent upon the type of structure and amount of cost sharing.

Notes to the Financial Statements

(13) Prior Period Restatement

As of June 30, 2013, the Marengo Picnic in the Park, Inc. was determined to be a fiduciary fund instead of a special revenue fund due to the decrease of administrative support from the City.

The effect of the restatement on the beginning fund balance is as follows:

	<u>Nonmajor</u>	<u>Fiduciary Funds</u>	<u>Government-Wide</u>		
	Govern- mental Funds	Marengo Picnic in the Park, Inc.	Govern- mental Activities	Business- Type Activities	Total
Cash Balance - Beginning of Year, as previously reported	\$ 214,407	\$ —	\$ 1,450,090	\$ 334,257	\$ 1,784,347
Marengo Picnic in the Park, Inc.....	<u>(34,500)</u>	<u>34,500</u>	<u>(34,500)</u>	<u>—</u>	<u>(34,500)</u>
Cash Balance - Beginning of Year, as Restated..	<u>\$ 179,907</u>	<u>\$ 34,500</u>	<u>\$ 1,415,590</u>	<u>\$ 334,257</u>	<u>\$ 1,749,847</u>

Other Information

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

Year Ended June 30, 2013

	Govern- mental Funds - Actual	Propri- etary Funds - Actual	Net	Original and Final Budget	Over (Under) Budget
Receipts					
Property tax	\$ 746,058	\$ —	\$ 746,058	\$ 714,648	\$ 31,410
Tax increment financing	173,602	—	173,602	180,000	(6,398)
Other city tax	354,820	—	354,820	358,910	(4,090)
Licenses and permits	8,939	—	8,939	8,000	939
Use of money and property	12,350	199	12,549	6,000	6,549
Intergovernmental	281,958	—	281,958	278,000	3,958
Charges for service	137,301	887,932	1,025,233	994,000	31,233
Miscellaneous	26,251	7,695	33,946	25,000	8,946
Total Receipts	<u>1,741,279</u>	<u>895,826</u>	<u>2,637,105</u>	<u>2,564,558</u>	<u>72,547</u>
Disbursements					
Public safety	322,332	—	322,332	311,500	10,832
Public works	339,754	—	339,754	285,600	54,154
Health and social services	66,631	—	66,631	56,000	10,631
Culture and recreation	230,055	—	230,055	252,950	(22,895)
Community and economic development	1,950	—	1,950	6,528	(4,578)
General government	172,452	—	172,452	180,500	(8,048)
Debt service	419,530	—	419,530	421,000	(1,470)
Capital projects	109,480	—	109,480	—	109,480
Business-type activities	—	957,467	957,467	903,800	53,667
Total Disbursements	<u>1,662,184</u>	<u>957,467</u>	<u>2,619,651</u>	<u>2,417,878</u>	<u>201,773</u>
Receipts Over (Under) Disbursements	79,095	(61,641)	17,454	146,680	(129,226)
Other Financing Sources (Uses), Net	<u>1,146,059</u>	<u>(1,519)</u>	<u>1,144,540</u>	<u>—</u>	<u>1,144,540</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	1,225,154	(63,160)	1,161,994	146,680	1,015,314
Balances - Beginning of Year, as restated (Note 13)	<u>1,415,590</u>	<u>334,257</u>	<u>1,749,847</u>	<u>1,528,635</u>	<u>221,212</u>
Balances - End of Year	<u>\$ 2,640,744</u>	<u>\$ 271,097</u>	<u>\$ 2,911,841</u>	<u>\$ 1,675,315</u>	<u>\$ 1,236,526</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, 2013

The budgetary comparison is presented 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, there were no budget amendments.

During the year ended June 30, 2013, disbursements exceeded amounts budgeted in the Public Safety, Public Works, Health and Social Services, Capital Projects and Business-Type Activities functions.

Supplementary Information

**Schedule of Cash Receipts, Disbursements and Changes in Cash Balances -
General Fund**

As of and for the Year Ended June 30, 2013

	General	Insurance	Police Reserve	Library Miscellaneous	Capital Reserve	Memorial Building	Pool Renovations	Total
Receipts								
Property tax.....	\$ 429,813	\$ 47,067	\$ —	\$ —	\$ —	\$ 42,695	\$ —	\$ 519,575
Licenses and permits.....	8,939	—	—	—	—	—	—	8,939
Use of money and property	342	—	—	4,444	—	36	4	4,826
Intergovernmental	39,857	—	—	—	—	—	—	39,857
Charges for service	136,152	—	—	—	—	—	—	136,152
Miscellaneous.....	21,642	1,125	500	1,258	75	—	1,651	26,251
Total Receipts	<u>636,745</u>	<u>48,192</u>	<u>500</u>	<u>5,702</u>	<u>75</u>	<u>42,731</u>	<u>1,655</u>	<u>735,600</u>
Disbursements								
Public safety.....	322,332	—	—	—	—	—	—	322,332
Public works	58,505	—	—	—	—	—	—	58,505
Health and social services.....	23,900	—	—	—	—	42,731	—	66,631
Culture and recreation	217,379	—	—	5,976	—	—	6,700	230,055
Community and economic development.....	1,950	—	—	—	—	—	—	1,950
General government.....	95,815	58,287	—	—	—	—	—	154,102
Total Disbursements	<u>719,881</u>	<u>58,287</u>	<u>—</u>	<u>5,976</u>	<u>—</u>	<u>42,731</u>	<u>6,700</u>	<u>833,575</u>
Receipts Over (Under) Disbursements	<u>(83,136)</u>	<u>(10,095)</u>	<u>500</u>	<u>(274)</u>	<u>75</u>	<u>—</u>	<u>(5,045)</u>	<u>(97,975)</u>
Other Financing Sources (Uses)								
Sale of capital assets.....	6,003	—	—	—	—	—	—	6,003
Transfers in	136,430	—	—	—	—	—	—	136,430
Intrafund transfers (net)	(25,000)	—	—	—	25,000	—	—	—
Total Other Financing Sources.....	<u>117,433</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,000</u>	<u>—</u>	<u>—</u>	<u>142,433</u>
Change in Cash Balances.....	<u>34,297</u>	<u>(10,095)</u>	<u>500</u>	<u>(274)</u>	<u>25,075</u>	<u>—</u>	<u>(5,045)</u>	<u>44,458</u>
Cash Balances - Beginning of Year	98,963	(13,308)	293	156,351	100,361	—	10,257	352,917
Cash Balances - End of Year	<u>\$ 133,260</u>	<u>\$ (23,403)</u>	<u>\$ 793</u>	<u>\$ 156,077</u>	<u>\$ 125,436</u>	<u>\$ —</u>	<u>\$ 5,212</u>	<u>\$ 397,375</u>
Cash Basis Fund Balances								
Restricted								
Other purposes.....	\$ —	\$ —	\$ —	\$ 136,779	\$ —	\$ —	\$ 5,212	\$ 141,991
Assigned for other purposes.....	—	—	793	6,050	125,436	—	—	132,279
Unassigned	133,260	(23,403)	—	13,248	—	—	—	123,105
Total Cash Basis Fund Balances	<u>\$ 133,260</u>	<u>\$ (23,403)</u>	<u>\$ 793</u>	<u>\$ 156,077</u>	<u>\$ 125,436</u>	<u>\$ —</u>	<u>\$ 5,212</u>	<u>\$ 397,375</u>

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

As of and for the Year Ended June 30, 2013

	Special Revenue Employee Benefits	Capital Projects			Permanent Cemetery Trust	Total
		Marengo Picnic in the Park	Central Business District Renovation	2012 Utility Extension		
Receipts						
Property tax	\$ 138,301	\$ —	\$ —	\$ —	\$ —	\$ 138,301
Use of money and property	105	—	78	—	433	616
Charges for service	—	—	—	—	1,149	1,149
Total Receipts	<u>138,406</u>	<u>—</u>	<u>78</u>	<u>—</u>	<u>1,582</u>	<u>140,066</u>
Disbursements						
Capital projects	—	—	—	109,480	—	109,480
Receipts Over (Under) Disbursements	<u>138,406</u>	<u>—</u>	<u>78</u>	<u>(109,480)</u>	<u>1,582</u>	<u>30,586</u>
Other Financing Sources (Uses)						
Transfers in	—	—	—	69,768	—	69,768
Transfers out	(136,430)	—	(68,249)	—	—	(204,679)
Total Other Financing Sources (Uses)	<u>(136,430)</u>	<u>—</u>	<u>(68,249)</u>	<u>69,768</u>	<u>—</u>	<u>(134,911)</u>
Change in Cash Balances	<u>1,976</u>	<u>—</u>	<u>(68,171)</u>	<u>(39,712)</u>	<u>1,582</u>	<u>(104,325)</u>
Cash Balances - Beginning of Year, as previously reported	51,910	34,500	68,171	(3,985)	63,811	214,407
Prior period adjustment (Note 13)	—	(34,500)	—	—	—	(34,500)
Cash Balances - Beginning of Year, as Restated	51,910	—	68,171	(3,985)	63,811	179,907
Cash Balances - End of Year	<u>\$ 53,886</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (43,697)</u>	<u>\$ 65,393</u>	<u>\$ 75,582</u>
Cash Basis Fund Balances						
Nonspendable	\$ —	\$ —	\$ —	\$ —	\$ 65,393	\$ 65,393
Restricted for other purposes	53,886	—	—	—	—	53,886
Unassigned	—	—	—	(43,697)	—	(43,697)
Total Cash Basis Fund Balances	<u>\$ 53,886</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (43,697)</u>	<u>\$ 65,393</u>	<u>\$ 75,582</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, 2013

	Water	Water Bond Sinking	Water Deposits	Water Revolving	Total
Operating Receipts					
Charges for service	\$ 586,959	\$ —	\$ —	\$ —	\$ 586,959
Miscellaneous.....	<u>519</u>	<u>—</u>	<u>7,088</u>	<u>—</u>	<u>7,607</u>
Total Operating Receipts	<u>587,478</u>	<u>—</u>	<u>7,088</u>	<u>—</u>	<u>594,566</u>
Operating Disbursements					
Business-type activities	<u>401,049</u>	<u>—</u>	<u>(503)</u>	<u>—</u>	<u>400,546</u>
Operating Receipts Over Operating Disbursements	<u>186,429</u>	<u>—</u>	<u>7,591</u>	<u>—</u>	<u>194,020</u>
Nonoperating Receipts (Disbursements)					
Interest on investments.....	51	—	—	4	55
Debt service.....	<u>—</u>	<u>(268,548)</u>	<u>—</u>	<u>—</u>	<u>(268,548)</u>
Net Nonoperating Receipts (Disbursements)	<u>51</u>	<u>(268,548)</u>	<u>—</u>	<u>4</u>	<u>(268,493)</u>
Receipts Over (Under) Disbursements	186,480	(268,548)	7,591	4	(74,473)
Other Financing Sources (Uses)					
Intrafund transfers (net).....	<u>(248,548)</u>	<u>268,548</u>	<u>—</u>	<u>(20,000)</u>	<u>—</u>
Change in Cash Balances ..	(62,068)	—	7,591	(19,996)	(74,473)
Cash Balances - Beginning of Year	<u>49,149</u>	<u>—</u>	<u>39,475</u>	<u>105,382</u>	<u>194,006</u>
Cash Balances - End of Year	<u>\$ (12,919)</u>	<u>\$ —</u>	<u>\$ 47,066</u>	<u>\$ 85,386</u>	<u>\$ 119,533</u>
Cash Basis Fund Balances					
Restricted for					
Customer deposits	\$ —	\$ —	\$ 47,066	\$ —	\$ 47,066
Unrestricted.....	<u>(12,919)</u>	<u>—</u>	<u>—</u>	<u>85,386</u>	<u>72,467</u>
Total Cash Basis Fund Balances	<u>\$ (12,919)</u>	<u>\$ —</u>	<u>\$ 47,066</u>	<u>\$ 85,386</u>	<u>\$ 119,533</u>

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Sanitary Sewer Major Enterprise Fund

As of and for the Year Ended June 30, 2013

	Sewer Rental	Sewer Replace- ment	Sewer Revolving	Sewer Rehab Phase I	Total
Operating Receipts					
Charges for service	\$ 281,832	\$ —	\$ —	\$ —	\$ 281,832
Miscellaneous.....	<u>88</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>88</u>
Total Operating Receipts	<u>281,920</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>281,920</u>
Operating Disbursements					
Business-type activities	<u>277,708</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>277,708</u>
Operating Receipts Over Operating Disbursements	<u>4,212</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,212</u>
Nonoperating Receipts (Disbursements)					
Interest on investments.....	5	—	—	—	5
Capital projects	<u>—</u>	<u>—</u>	<u>—</u>	<u>(690)</u>	<u>(690)</u>
Net Nonoperating Receipts (Disburse- ments)	<u>5</u>	<u>—</u>	<u>—</u>	<u>(690)</u>	<u>(685)</u>
Change in Cash Balances..	4,217	—	—	(690)	3,527
Cash Balances - Beginning of Year	<u>13,274</u>	<u>9,266</u>	<u>44,932</u>	<u>—</u>	<u>67,472</u>
Cash Balances - End of Year	<u>\$ 17,491</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ (690)</u>	<u>\$ 70,999</u>
Cash Basis Fund Balances					
Unrestricted.....	<u>\$ 17,491</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ (690)</u>	<u>\$ 70,999</u>

Schedule of Indebtedness

Year Ended June 30, 2013

	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%	\$ 470,000	\$ —	\$ 470,000	\$ —	\$ 20,030
Corporate purpose.....	1,250,000	5-15-08	3.15 - 4.15	975,000	—	75,000	900,000	37,181
Corporate purpose and refunding.....	2,070,000	4-15-10	2.00 - 4.00	1,695,000	—	185,000	1,510,000	52,320
Corporate purpose and refunding.....	1,555,000	3-13-13	1.50 - 2.00	—	1,555,000	—	1,555,000	—
Total General Obligation.....				<u>\$ 3,140,000</u>	<u>\$ 1,555,000</u>	<u>\$ 730,000</u>	<u>\$ 3,965,000</u>	<u>\$ 109,531</u>
Water Revenue Bonds	\$ 3,200,000	6-1-07	3.00%	<u>\$ 2,263,000</u>	<u>\$ —</u>	<u>\$ 195,000</u>	<u>\$ 2,068,000</u>	<u>\$ 67,890</u>

Schedule of Bond and Note Maturities

As of June 30, 2013

General Obligation Bonds							
Corporate Purpose and Refunding Issued 3-13-13			Corporate Purpose and Refunding Issued 4-15-10		Corporate Purpose Issued 5-15-08		Total
Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount	
2014	1.50%	\$ 100,000	2.00%	\$ 205,000	3.30%	\$ 75,000	\$ 380,000
2015	1.50	100,000	2.30	205,000	3.45	825,000*	1,130,000
2016	1.50	190,000	2.30	95,000		—	285,000
2017	1.50	200,000	3.00	95,000		—	295,000
2018	1.50	205,000	3.00	100,000		—	305,000
2019	1.50	205,000	3.30	105,000		—	310,000
2020	1.50	210,000	3.30	105,000		—	315,000
2021	2.00	145,000	3.60	110,000		—	255,000
2022	2.00	100,000	3.60	115,000		—	215,000
2023	2.00	100,000	3.60	120,000		—	220,000
2024		—	3.60	125,000		—	125,000
2025		—	4.00	130,000		—	130,000
Total		<u>\$ 1,555,000</u>		<u>\$ 1,510,000</u>		<u>\$ 900,000</u>	<u>\$ 3,965,000</u>

Revenue Bonds		
Water Revenue		
Issued 6-1-07		
Interest Rates	Amount	
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>\$ 2,068,000</u>

* Crossover refunding date of June 1, 2015 when the 2008 General Obligation Bonds are callable and will be paid with escrowed funds from the 2013 General Obligation Bond issue.

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

Years Ended June 30, 2006 Through 2013

	2013	2012	2011	2010	2009	2008	2007	2006
Receipts								
Property tax	\$ 746,058	\$ 728,694	\$ 710,258	\$ 716,162	\$ 743,470	\$ 695,512	\$ 704,943	\$ 688,920
Tax increment financing	173,602	173,171	170,615	189,854	170,743	197,031	203,582	157,925
Other city tax	354,820	366,526	334,739	284,167	307,806	295,825	303,514	251,704
Licenses and permits.....	8,939	9,093	9,369	10,382	10,350	5,624	3,674	3,997
Use of money and property	12,350	10,659	12,598	10,182	16,506	23,131	41,626	31,155
Intergovernmental	281,958	290,369	340,453	279,566	543,660	307,431	641,212	268,078
Charges for service	137,301	147,803	143,658	126,824	120,084	125,221	107,170	91,580
Miscellaneous.....	<u>26,251</u>	<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>\$ 1,741,279</u>	<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.....	\$ 322,332	\$ 331,815	\$ 294,270	\$ 306,174	\$ 310,702	\$ 445,906	\$ 320,710	\$ 321,519
Public works.....	339,754	270,497	288,020	272,971	304,143	354,275	271,406	345,537
Health and social services.....	66,631	60,750	55,905	53,378	74,817	68,617	58,982	79,072
Culture and recreation.....	230,055	237,503	231,105	251,003	240,267	306,399	220,982	258,648
Community and economic development.....	1,950	9,191	15,456	106,472	10,064	2,302	—	—
General government	172,452	178,933	163,059	149,795	147,180	155,447	157,281	143,827
Debt service	419,530	423,280	443,744	1,244,142	478,930	361,598	308,371	547,815
Capital projects.....	<u>109,480</u>	<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>\$ 1,662,184</u>	<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 Insurance

Year Ended June 30, 2013

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket (including certified acts of terrorism)	4/1/13 - 4/1/14	\$ 6,851,605
Liability		
Products/completed operations	4/1/13 - 4/1/14	5,000,000
General aggregate	4/1/13 - 4/1/14	5,000,000
Personal/advertising injury	4/1/13 - 4/1/14	1,000,000
Each occurrence	4/1/13 - 4/1/14	1,000,000
Damage to premises	4/1/13 - 4/1/14	100,000
Medical expense	4/1/13 - 4/1/14	5,000
Employment practices (occurrence and aggregate deductible \$2,500 per claim)	4/1/13 - 4/1/14	1,000,000
Crime		
Public employee dishonesty	4/1/13 - 4/1/14	1,000,000
Inland Marine		
Contractors equipment	4/1/13 - 4/1/14	497,468
Scheduled property floater (miscellaneous)	4/1/13 - 4/1/14	100,000
Automobile		
Liability	4/1/13 - 4/1/14	1,000,000
Uninsured	4/1/13 - 4/1/14	50,000
Underinsured	4/1/13 - 4/1/14	50,000
Physical damage	4/1/13 - 4/1/14	Loss less deductible
Comprehensive	4/1/13 - 4/1/14	Loss less deductible
Collision	4/1/13 - 4/1/14	Loss less deductible
Medical	4/1/13 - 4/1/14	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/13 - 4/1/14	500,000
Bodily injury by disease/employee	4/1/13 - 4/1/14	500,000
Bodily injury by disease/limit	4/1/13 - 4/1/14	500,000
Umbrella		
Occurrence	4/1/13 - 4/1/14	2,000,000
Aggregate	4/1/13 - 4/1/14	2,000,000
Products completed aggregated	4/1/13 - 4/1/14	2,000,000
Bodily injury by disease aggregate	4/1/13 - 4/1/14	2,000,000
Public Official Error and Omissions		
Occurrence	4/1/13 - 4/1/14	1,000,000
Aggregate	4/1/13 - 4/1/14	5,000,000
Insured's deductible per loss	4/1/13 - 4/1/14	1,000

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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, 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 June 10, 2014. Our report expressed modified and unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Marengo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Marengo's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Marengo's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 13-I-R-1, 13-I-R-2, 13-I-R-3 and 13-I-R-5 to be material weaknesses.

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 13-I-R-4 and 13-I-R-6 through 13-I-R-9 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, 2013 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.

City of Marengo's Responses to Findings

The City of Marengo's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City of Marengo's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
June 10, 2014

Schedule of Findings

Part I: Findings Related to the Financial Statements

13-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 properly 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 obtain the unopened bank statement each month and review the items clearing the bank as well as 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 entry documentation was not being maintained and that the journal entries were still not being reviewed. Additionally, we noted that while bank reconciliations were reviewed, the support from the City's financial records was not being reviewed.

Auditor's Recommendation - We reiterate our prior year recommendations. We also recommend reviewing all supporting documentation for the bank reconciliation, as well as a review of the copies of the checks and other withdrawals that cleared the bank.

City's Response - We are aware of the condition and the need to improve controls over journal entries and the bank reconciliation process. We will review current procedures and make the appropriate changes.

Auditor's Conclusion - Response accepted.

13-I-R-2 Computer Software Conversion

Current Year Finding - The City had not been able to properly reconcile the general ledger to the bank statements after a software conversion in August, 2012. The software conversion did not include a conversion reconciliation; therefore, errors in converting some beginning account balances and July revenue were not identified in a timely manner. Staff did try to balance monthly activity to the bank statement, but the City's financial reports did not properly reflect year-to-date revenue and expenses.

Auditor's Recommendation - Procedures should be in place to ensure that the general ledger is always in balance and the bank accounts properly reconciled.

City's Response - We are aware of the condition and are working on the appropriate reconciliations. We will review current procedures and make the appropriate changes.

Auditor's Conclusion - Response accepted.

Schedule of Findings

13-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.

13-I-R-4 Interfund Loans

Prior Year Finding and Recommendation - During our prior 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

13-I-R-5 Computer Data File Backup

Current Year Finding - We determined that while the City's general ledger is continuously backed up on a rotating basis between two servers, both of these are located at the City Hall. Additionally, the City does not have a disaster recovery plan.

Auditor's Recommendation - We recommend establishing procedures to have a backup copy of the City's computer data stored off-site to properly protect these in case of a disaster. We additionally recommend the establishment of a disaster recovery plan.

City's Response - We are working with our software vendor to make the appropriate changes.

Auditor's Conclusion - Response accepted.

13-I-R-6 Water Deposits

Current Year Finding - During our audit, we determined that the water deposits received from customers were no longer being reconciled to the City's general ledger.

Auditor's Recommendation - We recommend reestablishing procedures to reconcile the water deposits records to the City's general ledger on a routine basis.

City's Response - We will implement this reconciliation.

Auditor's Conclusion - Response accepted.

13-I-R-7 Interest Income and Investments

Prior Year Finding and Recommendation - We noted that interest income on several certificates of deposit was not recorded and other interest income was recorded to the wrong revenue account. The City should establish procedures to ensure timely and accurate recording of interest and reconciliation of certificates of deposit and other investments held by the City.

Current Year Finding - We found that there was still one certificate of deposit where interest income had not been recorded and there were errors in recording interest income.

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

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

13-I-R-8 Documentation for Cash Disbursements

Current Year Finding - During our audit, the City could not locate several invoices or support for some voided checks.

Auditor's Recommendation - We recommend that the City review procedures to ensure that proper documentation is maintained to support all expenditures and voided checks.

City's Response - We will review our procedures and make the necessary changes.

Auditor's Conclusion - Response accepted.

13-I-R-9 Transfers

Current Year Finding - The City did not approve all transfers between funds either through the annual budget approval process or by City Council approval documented in the minutes of a meeting.

Auditor's Recommendation - We recommend that the City review procedures to ensure all transfers are approved by the City Council.

City's Response - We will review our process and properly approval all transfers.

Auditor's Conclusion - Response accepted

Part II: Other Findings Related to Statutory Reporting

13-II-A Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in Public Safety, Public Works, Health and Social Services, Capital Projects and Business-Type Activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

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

Auditor's Conclusion - Response accepted.

13-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.

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

Schedule of Findings

13-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	\$ 4,760
Mark Swift, Fireman Owner of Brown's Hardware	Supplies	3,425
Dan Wirtanen Owner of Wirtanen Concrete	Street repairs	6,250
Brian Miller Owner of Miller Excavating	Street, sewer and hydrant repairs	107,796

In accordance with Chapter 362.5 of the Code of Iowa, the transaction with Brian Miller does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa. The other 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.

13-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.

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

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

13-II-H 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 rates to provide net revenue at least equal to 110% of debt service.

Schedule of Findings

City's Response - The City did not meet the required ratio due to extra maintenance expenses for the water towers. Additionally, we increased rates in September, 2013. We will review rates annually and will increase rates again, if necessary, to meet debt resolution requirements.

Auditor's Conclusion - Response accepted.

- 13-II-I Tax Increment Financing (TIF) Certification** - During our prior year audit, 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.

During our current year audit, 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.

- 13-II-J Urban Renewal Annual Report** - We determined that the urban renewal annual report was properly approved and filed on or before December 1, 2012. This is the first year for filing this report, and the report was incorrectly filed because the City reported the current year payments made as the total outstanding debt.

Auditor's Recommendation - We recommend that the City carefully review the instructions for completing the report and consult with the State of Iowa if certain requirements or computations are unclear.

City's Response - We have been working with the State to make the appropriate corrections.

Auditor's Conclusion - Response accepted.

- 13-II-K Financial Condition** - The Capital Projects Fund, 2012 Utility Extension had a deficit balance of \$43,697 as of June 30, 2013.

Auditor's Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

City's Response - The deficit was due to construction costs incurred prior to transfers of funds.

Auditor's Conclusion - Response accepted.