

**CITY OF MARENGO, IOWA**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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# Officials

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Name	Title	Term Expires
<b>Elected Officials</b>		
(Before January, 2014)		
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
(After January, 2014)		
Joe Seye	Mayor	January, 2016
William Kreis	Council Member and Mayor Pro Tem	January, 2018
Terry Brecht	Council Member	January, 2015
Michael T. Curry	Council Member	January, 2015
Jennifer Olson	Council Member	January, 2018
Daniel Slaymaker	Council Member	January, 2018
<b>Appointed Officials</b>		
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**

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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 City'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 City'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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marengo as of June 30, 2014, and the respective changes in its cash basis financial position 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 and 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. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the cash basis financial statements for the eight years ended June 30, 2013 (which are not presented herein) and expressed unqualified opinions for the years ended June 30, 2008 through 2012. We expressed 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 and a qualified opinion for the lack of material entries that were not documented or supported for the year ended June 30, 2013.

The supplementary information included on pages 28 through 35 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 10 and 26 and 27 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.

To the Honorable Mayor and  
Members of the City Council  
City of Marengo, Iowa  
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**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2015 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*

HOGAN - HANSEN

Waterloo, Iowa  
June 18, 2015

## **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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities, other than transfers, decreased 36%, or approximately \$1,050,000 from the fiscal year 2013 to the fiscal year 2014. Net bond proceeds decreased approximately \$1,139,000.

Governmental activities disbursements increased 34%, or approximately \$559,000 in fiscal year 2014 from the fiscal year 2013. Expenditures increased approximately \$244,000 in Public Safety and \$431,000 in Public Works due to equipment acquired and project costs.

The City's total cash basis net position decreased approximately \$530,000 from June 30, 2013 to June 30, 2014. The cash basis net position of the governmental activities increased approximately \$474,000 while the cash basis net position of the business-type activities decreased by approximately \$56,000.

### **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 decreased from \$2,640,744 a year ago to \$2,166,826. 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>2014</u>	<u>2013</u>
Receipts		
Program Receipts		
Charges for service	\$ 183,264	\$ 165,387
Operating grants, contributions and restricted interest	337,230	285,427
General Receipts		
Property tax	938,173	919,660
Local option sales tax	358,946	354,820
Proceeds from corporate and refunding bonds, net	—	1,138,537
Miscellaneous unrestricted interest on investments and sale of assets	17,734	21,988
Total Receipts	<u>1,835,347</u>	<u>2,885,819</u>
Disbursements		
Public safety	566,483	322,332
Public works	770,354	339,754
Health and social services	23,046	66,631
Culture and recreation	234,589	230,055
Community and economic development	736	1,950
General government	119,980	172,452
Debt service	494,750	419,530
Capital projects	11,027	109,480
Total Disbursements	<u>2,220,965</u>	<u>1,662,184</u>
Change in Cash Basis Net Position Before Transfers	(385,618)	1,223,635
Transfers, net	(88,300)	1,519
Change in Cash Basis Net Position	(473,918)	1,225,154
Cash Basis Net Position - Beginning of Year	<u>2,640,744</u>	<u>1,415,590</u>
<b>Cash Basis Net Position - End of Year</b>	<b><u>\$ 2,166,826</u></b>	<b><u>\$ 2,640,744</u></b>

The City's total receipts for governmental activities decreased by 36%, or \$1,050,472, due to proceeds from corporate and refunding bonds issued in the prior year.

The total cost of all programs and services increased by \$558,781, or 34%, due to equipment purchased in the current year from prior year bond proceeds.

### Changes in Cash Basis Net Position of Business-Type Activities

	<b>Years Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 603,508	\$ 594,566
Sanitary Sewer	274,094	281,920
Storm Sewer	19,210	19,141
Federal sources	2,479	—
Interest	364	199
Total Receipts	<u>899,655</u>	<u>895,826</u>
Disbursements		
Water	584,326	669,094
Sanitary Sewer	451,409	278,398
Storm Sewer	8,674	9,975
Total Disbursements	<u>1,044,409</u>	<u>957,467</u>
Change in Cash Basis Net Position Before Transfers	(144,754)	(61,641)
Transfers, net	88,300	(1,519)
Change in Cash Basis Net Position	(56,454)	(63,160)
Cash Basis Net Position - Beginning of Year	271,097	334,257
<b>Cash Basis Net Position - End of Year</b>	<b><u>\$ 214,643</u></b>	<b><u>\$ 271,097</u></b>

Total business-type activities receipts for the fiscal year were \$899,655 compared to \$895,826 last year. Total disbursements for the fiscal year increased by 9%, or \$86,942.

The cash balance decreased by \$56,454, or 21%, from the prior year, mainly due to expenditures on sanitary sewer capital projects.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

The City of Marengo's governmental funds reported a combined cash balance of \$2,166,826, a decrease of \$473,918 from last year's total of \$2,640,744.

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 \$42,082 from the prior year to \$439,457 due to higher operating expenses.

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 \$58,598 to \$177,444. This increase is due to receipts and transfers (from prior year bond proceeds) exceeding disbursements in the current year.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$287,181 over the prior year due to transfers used for paying a larger portion of debt payments from local option sales tax, instead of using tax increment financing for repayment in the current year.

The Special Revenue, Tax Increment Financing Fund cash balance decreased \$17,801 to \$26,968 during the fiscal year. This decrease is due to using these funds for debt payments.

The Debt Service Fund cash balance decreased \$292,571 due to payment of principal and interest.

## **INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

The Water Utility cash balance increased by \$19,246 to \$138,779.

The Sanitary Sewer System cash balance decreased by \$86,477 to (\$15,478) due to capital project expenses that will be reimbursed by grants in the next year.

Component Unit - The City has one component unit, Marengo Memorial Hospital (Hospital). The Hospital issues a separate financial report which may be viewed online through the Iowa Auditor of State or by contacting the Chief Executive Officer, Marengo Memorial Hospital, 300 West 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 Safety, Public Works, Health and Social Services, Debt Service and Business-Type Activities. The City will monitor to make sure budgeted amounts are not exceeded.

## **DEBT ADMINISTRATION**

As of June 30, 2014, the City had \$3,585,000 in general obligation debt and \$1,866,000 in water revenue debt for total debt outstanding of \$5,451,000.

Debt decreased slightly due to normal debt payments.

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 \$2,828,757 is below its constitutional debt limit of \$4,769,054.

## **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 2015 budget, tax rates and fees that will be charged for various City activities.

The most significant project the City is still undertaking 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 addresses inflow and infiltration (I&I) issues that the City currently experiences in the sewer collection system. The total estimated cost of the project is \$2.6 million to \$2.8 million and will consist of three phases, with the second phase to begin in the spring of 2015. 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 was awarded another \$600,000 for the third phase in fiscal year 2015. The City will complete the funding for the project by issuing a revenue bond. Sewer rates will be adjusted in fiscal year 2016 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.

The City of Marengo will also be adjusting the water rates in fiscal year 2016 to meet the requirements of the State Revolving Fund (S.R.F.) for the debt service coverage ratio.

## **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 East Main Street, Marengo, Iowa 52301.

## **Basic Financial Statements**

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**Statement of Activities and Net Position - Cash Basis**

As of and for the Year Ended June 30, 2014

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	
<b>Governmental Activities</b>							
Public safety .....	\$ 566,483	\$ 41,585	\$ 56,760	\$ (468,138)	\$ —	\$ (468,138)	\$ —
Public works .....	770,354	46,810	252,430	(471,114)	—	(471,114)	—
Health and social services .....	23,046	19,382	—	(3,664)	—	(3,664)	—
Culture and recreation .....	234,589	39,454	28,040	(167,095)	—	(167,095)	—
Community and economic development .....	736	—	—	(736)	—	(736)	—
General government .....	119,980	36,033	—	(83,947)	—	(83,947)	—
Debt service .....	494,750	—	—	(494,750)	—	(494,750)	—
Capital projects .....	11,027	—	—	(11,027)	—	(11,027)	—
<b>Total Governmental Activities .....</b>	<b>2,220,965</b>	<b>183,264</b>	<b>337,230</b>	<b>(1,700,471)</b>	<b>—</b>	<b>(1,700,471)</b>	<b>—</b>
<b>Business-Type Activities</b>							
Water .....	584,326	603,508	—	—	19,182	19,182	—
Sanitary sewer .....	451,409	274,094	2,479	—	(174,836)	(174,836)	—
Storm sewer .....	8,674	19,210	—	—	10,536	10,536	—
<b>Total Business-Type Activities .....</b>	<b>1,044,409</b>	<b>896,812</b>	<b>2,479</b>	<b>—</b>	<b>(145,118)</b>	<b>(145,118)</b>	<b>—</b>
<b>Total Primary Government .....</b>	<b>\$ 3,265,374</b>	<b>\$ 1,080,076</b>	<b>\$ 339,709</b>	<b>\$ (1,700,471)</b>	<b>\$ (145,118)</b>	<b>\$ (1,845,589)</b>	<b>\$ —</b>
<b>Component Unit - Memorial Hospital .....</b>	<b>\$ 19,120,158</b>	<b>\$ 17,530,454</b>	<b>\$ 223,441</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (1,366,263)</b>
<b>General Receipts and Transfers</b>							
Property Tax Levied for							
General purposes .....				\$ 650,356	\$ —	\$ 650,356	\$ —
Debt service .....				122,225	—	122,225	—
Tax increment financing .....				165,592	—	165,592	—
Local option sales tax .....				358,946	—	358,946	—
Unrestricted interest on investments .....				7,911	364	8,275	—
Miscellaneous .....				8,821	—	8,821	—
Sale of capital assets .....				1,002	—	1,002	42,500
Proceeds from bonds .....				—	—	—	834,003
Transfers .....				(88,300)	88,300	—	—
<b>Total General Receipts and Transfers .....</b>				<b>1,226,553</b>	<b>88,664</b>	<b>1,315,217</b>	<b>876,503</b>
<b>Change in Cash Basis Net Position .....</b>				<b>(473,918)</b>	<b>(56,454)</b>	<b>(530,372)</b>	<b>(489,760)</b>
Cash Basis Net Position - Beginning of Year .....				2,640,744	271,097	2,911,841	4,599,076
<b>Cash Basis Net Position - End of Year .....</b>				<b>\$ 2,166,826</b>	<b>\$ 214,643</b>	<b>\$ 2,381,469</b>	<b>\$ 4,109,316</b>
<b>Cash Basis Net Position</b>							
Restricted							
Nonexpendable .....				\$ 67,189	\$ —	\$ 67,189	\$ —
Expendable							
Debt service .....				908,096	—	908,096	713,731
Local option tax .....				516,324	—	516,324	—
Urban renewal purposes .....				26,968	—	26,968	—
Streets .....				177,444	—	177,444	—
Other purposes .....				180,928	49,252	230,180	—
Unrestricted .....				289,877	165,391	455,268	3,395,585
<b>Total Cash Basis Net Position .....</b>				<b>\$ 2,166,826</b>	<b>\$ 214,643</b>	<b>\$ 2,381,469</b>	<b>\$ 4,109,316</b>

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, 2014

	General	Major			Debt Service	Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Tax	Tax Increment Financing			
<b>Receipts</b>							
Property tax.....	\$ 500,487	\$ —	\$ —	\$ —	\$ 122,225	\$ 149,869	\$ 772,581
Tax increment financing .....	—	—	—	165,592	—	—	165,592
Other city tax .....	—	—	358,946	—	—	—	358,946
Licenses and permits.....	36,033	—	—	—	—	—	36,033
Use of money and property .....	2,333	238	1,356	10	3,002	977	7,916
Intergovernmental .....	83,763	252,430	—	—	—	—	336,193
Charges for service .....	126,790	—	—	—	—	900	127,690
Miscellaneous.....	19,774	815	8,805	—	—	—	29,394
<b>Total Receipts .....</b>	<b>769,180</b>	<b>253,483</b>	<b>369,107</b>	<b>165,602</b>	<b>125,227</b>	<b>151,746</b>	<b>1,834,345</b>
<b>Disbursements</b>							
Public safety .....	566,483	—	—	—	—	—	566,483
Public works .....	52,448	416,538	301,368	—	—	—	770,354
Health and social services.....	23,046	—	—	—	—	—	23,046
Culture and recreation.....	234,589	—	—	—	—	—	234,589
Community and economic development.....	736	—	—	—	—	—	736
General government.....	118,980	—	—	—	1,000	—	119,980
Debt service .....	—	—	—	—	494,750	—	494,750
Capital projects.....	—	—	—	—	—	11,027	11,027
<b>Total Disbursements .....</b>	<b>996,282</b>	<b>416,538</b>	<b>301,368</b>	<b>—</b>	<b>495,750</b>	<b>11,027</b>	<b>2,220,965</b>
<b>Receipts Over (Under) Disbursements .....</b>	<b>(227,102)</b>	<b>(163,055)</b>	<b>67,739</b>	<b>165,602</b>	<b>(370,523)</b>	<b>140,719</b>	<b>(386,620)</b>
<b>Other Financing Sources (Uses)</b>							
Sale of capital assets.....	1,002	—	—	—	—	—	1,002
Transfers in .....	268,182	221,653	22,400	—	425,852	46,571	984,658
Transfers out .....	—	—	(377,320)	(183,403)	(347,900)	(164,335)	(1,072,958)
<b>Total Other Financing Sources (Uses).....</b>	<b>269,184</b>	<b>221,653</b>	<b>(354,920)</b>	<b>(183,403)</b>	<b>77,952</b>	<b>(117,764)</b>	<b>(87,298)</b>
<b>Change in Cash Balances.....</b>	<b>42,082</b>	<b>58,598</b>	<b>(287,181)</b>	<b>(17,801)</b>	<b>(292,571)</b>	<b>22,955</b>	<b>(473,918)</b>
Cash Balances - Beginning of Year .....	397,375	118,846	803,505	44,769	1,200,667	75,582	2,640,744
<b>Cash Balances - End of Year .....</b>	<b>\$ 439,457</b>	<b>\$ 177,444</b>	<b>\$ 516,324</b>	<b>\$ 26,968</b>	<b>\$ 908,096</b>	<b>\$ 98,537</b>	<b>\$ 2,166,826</b>
<b>Cash Basis Fund Balances</b>							
Nonspendable .....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 67,189	\$ 67,189
Restricted for							
Debt service .....	—	—	—	—	908,096	—	908,096
Local option tax .....	—	—	516,324	—	—	—	516,324
Urban renewal purposes.....	—	—	—	26,968	—	—	26,968
Streets.....	—	177,444	—	—	—	—	177,444
Other purposes.....	141,427	—	—	—	—	39,501	180,928
Assigned for other purposes.....	59,513	—	—	—	—	—	59,513
Unassigned .....	238,517	—	—	—	—	(8,153)	230,364
<b>Total Cash Basis Fund Balances .....</b>	<b>\$ 439,457</b>	<b>\$ 177,444</b>	<b>\$ 516,324</b>	<b>\$ 26,968</b>	<b>\$ 908,096</b>	<b>\$ 98,537</b>	<b>\$ 2,166,826</b>

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, 2014

	<b>Major</b>		<b>Nonmajor</b>	
	<b>Water</b>	<b>Sanitary Sewer</b>	<b>Storm Sewer</b>	<b>Total</b>
<b>Operating Receipts</b>				
Charges for service .....	\$ 593,441	\$ 274,094	\$ 19,210	\$ 886,745
Miscellaneous.....	10,069	—	—	10,069
<b>Total Operating Receipts</b> .....	<b>603,510</b>	<b>274,094</b>	<b>19,210</b>	<b>896,814</b>
<b>Operating Disbursements</b>				
Business-type activities .....	<b>315,116</b>	<b>287,515</b>	<b>8,576</b>	<b>611,207</b>
<b>Operating Receipts Over (Under)</b>				
<b>Operating Disbursements</b> .....	<b>288,394</b>	<b>(13,421)</b>	<b>10,634</b>	<b>285,607</b>
<b>Nonoperating Receipts (Disbursements)</b>				
Interest on investments .....	62	157	143	362
Federal sources.....	—	2,479	—	2,479
Capital outlay.....	—	(163,894)	(98)	(163,992)
Debt service .....	(269,210)	—	—	(269,210)
<b>Net Nonoperating Receipts (Disbursements)</b> .....	<b>(269,148)</b>	<b>(161,258)</b>	<b>45</b>	<b>(430,361)</b>
<b>Receipts Over (Under) Disbursements</b>	<b>19,246</b>	<b>(174,679)</b>	<b>10,679</b>	<b>(144,754)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in .....	—	88,202	98	88,300
<b>Change in Cash Balances</b> .....	<b>19,246</b>	<b>(86,477)</b>	<b>10,777</b>	<b>(56,454)</b>
Cash Balances - Beginning of Year .....	119,533	70,999	80,565	271,097
<b>Cash Balances - End of Year</b> .....	<b>\$ 138,779</b>	<b>\$ (15,478)</b>	<b>\$ 91,342</b>	<b>\$ 214,643</b>
<b>Cash Basis Fund Balances</b>				
Restricted for				
Customer deposits .....	\$ 49,252	\$ —	\$ —	\$ 49,252
Unrestricted.....	89,527	(15,478)	91,342	165,391
<b>Total Cash Basis Fund Balances</b> .....	<b>\$ 138,779</b>	<b>\$ (15,478)</b>	<b>\$ 91,342</b>	<b>\$ 214,643</b>

See accompanying notes to the financial statements.

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

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As of and for the Year Ended June 30, 2014

	<b>Marengo Picnic in the Park, Inc.</b>
<b>Receipts</b> .....	<b>\$ 10,595</b>
<b>Disbursements</b> .....	<b><u>11,277</u></b>
<b>Change in Cash Balance</b> .....	<b>(682)</b>
Cash Balance - Beginning of Year .....	<b><u>36,736</u></b>
<b>Cash Balance - End of Year</b> .....	<b><u>\$ 36,054</u></b>

## Notes to the Financial Statements

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### **(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, 2014, the City recognized cash receipts of \$532, composed of property tax collected for the Hospital and remitted \$0 to the Hospital. As of June 30, 2014, the City held \$532 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 2014 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 2014 are not material.

# Notes to the Financial Statements

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## (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

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## (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

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### (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, 2014, disbursements exceeded amounts budgeted in the Public Safety, Public Works, Health and Social Services and Debt Service functions.

### (2) Cash and Investments

The City's deposits in banks as of June 30, 2014 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
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 .....	310,000	43,930	236,000	29,760	546,000	73,690
2020-24	1,130,000	118,650	756,000	45,840	1,886,000	164,490
2025 .....	130,000	5,200	—	—	130,000	5,200
	<b><u>\$ 3,585,000</u></b>	<b><u>\$ 436,508</u></b>	<b><u>\$ 1,866,000</u></b>	<b><u>\$ 261,240</u></b>	<b><u>\$ 5,451,000</u></b>	<b><u>\$ 697,748</u></b>

#### 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.

In accordance with the terms of the refunding trust agreement, trust assets will also be used to pay interest on the refunding bonds through June 1, 2015. Interest paid from the refunding trust totaled \$16,500 for the year ended June 30, 2014.

### (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 \$2,127,240. For the current year, principal, interest and fees paid and total customer net receipts were \$202,000 and \$297,030, 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 monthly transfers not being made timely (see page 45 item 14-II-H), the City was in compliance with these requirements as of June 30, 2014.

#### 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 \$700,000 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.

## Notes to the Financial Statements

### (3) Long-Term Debt

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

The Hospital has a capital lease obligation with monthly payments of \$3,411, including interest at 5.71%, through 2016 collateralized by leased equipment with a cost of \$121,073.

The Hospital entered into a multiple advance loan with Bankers Trust Company not to exceed \$1,400,000 at 4.5% interest. The multiple advance loan is due January 31, 2015 and the Hospital has made only monthly interest payments. Proceeds from the loan are to be used for costs related to the Hospital's computer system conversion.

The Hospital has a capital lease obligation with monthly payments of \$22,830, including interest at 3.02%, through September, 2016 collateralized by leased equipment with a cost of \$784,812.

A summary of the Hospital's future principal and interest payments as of June 30, 2014 is as follows:

Year Ending June 30,	Notes and Bonds		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015 .....	\$ 1,534,003	\$ 189,393	\$ 299,732	\$ 247,357	\$ 1,833,735	\$ 436,750
2016 .....	715,000	155,272	310,520	5,195	1,025,520	160,467
2017 .....	730,000	141,687	45,488	172	775,488	141,859
2018 .....	745,000	125,262	—	—	745,000	125,262
2019 .....	760,000	106,637	—	—	760,000	106,637
2020-22	2,445,000	177,659	—	—	2,445,000	177,659
	<u>\$ 6,929,003</u>	<u>\$ 895,910</u>	<u>\$ 655,740</u>	<u>\$ 252,724</u>	<u>\$ 7,584,743</u>	<u>\$ 1,148,634</u>

A summary of changes in debt for the year ended June 30, 2014 follows:

	June 30, 2013	Borrowings	Payments	June 30, 2014	Due Within One Year
Series 2012 .....	\$ 6,790,000	\$ —	\$ 695,000	\$ 6,095,000	\$ 700,000
Note payable .....	—	834,003	—	834,003	834,003
Capital lease obligations	—	905,885	250,145	655,740	299,732
	<u>\$ 6,790,000</u>	<u>\$ 1,739,888</u>	<u>\$ 945,145</u>	<u>\$ 7,584,743</u>	<u>\$ 1,833,735</u>

## Notes to the Financial Statements

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### **(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014, 2013 and 2012 were \$47,533, \$47,917 and \$45,115, respectively, equal to the required contributions for each year.

### **(5) Compensated Absences**

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

### **(6) Other Postemployment Benefits (OPEB)**

#### **Plan Description**

The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 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 \$534 for single coverage and \$1,534 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2014, the City contributed \$140,623 and plan members eligible for benefits contributed \$5,400 to the plan.

## Notes to the Financial Statements

### (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue	
	Employee Benefits	\$ 130,682
	Debt Service	<u>137,500</u>
		<u>268,182</u>
Special Revenue	Special Revenue	
Road Use	Employee Benefits	33,653
	Debt Service	<u>188,000</u>
		<u>221,653</u>
Local Option Tax	Debt Service	<u>22,400</u>
Debt Service	Special Revenue	
	Local Option Tax	242,449
	Tax Increment Financing	<u>183,403</u>
		<u>425,852</u>
Capital Projects	Capital Projects	
2012 Utility Extension	Local Option Tax	<u>43,697</u>
Capital Projects	Capital Projects	
Lafayette Avenue	Local Option Tax	<u>2,874</u>
Improvements		
Enterprise	Capital Projects	
Sewer Rental	Local Option Tax	<u>88,202</u>
Enterprise	Capital Projects	
Storm Sewer	Local Option Tax	<u>98</u>
<b>Total</b>		<b><u>\$ 1,072,958</u></b>

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

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### **(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$17,187 during the year ended June 30, 2014.

### **(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 \$2.6 to \$2.8 million. The City has received three 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 entered into contracts for Sewer Rehab - Phase I of approximately \$1,134,000 and for Sewer Rehab - Phase II of approximately \$120,000 as of June 30, 2014. The remaining commitments on these contracts were approximately \$1,029,000 and will be paid as the work on the projects progresses.

### **(11) Deficit Balance**

The Capital Projects Fund, Lafayette Avenue Improvements had a deficit balance of \$8,153 as of June 30, 2014. The Sewer Enterprise Funds, Sewer Rehab - Phase I and Sewer Rehab - Phase II had deficit balances of \$138,195 and \$23,910, respectively. The deficit balances were a result of project costs incurred prior to availability of funds. The deficits 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 18, 2015, the date which the financial statements were available to be issued.

The City accepted a bid for approximately \$110,000 for work on the Lafayette Avenue Storm Sewer Project in August, 2014.

The City accepted a bid in November, 2014 for approximately \$1,066,000 related to Phase II of the Sanitary Sewer Rehabilitation Project. The City received a \$600,000 Community Development Block Grant for Phase III of the Sanitary Sewer Rehabilitation Project (Sewer Rehab) in the Spring of 2015.

### **(12) Subsequent Events**

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. An architect for the project was approved in December, 2014.

Subsequent to June 30, 2014 the Board of Trustees of Marengo Memorial Hospital approved an application for financing through the United States Department of Agriculture (USDA) to finance an expansion and renovation project for the Hospital. The project consists of an expansion of approximately 20,000 square feet and renovation of approximately 34,000 square feet of existing space. The estimated total cost of the project is approximately \$24,600,000 and would primarily be financed with the USDA financing.

### **(13) Prospective Accounting Change**

The Governmental Accounting Standard Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

**Other Information** 

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## 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, 2014

	Govern- mental Funds - Actual	Propri- etary Funds - Actual	Net	Original and Final Budget	Over (Under) Budget
<b>Receipts</b>					
Property tax .....	\$ 772,581	\$ —	\$ 772,581	\$ 745,135	\$ 27,446
Tax increment financing .....	165,592	—	165,592	170,000	(4,408)
Other city tax .....	358,946	—	358,946	357,330	1,616
Licenses and permits .....	36,033	—	36,033	1,500	34,533
Use of money and property .....	7,916	362	8,278	10,000	(1,722)
Intergovernmental .....	336,193	2,479	338,672	270,000	68,672
Charges for service .....	127,690	886,745	1,014,435	987,000	27,435
Miscellaneous .....	29,394	10,069	39,463	15,000	24,463
<b>Total Receipts .....</b>	<b><u>1,834,345</u></b>	<b><u>899,655</u></b>	<b><u>2,734,000</u></b>	<b><u>2,555,965</u></b>	<b><u>178,035</u></b>
<b>Disbursements</b>					
Public safety .....	566,483	—	566,483	346,500	219,983
Public works .....	770,354	—	770,354	284,250	486,104
Health and social services .....	23,046	—	23,046	13,000	10,046
Culture and recreation .....	234,589	—	234,589	257,300	(22,711)
Community and economic development .....	736	—	736	6,528	(5,792)
General government .....	119,980	—	119,980	155,300	(35,320)
Debt service .....	494,750	—	494,750	480,000	14,750
Capital projects .....	11,027	—	11,027	165,000	(153,973)
Business-type activities .....	—	1,044,409	1,044,409	930,000	114,409
<b>Total Disbursements .....</b>	<b><u>2,220,965</u></b>	<b><u>1,044,409</u></b>	<b><u>3,265,374</u></b>	<b><u>2,637,878</u></b>	<b><u>627,496</u></b>
<b>Receipts Under Disbursements</b>	<b>(386,620)</b>	<b>(144,754)</b>	<b>(531,374)</b>	<b>(81,913)</b>	<b>(449,461)</b>
<b>Other Financing Sources (Uses), Net .....</b>	<b><u>(87,298)</u></b>	<b><u>88,300</u></b>	<b><u>1,002</u></b>	<b><u>—</u></b>	<b><u>1,002</u></b>
<b>Receipts and Other Financing Sources Under Disbursements and Other Financing Uses .....</b>	<b>(473,918)</b>	<b>(56,454)</b>	<b>(530,372)</b>	<b>(81,913)</b>	<b>(448,459)</b>
Balances - Beginning of Year .....	<u>2,640,744</u>	<u>271,097</u>	<u>2,911,841</u>	<u>1,309,924</u>	<u>1,601,917</u>
<b>Balances - End of Year .....</b>	<b><u>\$ 2,166,826</u></b>	<b><u>\$ 214,643</u></b>	<b><u>\$ 2,381,469</u></b>	<b><u>\$ 1,228,011</u></b>	<b><u>\$ 1,153,458</u></b>

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

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Year Ended June 30, 2014

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, 2014, disbursements exceeded amounts budgeted in the Public Safety, Public Works, Health and Social Services, Debt Service and Business-Type Activities functions.

**Supplementary Information**

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

As of and for the Year Ended June 30, 2014

	General	Insurance	Police Reserve	Library Miscellaneous	Capital Reserve	Memorial Building	Pool Renovations	Total
<b>Receipts</b>								
Property tax.....	\$ 443,074	\$ 56,882	\$ —	\$ —	\$ —	\$ 531	\$ —	\$ 500,487
Licenses and permits.....	36,033	—	—	—	—	—	—	36,033
Use of money and property .....	348	—	—	1,974	—	1	10	2,333
Intergovernmental .....	83,763	—	—	—	—	—	—	83,763
Charges for service .....	126,790	—	—	—	—	—	—	126,790
Miscellaneous.....	18,739	—	—	885	—	—	150	19,774
<b>Total Receipts .....</b>	<b><u>708,747</u></b>	<b><u>56,882</u></b>	<b><u>—</u></b>	<b><u>2,859</u></b>	<b><u>—</u></b>	<b><u>532</u></b>	<b><u>160</u></b>	<b><u>769,180</u></b>
<b>Disbursements</b>								
Public safety.....	566,483	—	—	—	—	—	—	566,483
Public works .....	52,448	—	—	—	—	—	—	52,448
Health and social services.....	23,046	—	—	—	—	—	—	23,046
Culture and recreation .....	232,135	—	—	2,304	—	—	150	234,589
General government.....	49,036	69,944	—	—	—	—	—	118,980
Community and economic development.....	736	—	—	—	—	—	—	736
<b>Total Disbursements .....</b>	<b><u>923,884</u></b>	<b><u>69,944</u></b>	<b><u>—</u></b>	<b><u>2,304</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>150</u></b>	<b><u>996,282</u></b>
<b>Receipts Over (Under) Disbursements .....</b>	<b><u>(215,137)</u></b>	<b><u>(13,062)</u></b>	<b><u>—</u></b>	<b><u>555</u></b>	<b><u>—</u></b>	<b><u>532</u></b>	<b><u>10</u></b>	<b><u>(227,102)</u></b>
<b>Other Financing Sources (Uses)</b>								
Sale of capital assets.....	1,002	—	—	—	—	—	—	1,002
Transfers in .....	268,182	—	—	—	—	—	—	268,182
Intrafund transfers (net) .....	36,301	36,465	—	—	(72,766)	—	—	—
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>305,485</u></b>	<b><u>36,465</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>(72,766)</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>269,184</u></b>
<b>Change in Cash Balances .....</b>	<b>90,348</b>	<b>23,403</b>	<b>—</b>	<b>555</b>	<b>(72,766)</b>	<b>532</b>	<b>10</b>	<b>42,082</b>
Cash Balances - Beginning of Year .....	133,260	(23,403)	793	156,077	125,436	—	5,212	397,375
<b>Cash Balances - End of Year .....</b>	<b><u>\$ 223,608</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 793</u></b>	<b><u>\$ 156,632</u></b>	<b><u>\$ 52,670</u></b>	<b><u>\$ 532</u></b>	<b><u>\$ 5,222</u></b>	<b><u>\$ 439,457</u></b>
<b>Cash Basis Fund Balances</b>								
Restricted								
Other purposes.....	\$ —	\$ —	\$ —	\$ 135,673	\$ —	\$ 532	\$ 5,222	\$ 141,427
Assigned for other purposes.....	—	—	793	6,050	52,670	—	—	59,513
Unassigned .....	223,608	—	—	14,909	—	—	—	238,517
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 223,608</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 793</u></b>	<b><u>\$ 156,632</u></b>	<b><u>\$ 52,670</u></b>	<b><u>\$ 532</u></b>	<b><u>\$ 5,222</u></b>	<b><u>\$ 439,457</u></b>

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

As of and for the Year Ended June 30, 2014

	<u>Special Revenue</u>	<u>Capital Projects</u>		<u>Permanent</u>	<u>Total</u>
	<u>Employee Benefits</u>	<u>2012 Utility Extension</u>	<u>Lafayette Avenue Improvements</u>	<u>Cemetery Trust</u>	
<b>Receipts</b>					
Property tax .....	\$ 149,869	\$ —	\$ —	\$ —	\$ 149,869
Use of money and property .....	81	—	—	896	977
Charges for service .....	—	—	—	900	900
<b>Total Receipts .....</b>	<b><u>149,950</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>1,796</u></b>	<b><u>151,746</u></b>
<b>Disbursements</b>					
Capital projects.....	—	—	<u>11,027</u>	—	<u>11,027</u>
<b>Receipts Over (Under) Disbursements</b>	<b><u>149,950</u></b>	<b><u>—</u></b>	<b><u>(11,027)</u></b>	<b><u>1,796</u></b>	<b><u>140,719</u></b>
<b>Other Financing Sources (Uses)</b>					
Transfers in .....	—	43,697	2,874	—	46,571
Transfers out .....	(164,335)	—	—	—	(164,335)
<b>Total Other Financing Sources (Uses).....</b>	<b><u>(164,335)</u></b>	<b><u>43,697</u></b>	<b><u>2,874</u></b>	<b><u>—</u></b>	<b><u>(117,764)</u></b>
<b>Change in Cash Balances.....</b>	<b><u>(14,385)</u></b>	<b><u>43,697</u></b>	<b><u>(8,153)</u></b>	<b><u>1,796</u></b>	<b><u>22,955</u></b>
Cash Balances - Beginning of Year.....	<u>53,886</u>	<u>(43,697)</u>	<u>—</u>	<u>65,393</u>	<u>75,582</u>
<b>Cash Balances - End of Year.....</b>	<b><u>\$ 39,501</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (8,153)</u></b>	<b><u>\$ 67,189</u></b>	<b><u>\$ 98,537</u></b>
<b>Cash Basis Fund Balances</b>					
Nonspendable .....	\$ —	\$ —	\$ —	\$ 67,189	\$ 67,189
Restricted for other purposes .....	39,501	—	—	—	39,501
Unassigned .....	—	—	(8,153)	—	(8,153)
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 39,501</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (8,153)</u></b>	<b><u>\$ 67,189</u></b>	<b><u>\$ 98,537</u></b>

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

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As of and for the Year Ended June 30, 2014

	Water	Water Bond Sinking	Water Deposits	Water Revolving	Total
<b>Operating Receipts</b>					
Charges for service .....	\$ 593,441	\$ —	\$ —	\$ —	\$ 593,441
Miscellaneous.....	<u>1,394</u>	<u>—</u>	<u>8,675</u>	<u>—</u>	<u>10,069</u>
<b>Total Operating Receipts .....</b>	<b><u>594,835</u></b>	<b><u>—</u></b>	<b><u>8,675</u></b>	<b><u>—</u></b>	<b><u>603,510</u></b>
<b>Operating Disbursements</b>					
Business-type activities .....	<u>308,626</u>	<u>—</u>	<u>6,490</u>	<u>—</u>	<u>315,116</u>
<b>Operating Receipts Over Operating Disbursements</b>	<b><u>286,209</u></b>	<b><u>—</u></b>	<b><u>2,185</u></b>	<b><u>—</u></b>	<b><u>288,394</u></b>
<b>Nonoperating Receipts (Disbursements)</b>					
Interest on investments.....	61	—	1	—	62
Debt service.....	<u>—</u>	<u>(269,210)</u>	<u>—</u>	<u>—</u>	<u>(269,210)</u>
<b>Net Nonoperating Receipts (Disbursements) .....</b>	<b><u>61</u></b>	<b><u>(269,210)</u></b>	<b><u>1</u></b>	<b><u>—</u></b>	<b><u>(269,148)</u></b>
<b>Receipts Over (Under) Disbursements .....</b>	<b>286,270</b>	<b>(269,210)</b>	<b>2,186</b>	<b>—</b>	<b>19,246</b>
<b>Other Financing Sources (Uses)</b>					
Intrafund transfers (net).....	<u>(183,824)</u>	<u>269,210</u>	<u>—</u>	<u>(85,386)</u>	<u>—</u>
<b>Change in Cash Balances ..</b>	<b>102,446</b>	<b>—</b>	<b>2,186</b>	<b>(85,386)</b>	<b>19,246</b>
Cash Balances - Beginning of Year .....	<u>(12,919)</u>	<u>—</u>	<u>47,066</u>	<u>85,386</u>	<u>119,533</u>
<b>Cash Balances - End of Year .....</b>	<b><u>\$ 89,527</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 49,252</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 138,779</u></b>
<b>Cash Basis Fund Balances</b>					
Restricted for					
Customer deposits .....	\$ —	\$ —	\$ 49,252	\$ —	\$ 49,252
Unrestricted.....	<u>89,527</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>89,527</u>
<b>Total Cash Basis Fund Balances .....</b>	<b><u>\$ 89,527</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 49,252</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 138,779</u></b>

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

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As of and for the Year Ended June 30, 2014

	Sewer Rental	Sewer Replace- ment	Sewer Revolving	Sewer Rehab - Phase I	Sewer Rehab - Phase II	Total
<b>Operating Receipts</b>						
Charges for service .....	<u>\$ 274,094</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 274,094</u>
<b>Operating Disbursements</b>						
Business-type activities .....	<u>287,515</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>287,515</u>
<b>Operating Receipts Under Operating Disbursements</b> .....	<u>(13,421)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(13,421)</u>
<b>Nonoperating Receipts (Disbursements)</b>						
Interest on investments .....	157	—	—	—	—	157
Federal sources .....	—	—	—	2,479	—	2,479
Capital projects .....	—	—	—	(139,984)	(23,910)	(163,894)
<b>Net Nonoperating Receipts (Disbursements)</b> .....	<u>157</u>	<u>—</u>	<u>—</u>	<u>(137,505)</u>	<u>(23,910)</u>	<u>(161,258)</u>
<b>Receipts Under Disbursements</b> .....	<u>(13,264)</u>	<u>—</u>	<u>—</u>	<u>(137,505)</u>	<u>(23,910)</u>	<u>(174,679)</u>
<b>Other Financing Sources</b>						
Transfers in .....	<u>88,202</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>88,202</u>
<b>Change in Cash Balances</b> .....	<u>74,938</u>	<u>—</u>	<u>—</u>	<u>(137,505)</u>	<u>(23,910)</u>	<u>(86,477)</u>
Cash Balances - Beginning of Year .....	<u>17,491</u>	<u>9,266</u>	<u>44,932</u>	<u>(690)</u>	<u>—</u>	<u>70,999</u>
<b>Cash Balances - End of Year</b> .....	<u>\$ 92,429</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ (138,195)</u>	<u>\$ (23,910)</u>	<u>\$ (15,478)</u>
<b>Cash Basis Fund Balances</b>						
Unrestricted .....	<u>\$ 92,429</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ (138,195)</u>	<u>\$ (23,910)</u>	<u>\$ (15,478)</u>

## Schedule of Indebtedness

Year Ended June 30, 2014

	Amount Originally Issued	Date of Issue	Interest Rates	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
<b>General Obligation Bonds</b>								
Corporate purpose.....	\$ 1,250,000	5-15-08	3.45%	\$ 900,000	\$ —	\$ 75,000	\$ 825,000	\$ 34,818
Corporate purpose and refunding.....	2,070,000	4-15-10	2.30 - 4.00	1,510,000	—	205,000	1,305,000	48,620
Corporate purpose and refunding.....	1,555,000	3-13-13	1.50 - 2.00	<u>1,555,000</u>	<u>—</u>	<u>100,000</u>	<u>1,455,000</u>	<u>31,312</u>
<b>Total General Obligation.....</b>				<b><u>\$ 3,965,000</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 380,000</u></b>	<b><u>\$ 3,585,000</u></b>	<b><u>\$ 114,750</u></b>
<b>Water Revenue Bonds .....</b>	\$ 3,200,000	6-1-07	3.00%	<b><u>\$ 2,068,000</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 202,000</u></b>	<b><u>\$ 1,866,000</u></b>	<b><u>\$ 62,040</u></b>

## Schedule of Bond and Note Maturities

As of June 30, 2014

<b>General Obligation Bonds</b>							
<b>Corporate Purpose and Refunding Issued 3-13-13</b>			<b>Corporate Purpose and Refunding Issued 4-15-10</b>		<b>Corporate Purpose Issued 5-15-08</b>		
	<b>Interest Rates</b>	<b>Amount</b>	<b>Interest Rates</b>	<b>Amount</b>	<b>Interest Rates</b>	<b>Amount</b>	<b>Total</b>
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
<b>Total</b>		<b><u>\$ 1,455,000</u></b>		<b><u>\$ 1,305,000</u></b>		<b><u>\$ 825,000</u></b>	<b><u>\$ 3,585,000</u></b>
<b>Revenue Bonds</b>							
<b>Water Revenue</b>							
<b>Issued 6-1-07</b>							
	<b>Interest Rates</b>	<b>Amount</b>					
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	<u>260,000</u>					
<b>Total</b>		<b><u>\$ 1,866,000</u></b>					

\* 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 2014

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Receipts</b>									
Property tax .....	\$ 772,581	\$ 746,058	\$ 728,694	\$ 710,258	\$ 716,162	\$ 743,470	\$ 695,512	\$ 704,943	\$ 688,920
Tax increment financing .....	165,592	173,602	173,171	170,615	189,854	170,743	197,031	203,582	157,925
Other city tax .....	358,946	354,820	366,526	334,739	284,167	307,806	295,825	303,514	251,704
Licenses and permits.....	36,033	8,939	9,093	9,369	10,382	10,350	5,624	3,674	3,997
Use of money and property .....	7,916	12,350	10,659	12,598	10,182	16,506	23,131	41,626	31,155
Intergovernmental .....	336,193	281,958	290,369	340,453	279,566	543,660	307,431	641,212	268,078
Charges for service .....	127,690	137,301	147,803	143,658	126,824	120,084	125,221	107,170	91,580
Miscellaneous.....	<u>29,394</u>	<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>
<b>Total Receipts.....</b>	<b><u>\$ 1,834,345</u></b>	<b><u>\$ 1,741,279</u></b>	<b><u>\$ 1,771,807</u></b>	<b><u>\$ 1,776,932</u></b>	<b><u>\$ 1,795,061</u></b>	<b><u>\$ 2,202,470</u></b>	<b><u>\$ 1,751,419</u></b>	<b><u>\$ 2,712,645</u></b>	<b><u>\$ 1,699,744</u></b>
<b>Disbursements</b>									
Operating									
Public safety.....	\$ 566,483	\$ 322,332	\$ 331,815	\$ 294,270	\$ 306,174	\$ 310,702	\$ 445,906	\$ 320,710	\$ 321,519
Public works.....	770,354	339,754	270,497	288,020	272,971	304,143	354,275	271,406	345,537
Health and social services.....	23,046	66,631	60,750	55,905	53,378	74,817	68,617	58,982	79,072
Culture and recreation.....	234,589	230,055	237,503	231,105	251,003	240,267	306,399	220,982	258,648
Community and economic development.....	736	1,950	9,191	15,456	106,472	10,064	2,302	—	—
General government .....	119,980	172,452	178,933	163,059	149,795	147,180	155,447	157,281	143,827
Debt service .....	494,750	419,530	423,280	443,744	1,244,142	478,930	361,598	308,371	547,815
Capital projects.....	<u>11,027</u>	<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>
<b>Total Disbursements.....</b>	<b><u>\$ 2,220,965</u></b>	<b><u>\$ 1,662,184</u></b>	<b><u>\$ 1,568,190</u></b>	<b><u>\$ 2,748,522</u></b>	<b><u>\$ 2,951,924</u></b>	<b><u>\$ 2,843,237</u></b>	<b><u>\$ 2,498,676</u></b>	<b><u>\$ 3,134,450</u></b>	<b><u>\$ 2,726,327</u></b>

## Schedule of Insurance

Year Ended June 30, 2014

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket (including certified acts of terrorism)	4/1/14 - 4/1/15	\$ 6,851,605
Liability		
Products/completed operations	4/1/14 - 4/1/15	5,000,000
General aggregate	4/1/14 - 4/1/15	5,000,000
Personal/advertising injury	4/1/14 - 4/1/15	1,000,000
Each occurrence	4/1/14 - 4/1/15	1,000,000
Damage to premises	4/1/14 - 4/1/15	100,000
Medical expense	4/1/14 - 4/1/15	5,000
Employment practices (occurrence and aggregate deductible \$2,500 per claim)	4/1/14 - 4/1/15	1,000,000
Crime		
Public employee dishonesty	4/1/14 - 4/1/15	1,000,000
Inland Marine		
Contractors equipment	4/1/14 - 4/1/15	497,468
Scheduled property floater (miscellaneous)	4/1/14 - 4/1/15	100,000
Automobile		
Liability	4/1/14 - 4/1/15	1,000,000
Uninsured	4/1/14 - 4/1/15	50,000
Underinsured	4/1/14 - 4/1/15	50,000
Physical damage	4/1/14 - 4/1/15	Loss less deductible
Comprehensive	4/1/14 - 4/1/15	Loss less deductible
Collision	4/1/14 - 4/1/15	Loss less deductible
Medical	4/1/14 - 4/1/15	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/14 - 4/1/15	500,000
Bodily injury by disease/employee	4/1/14 - 4/1/15	500,000
Bodily injury by disease/limit	4/1/14 - 4/1/15	500,000
Umbrella		
Occurrence	4/1/14 - 4/1/15	2,000,000
Aggregate	4/1/14 - 4/1/15	2,000,000
Products completed aggregated	4/1/14 - 4/1/15	2,000,000
Bodily injury by disease aggregate	4/1/14 - 4/1/15	2,000,000
Public Official Error and Omissions		
Occurrence	4/1/14 - 4/1/15	1,000,000
Aggregate	4/1/14 - 4/1/15	5,000,000
Insured's deductible per loss	4/1/14 - 4/1/15	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**

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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, 2014, 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 18, 2015. Our report expressed 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 14-I-R-1, 14-I-R-2, 14-I-R-3, 14-I-R-5, 14-I-R-6, 14-I-R-8, 14-I-R-10 and 14-I-R-13 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 14-I-R-4, 14-I-R-7, 14-I-R-9, 14-I-R-11 and 14-I-R-12 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, 2014 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 18, 2015

# Schedule of Findings

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## Part I: Findings Related to the Financial Statements

### 14-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. Additionally, we noted that journal entry documentation was not being maintained and that the journal entries were still not being reviewed. We also noted that while bank reconciliations were reviewed, the support from the City's financial records was not being reviewed. 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 a 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. We also recommend reviewing all supporting documentation for the bank reconciliation.

**Current Year Findings** - For most of the current year, the City's financial manager position was vacant, which caused financial transactions to not be posted timely and bank reconciliations were not completed prior to year end. While transactions have now been posted and bank reconciliations completed, these reconciliations and any adjusting journal entries, along with supporting documentation, have not been reviewed and approved by a second person within the Finance Department of the City.

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

**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 staffing and will make the appropriate changes.

**Auditor's Conclusion** - Response accepted.

### 14-I-R-2 Financial Reconciliations

**Current Year Findings** - The City was behind in completing bank reconciliations for fiscal year 2014 due to a software conversion problem in fiscal year 2013. We found that while the general ledger had been reconciled to the bank statements through June 30, 2014, they were not done timely and bank reconciliations after that date have not yet been done. We also noted that there was no documented reconciliation of utility payments received from customers between the software used to record utility billing and payments and the general ledger. Additionally, the City is not reconciling utility deposits from the utility billing software to the general ledger.

## Schedule of Findings

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**Auditor's Recommendation** - Procedures should be implemented to ensure that the general ledger and related application programs are being reconciled each month and that reconciliations are reviewed and approved. We also recommend implementing procedures for when the City Office is not fully staffed, by utilizing Council members or other temporary employees or consultants to make sure that financial records are kept current, with the appropriate oversight of transactions and reconciliations.

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

**Auditor's Conclusion** - Response accepted.

### 14-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.

### 14-I-R-4 Interfund Loans

**Prior Year Finding and Recommendation** - During our prior audits, 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.

## Schedule of Findings

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**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.

### 14-I-R-5 Computer Data File Backup

**Prior Year Finding and Recommendation** - 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. We recommend establishing procedures to have a backup copy of the City's computer data stored off-site to properly protect the files in case of a disaster. We additionally recommend the establishment of a disaster recovery plan.

**Current Year Finding** - We noted the same conditions exist.

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

**City's Response** - We will work with our software vendor to make the appropriate changes.

**Auditor's Conclusion** - Response accepted.

### 14-I-R-6 Approval and Documentation for Cash Disbursements

**Current Year Findings** - We noted the following items related to payment of expenses:

- Three checks were issued prior to approval by the City Council at a regular council meeting.
- One check tested only documented the review of the invoice and approval by one Council member instead of two as is required by City policy.
- One invoice to support the issuance of a check selected for testing could not be located.
- The software used to generate checks does not report checks voided due to printing errors.
- Detailed receipts for gas purchased with credit cards were not submitted to the finance department to be compared with the bill received.

**Auditor's Recommendation** - We recommend that the City review cash disbursements policies to ensure that the check approval process is properly followed and documented. Invoices should be filed, and support for all expenses charged to a City credit card should be obtained and kept with the billing statement. A process needs to be implemented to account for all checks, including accounting for the check number series by a member of management.

**City's Response** - We will review the check approval process to make sure we are complying with our procedures. We will also implement procedures to obtain itemized receipts for all expenses charged to City credit cards. We will review and establish procedures to account for all check numbers and make sure this includes a management review of the check number series.

## Schedule of Findings

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

**Auditor's Conclusion** - Response accepted.

### 14-I-R-7 Transfers

**Prior Year Finding and Recommendation** - 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. We recommend that the City review procedures to ensure all transfers are approved by the City Council.

**Current Year Findings** - We noted that the same conditions exist.

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

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

**Auditor's Conclusion** - Response accepted

### 14-I-R-8 Payroll Records

**Current Year Findings** - During our audit, we noted that the City did not timely submit three IPERS reports and the related payments. Additionally, some of the IPERS reports differed by small dollar amounts compared to the City's payroll reports. We also noted that the City's payroll files did not clearly document employee pay rate histories.

**Auditor's Recommendation** - The City should review procedures to ensure reports and payments are accurately and timely filed. Additionally, the City should implement procedures to clearly document employee pay rate histories in personnel files.

**City's Response** - The City will review procedures to make sure payroll reports are accurately and timely filed, and will review and determine how to best document pay rate records.

**Auditor's Conclusion** - Response accepted.

### 14-I-R-9 Hospital Levy

**Current Year Finding** - The Hospital informed the City that the levy was no longer need, and while the City stopped the levy, the last payment they received for the levy was not submitted to the Hospital.

**Auditor's Recommendation** - The City needs to make the final payment to the Hospital.

**City's Response** - The City will make the payment.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings

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### 14-I-R-10 Contract Revenue

**Current Year Finding** - The City provides fire protection services, under contracts, to local townships. The City does not have procedures in place to determine that all payments are received in accordance with the contracts. We noted there were no payments received from one contract during the year ended June 30, 2014.

**Auditor's Recommendation** - The City needs to establish procedures to make sure all amounts are billed and payments are received in a timely manner.

**City's Response** - The City will implement procedures to follow-up on contract payments not received.

**Auditor's Conclusion** - Response accepted.

### 14-I-R-11 Project Expenses

**Current Year Finding** - The City is using the same engineering firm for several construction projects. We noted in the current year that certain project expenses were recorded to the incorrect project within the general ledger.

**Auditor's Recommendation** - The City needs to carefully review all engineering payments to record the expense to the appropriate projects within the general ledger.

**City's Response** - The City will review procedures to make sure expenses are charged to the appropriate project.

**Auditor's Conclusion** - Response accepted.

### 14-I-R-12 Utility Bill Delinquency Procedures

**Current Year Finding** - While the City has a policy for establishing payment agreements and shutting off service for customers who do not pay their bill, there is no process for documentation of any approval of a variation from the policy. We noted one customer who was not following their written payment agreement whose service had not been shut off.

**Auditor's Recommendation** - The City needs to determine if and how any variations from the policy should be approved and documented.

**City's Response** - The City will review the policy and procedures to determine how the situation noted should be handled and make any required changes.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings

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### 14-I-R-13 Potential Missing Funds from the Library and Required Notification of Auditor of State

**Current Year Finding** - During our audit, City staff informed us that after the death of the library director in the fall of 2014, the staff person who was appointed to be the interim director discovered approximately \$1,400 of uncashed checks in the former director's office desk drawer. It was at that time that the City staff determined that no amount had been recorded to the general ledger for fines and fees collected during the year ended June 30, 2014. Historically, fines and fees collected have been between \$2,800 and \$3,800 per year. The City reported the matter to the Marengo Police Department which filed an incident report of a possible theft of funds. This matter would appear to be a direct result of the Segregation of Duties material weakness we reported as item 14-I-R-1. The receipts at the library were being received by one person without any secondary review or reconciliation of the cash received to written receipts which were supposed to have been issued to the library user paying the fines and fees. In addition, due to staffing issues within the Finance Department at City Hall, timely financial statements were not being prepared for management to be able to perform critical analysis of the revenue accounts which normally would have quickly identified that there was no cash being collected and deposited to the bank for fines and fees.

Chapter 11 of the Code of Iowa requires that the Office of Auditor of State be notified immediately regarding any suspected embezzlement, theft or other irregularities. The Office of Auditor of State was not contacted until this matter was brought to our attention during the spring of 2015.

**Auditor's Recommendation** - We recommend that procedures be reviewed and improved where necessary with respect to cash being collected at all sites within the City, including City Hall. Specifically, there should be dual controls and or proper segregation of duties over the cash collection, counting, reconciling to written receipts, depositing of the cash to the City bank accounts and posting to the general ledger. Further, City staff should take steps to ensure that they are aware of the various requirements of the Code of Iowa.

**City Response** - The individual appointed as the new library director is working on procedures to ensure that the collection and recording of cash is subject to dual controls or segregation of duties where possible. In addition, a new computer program has been implemented at the library to account for fines and fees collected. The new software program assists with reconciling the fine and fee receipts issued to the library users to the cash collected, and those reports are being provided to City Hall for posting to the general ledger and for reconciling to bank deposits.

City staff does have a good working knowledge of many of the requirements of the Code of Iowa as it relates to cities. The City has not had to address potential theft at any time in recent history and, therefore, was not aware of the immediate reporting requirement to the Office of Auditor of State.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings

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### Part II: Other Findings Related to Statutory Reporting

**14-II-A Certified Budget** - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in Public Safety, Public Works, Health and Social Services, Debt Service 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.

**14-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.

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

**14-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:

<b>Name, Title and Business Connection</b>	<b>Transaction Description</b>	<b>Amount</b>
Travis Schlabach, Fireman Owner of S & S Plumbing	Equipment rental, parts and repairs	\$ 5,146
Mark Swift, Fireman Owner of Brown's Hardware	Supplies	3,451
Denny Roberts, Fireman Owner of Computer Solutions	Computer repairs	2,669
Brian Miller Owner of Miller Excavating	Street, sewer and hydrant repairs	5,921

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

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

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

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings

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**14-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.

**14-II-F Council Minutes**

**Current Year Findings** - We were unable to locate the approval of one construction contract in the City Council minutes.

We noted that the minutes published for approximately two months did not include the list of claims. When the City discovered the error, it re-published the minutes with the list of claims.

**Auditor's Recommendation** - The City needs to comply with Chapter 21 of the Code of Iowa and include contract approval in the minutes and properly publish claims.

**City's Response** - The City will comply with Code and properly include contract approval and publish the claims.

**Auditor's Conclusion** - Response accepted.

**14-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.

**14-II-H Revenue Bonds and Notes** - The City did not meet audit completion deadline dates. Additionally, the City did not comply with the requirement of making the required monthly transfer to a sinking fund, but instead made an annual transfer.

**Auditor's Recommendation** - In order to meet the compliance terms of the debt resolution, the transfers to the Sinking Fund should be made monthly.

**City's Response** - The City will make monthly transfers.

**Auditor's Conclusion** - Response accepted.

**14-II-I Tax Increment Financing (T.I.F.) Certification** - During our prior year audit, we found that the City had worked on an annual reconciliation and made some adjustments, but that this still did not reconcile between City records and the outstanding certified T.I.F., as we had 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.

## Schedule of Findings

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**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.

**14-II-J Urban Renewal Annual Report** - We determined that the urban renewal annual report for the year ended June 30, 2013 was not properly approved and filed on or before December 1, 2013. We also found that the 2014 report was not filed by December 1, 2014.

**Auditor's Recommendation** - We recommend that the City implement procedures to ensure that annual reports are filed in a timely manner.

**City's Response** - We will get procedures in place to file this report timely.

**Auditor's Conclusion** - Response accepted.

**14-II-K Financial Condition** - The Capital Projects Fund, Lafayette Avenue Improvements had a deficit balance of \$8,153 as of June 30, 2014. Additionally, two Sewer Enterprise Funds, Sewer Rehab - Phase I and Sewer Rehab - Phase II, had deficit balances of \$138,195 and \$23,910, respectively.

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

**City's Response** - The deficits were due to construction costs incurred prior to transfers of funds.

**Auditor's Conclusion** - Response accepted.

**14-II-L Annual Financial Report** - We determined that the annual financial report for June 30, 2013, which was due December 1, 2013, was not approved nor filed by the due date as required by the Code of Iowa. The report was filed late because the City's financial records were out of balance due to a software conversion that did not include conversion reconciliations, and several errors were not identified in a timely manner and corrected by finance staff. We also found that the 2014 report was not filed by the December 1, 2014 due date either.

**Auditor's Recommendation** - We recommend that the City establish procedures to ensure financial reports are completed timely and reports are filed by the appropriate due date.

**City's Response** - We are working to make sure our financial information is timely recorded and will endeavor to file the reports timely in the future.

**Auditor's Conclusion** - Response accepted.