

CITY OF MARENGO, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2015

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Officials

Name	Title	Term Expires
Elected Officials		
(Through December 31, 2015)		
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
(Effective January 1, 2016)		
Mark Swift	Mayor	January, 2018
William Kreis	Council Member and Mayor Pro Tem	January, 2018
Greg Jergens	Council Member	January, 2020
Sue Peterson	Council Member	January, 2020
Jennifer Olson	Council Member	January, 2018
Daniel Slaymaker	Council Member	January, 2018
Appointed Officials		
Brent Nelson	Administrator/Clerk (resigned March, 2015)	Resigned
Mallory Meier	Utility Clerk and co-acting City Administrator (March, 2015 - December, 2015)	Indefinite
Lonnie Altenhofen	Public Works Director and co-acting City Administrator (March, 2015 - December, 2015)	Indefinite
Deven Markley	City Administrator (effective December, 2015)	Indefinite
Eric Tindal	Attorney	Indefinite
John Pilkington	Assistant Attorney	Indefinite
Galen Moser	Police Chief	Indefinite

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities (except as described below), each major fund and the aggregate remaining fund information of the City of Marengo, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the basic financial statements of the primary government, 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.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Adverse
Component Units	Adverse
Governmental Funds	
General Fund	Unmodified
Road Use Tax Fund	Unmodified
Local Option Tax Fund	Unmodified
Debt Service	Unmodified
Aggregate Remaining Fund Information	Unmodified
Enterprise Funds	
Water	Unmodified
Sewer	Unmodified
Marengo Memorial Hospital	Adverse
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinions

Business-Type Activities and Marengo Memorial Hospital Enterprise Fund

The City has excluded from its financial statements Marengo Memorial Hospital which is organized under Chapter 392 of the Code of Iowa and should be included as a business-type activity and an enterprise fund within these financial statements. The Hospital's accrual basis financial statements were audited by other auditors. The amount by which this departure from the cash basis of accounting affects cash, changes in cash balances, receipts and disbursement of the Business-Type Activities and the Enterprise Funds has not been determined.

Component Units

The financial statements referred to above do not include the cash balances and receipts and disbursements of the City's legally separate component units. The amount by which this departure from the cash basis of accounting affects cash, changes in cash balances, receipts and disbursement of the component units has not been determined.

Adverse Opinions

In our opinion, because of the significance of the matters described in the "Basis for Adverse Opinions, the financial statements referred to above do not present fairly the cash basis net position of the Business-Type Activities, Component Units or the cash basis fund balance of the Enterprise Funds of the City of Marengo as of June 30, 2015, or the changes in cash balances for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the Marengo Memorial Hospital Fund and the aggregate remaining fund information as of June 30, 2015 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.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the City adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management's discussion and analysis, the budgetary comparison information, the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 5 through 10 and 26 through 31 is required supplementary information. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marengo's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the cash basis financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unqualified opinions for the years ended June 30, 2008 through 2012 and 2014. 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 32 through 40, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17 2016 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
February 17, 2016

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, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities, other than transfers, increased 4%, or approximately \$70,000, from the fiscal year 2014 to the fiscal year 2015. Charges for service increased approximately \$64,000.

Governmental activities disbursements increased 11%, or approximately \$245,000, in fiscal year 2015 from the fiscal year 2014. Expenditures increased approximately \$737,000 in Debt Service due to redemption of the Series 2008 general obligation bonds.

The City's total cash basis net position decreased approximately \$1,306,000 from June 30, 2014 to June 30, 2015. The cash basis net position of the governmental activities decreased approximately \$561,000 and the cash basis net position of the business-type activities decreased by approximately \$745,000.

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, the City's share of the net pension liability and related contributions, as well as presenting the schedule of funding progress for the retiree health plan.

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.

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 \$2,166,826 a year ago to \$1,606,092. 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>2015</u>	<u>2014</u>
Receipts		
Program Receipts		
Charges for service	\$ 247,244	\$ 183,264
Operating grants, contributions and restricted interest	320,710	337,230
General Receipts		
Property tax	997,704	938,173
Local option sales tax	333,178	358,946
Miscellaneous unrestricted interest on investments and sale of assets	6,825	17,734
Total Receipts	<u>1,905,661</u>	<u>1,835,347</u>
Disbursements		
Public safety	382,903	566,483
Public works	304,461	770,354
Health and social services	25,154	23,046
Culture and recreation	327,621	234,589
Community and economic development	—	736
General government	185,482	119,980
Debt service	1,231,412	494,750
Capital projects	9,362	11,027
Total Disbursements	<u>2,466,395</u>	<u>2,220,965</u>
Change in Cash Basis Net Position Before Transfers	(560,734)	(385,618)
Transfers, net	—	(88,300)
Change in Cash Basis Net Position	(560,734)	(473,918)
Cash Basis Net Position - Beginning of Year	<u>2,166,826</u>	<u>2,640,744</u>
Cash Basis Net Position - End of Year	<u>\$ 1,606,092</u>	<u>\$ 2,166,826</u>

The City's total receipts for governmental activities increased by 4%, or \$70,314, due primarily to an increase in charges for service.

The total cost of all programs and services increased by \$245,430, or 11%, due to the retirement of 2008 Series Government Obligation Bonds partially offset by a decrease in Public Safety and Public Works disbursements.

Changes in Cash Basis Net Position of Business-Type Activities

	Years Ended June 30,	
	2015	2014
Receipts		
Program Receipts		
Charges for Service		
Water	\$ 562,419	\$ 603,508
Sanitary Sewer	266,349	274,094
Storm Sewer	20,535	19,210
Federal sources	610,366	2,479
Interest	331	364
Total Receipts	1,460,000	899,655
Disbursements		
Water	602,853	584,326
Sanitary Sewer	1,428,610	451,409
Storm Sewer	173,406	8,674
Total Disbursements	2,204,869	1,044,409
Change in Cash Basis Net Position Before Transfers	(744,869)	(144,754)
Transfers, net	—	88,300
Change in Cash Basis Net Position	(744,869)	(56,454)
Cash Basis Net Position - Beginning of Year	214,643	271,097
Cash Basis Net Position - End of Year	\$ (530,226)	\$ 214,643

Total business-type activities receipts for the fiscal year were \$1,460,000 compared to \$899,655 last year. Total disbursements for the fiscal year increased by 111%, or \$1,160,460. The increases were primarily due to Community Development Block Grant (CDBG) proceeds received and construction costs related to the Sanitary Sewer Rehabilitation Project.

The cash balance decreased by \$744,869, or 347%, from the prior year, mainly due to expenditures on sanitary sewer capital projects in excess of grant receipts. This will reverse in 2016 when grant proceeds are received and revenue bonds are issued.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City of Marengo's governmental funds reported a combined cash balance of \$1,606,092, a decrease of \$560,734 from last year's total of \$2,166,826.

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 \$14,600 from the prior year to \$454,057 due to insurance proceeds received for costs associated with the Library flooding in the prior year.

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 \$60,046 to \$237,490. This increase is due to receipts exceeding disbursements in the current year.

The Special Revenue, Local Option Sales Tax Fund cash balance increased \$233,529 to \$516,324. This increase is due to receipts exceeding disbursements and transfers in the current year.

The Special Revenue, Tax Increment Financing Fund cash balance decreased \$116,713 to (\$89,745) during the fiscal year. This decrease is due to using these funds for debt payments.

The Debt Service Fund cash balance decreased \$709,140 due to payment of principal and interest, including the early redemption of general obligation bonds.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Utility cash balance decreased by \$40,335 to \$98,444, due to a decrease in operating receipts.

The Sanitary Sewer System cash balance decreased by \$551,755 to (\$567,233) due to capital project expenses that will be reimbursed by grants in the next year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. Disbursements exceeded budget for Public Safety, Health and Social Services, Culture and Recreation, General Government and Debt Service. The City will monitor to make sure budgeted amounts are not exceeded.

DEBT ADMINISTRATION

As of June 30, 2015, the City had \$2,455,000 in general obligation debt and \$1,658,000 in water revenue debt for total debt outstanding of \$4,113,000.

Debt decreased significantly due to normal debt payments and the crossover refunding of the 2008 general obligation bonds.

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 \$2,455,000 is below its constitutional debt limit of \$4,972,295.

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 2016 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 \$2.5 million to \$2.8 million and will consist of three phases, with the third phase to begin in the spring of 2016. 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 revenue bonds. 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.

Marengo Memorial Hospital

The City has excluded from these financial statements, the activities of Marengo Memorial Hospital which was organized under Chapter 392 of the Code of Iowa and is not a legally separate entity from the City of Marengo. The Hospital's audited financial statements may be viewed online at the Iowa Auditor of State website or by contacting Matt Murphy, Chief Financial Officer, Marengo Memorial Hospital, 300 West May Street, Marengo, Iowa 52301.

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, Deven Markley (dmarkley@marengoiowa.com), City of Marengo, 153 East Main Street, Marengo, Iowa 52301.

Basic Financial Statements

Statement of Activities and Net Position - Cash Basis

As of and for the Year Ended June 30, 2015

Functions/Programs	Disbursements	Program Receipts		Net Receipts (Disbursements) and Changes in Cash Basis Net Position		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Primary Government		Total
				Governmental Activities	Business- Type Activities	
Governmental Activities						
Public safety	\$ 382,903	\$ 27,865	\$ 30,851	\$ (324,187)	\$ —	\$ (324,187)
Public works	304,461	47,789	262,868	6,196	—	6,196
Health and social services	25,154	20,423	—	(4,731)	—	(4,731)
Culture and recreation	327,621	110,328	26,991	(190,302)	—	(190,302)
General government	185,482	40,839	—	(144,643)	—	(144,643)
Debt service	1,231,412	—	—	(1,231,412)	—	(1,231,412)
Capital projects	9,362	—	—	(9,362)	—	(9,362)
Total Governmental Activities	2,466,395	247,244	320,710	(1,898,441)	—	(1,898,441)
Business-Type Activities						
Water	602,853	562,419	—	—	(40,434)	(40,434)
Sanitary sewer	1,428,610	266,349	610,366	—	(551,895)	(551,895)
Storm sewer	173,406	20,535	—	—	(152,871)	(152,871)
Total Business-Type Activities	2,204,869	849,303	610,366	—	(745,200)	(745,200)
Total	\$ 4,671,264	\$ 1,096,547	\$ 931,076	(1,898,441)	(745,200)	(2,643,641)
General Receipts						
Property Tax Levied for						
General purposes				685,524	—	685,524
Debt service				112,718	—	112,718
Tax increment financing				199,462	—	199,462
Local option sales tax				333,178	—	333,178
Unrestricted interest on investments				4,263	331	4,594
Miscellaneous				1,957	—	1,957
Sale of assets				605	—	605
Total General Receipts				1,337,707	331	1,338,038
Change in Cash Basis Net Position				(560,734)	(744,869)	(1,305,603)
Cash Basis Net Position - Beginning of Year				2,166,826	214,643	2,381,469
Cash Basis Net Position - End of Year				\$ 1,606,092	\$ (530,226)	\$ 1,075,866
Cash Basis Net Position						
Restricted						
Nonexpendable				\$ 68,105	\$ —	\$ 68,105
Expendable						
Debt service				198,956	—	198,956
Local option tax				749,853	—	749,853
Streets				237,490	—	237,490
Other purposes				145,092	48,534	193,626
Unrestricted				206,596	(578,760)	(372,164)
Total Cash Basis Net Position				\$ 1,606,092	\$ (530,226)	\$ 1,075,866

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, 2015

	General	Major				Nonmajor Governmental Funds	Total
		Road Use Tax	Special Revenue Local Option Tax	Tax Increment Financing	Debt Service		
Receipts							
Property tax.....	\$ 522,852	\$ —	\$ —	\$ —	\$ 112,718	\$ 162,672	\$ 798,242
Tax increment financing	—	—	—	199,462	—	—	199,462
Other city tax	—	—	333,178	—	—	—	333,178
Licenses and permits.....	40,839	—	—	—	—	—	40,839
Use of money and property	2,243	263	808	5	459	485	4,263
Intergovernmental	57,842	262,868	—	—	—	—	320,710
Charges for service	119,145	1,075	—	—	—	450	120,670
Miscellaneous.....	86,943	749	—	—	—	—	87,692
Total Receipts	829,864	264,955	333,986	199,467	113,177	163,607	1,905,056
Disbursements							
Public safety	382,903	—	—	—	—	—	382,903
Public works	52,448	242,513	9,500	—	—	—	304,461
Health and social services.....	25,154	—	—	—	—	—	25,154
Culture and recreation.....	327,621	—	—	—	—	—	327,621
General government.....	185,482	—	—	—	—	—	185,482
Debt service	—	—	—	—	1,231,412	—	1,231,412
Capital projects.....	—	—	—	—	—	9,362	9,362
Total Disbursements	973,608	242,513	9,500	—	1,231,412	9,362	2,466,395
Receipts Over (Under) Disbursements	(143,744)	22,442	324,486	199,467	(1,118,235)	154,245	(561,339)
Other Financing Sources (Uses)							
Sale of capital assets.....	605	—	—	—	—	—	605
Transfers in	169,013	39,591	—	—	409,095	11,303	629,002
Transfers out	(11,274)	(1,987)	(90,957)	(316,180)	—	(208,604)	(629,002)
Total Other Financing Sources (Uses)	158,344	37,604	(90,957)	(316,180)	409,095	(197,301)	605
Change in Cash Balances	14,600	60,046	233,529	(116,713)	(709,140)	(43,056)	(560,734)
Cash Balances - Beginning of Year	439,457	177,444	516,324	26,968	908,096	98,537	2,166,826
Cash Balances - End of Year	\$ 454,057	\$ 237,490	\$ 749,853	\$ (89,745)	\$ 198,956	\$ 55,481	\$ 1,606,092
Cash Basis Fund Balances							
Nonspendable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 68,105	\$ 68,105
Restricted for							
Debt service	—	—	—	—	198,956	—	198,956
Local option tax	—	—	749,853	—	—	—	749,853
Streets.....	—	237,490	—	—	—	—	237,490
Other purposes.....	140,201	—	—	—	—	4,891	145,092
Assigned for other purposes.....	59,513	—	—	—	—	—	59,513
Unassigned	254,343	—	—	(89,745)	—	(17,515)	147,083
Total Cash Basis Fund Balances	\$ 454,057	\$ 237,490	\$ 749,853	\$ (89,745)	\$ 198,956	\$ 55,481	\$ 1,606,092

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, 2015

	Major		Nonmajor	
	Water	Sanitary Sewer	Storm Sewer	Total
Operating Receipts				
Charges for service	\$ 555,175	\$ 265,507	\$ 19,183	\$ 839,865
Miscellaneous.....	7,244	842	1,352	9,438
Total Operating Receipts	562,419	266,349	20,535	849,303
Operating Disbursements				
Business-type activities	334,208	230,971	26,612	591,791
Operating Receipts Over (Under)				
Operating Disbursements	228,211	35,378	(6,077)	257,512
Nonoperating Receipts (Disbursements)				
Interest on investments	99	140	92	331
Federal sources.....	—	610,366	—	610,366
Capital outlay.....	—	(1,197,639)	(146,794)	(1,344,433)
Debt service	(268,645)	—	—	(268,645)
Net Nonoperating Receipts (Disbursements).....	(268,546)	(587,133)	(146,702)	(1,002,381)
Change in Cash Balances	(40,335)	(551,755)	(152,779)	(744,869)
Cash Balances - Beginning of Year	138,779	(15,478)	91,342	214,643
Cash Balances - End of Year	\$ 98,444	\$ (567,233)	\$ (61,437)	\$ (530,226)
Cash Basis Fund Balances				
Restricted for				
Customer deposits	\$ 48,535	\$ —	\$ —	\$ 48,535
Unrestricted.....	49,909	(567,233)	(61,437)	(578,761)
Total Cash Basis Fund Balances	\$ 98,444	\$ (567,233)	\$ (61,437)	\$ (530,226)

See accompanying notes to the financial statements.

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

As of and for the Year Ended June 30, 2015

	Marengo Picnic in the Park, Inc.
Receipts	\$ 1,906
Disbursements	<u>668</u>
Change in Cash Balance	1,238
Cash Balance - Beginning of Year	<u>36,054</u>
Cash Balance - End of Year	<u><u>\$ 37,292</u></u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

Marengo Memorial Hospital

The City has excluded from these financial statements, the activities of Marengo Memorial Hospital which was organized under Chapter 392 of the Code of Iowa and is not a legally separate entity from the City of Marengo. The Hospital's audited financial statements may be viewed online at the Iowa Auditor of State website or by contacting Matt Murphy, Chief Financial Officer, Marengo Memorial Hospital, 300 West May Street, Marengo, Iowa 52301.

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.

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.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods and services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Regional Environmental Improvement Board and Iowa County Assessor's Conference Board.

Basis of Presentation

Government-Wide Financial Statements

The statement of activities and net position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

The statement of activities and net position - cash basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, refunds, reimbursements and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The storm sewer enterprise fund is reported as a nonmajor enterprise fund.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue

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

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

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

Debt Service

The *Debt Service Fund* is used to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major enterprise funds.

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

The *Sanitary Sewer Fund* accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports a fiduciary fund.

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

Measurement Focus and Basis of Accounting

The City of Marengo maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the fund types in accordance with accounting principles generally accepted in the United States of America.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Governmental Cash Basis Fund Balances

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

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

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

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as other information. During the year ended June 30, 2015, disbursements exceeded amounts budgeted in the Public Safety, Health and Social Services, Culture and Recreation, General Government and Debt Service functions.

(2) Cash and Investments

The City's deposits in banks as of June 30, 2015 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
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	315,000	37,390	244,000	22,680	559,000	60,070
2021-2025	945,000	86,460	512,000	23,160	1,457,000	109,620
	<u>\$ 2,455,000</u>	<u>\$ 336,095</u>	<u>\$ 1,658,000</u>	<u>\$ 205,260</u>	<u>\$ 4,113,000</u>	<u>\$ 541,355</u>

General Obligation Corporate Purpose and Refunding Bonds

General obligation bonds issued March 13, 2013 were used to refund the general obligation bonds, Series 2006 in the amount of \$420,000; acquire equipment in the amount of \$350,000; and advance refund general obligation bonds issued in 2008 in the amount of \$745,000. The City approved a crossover refunding escrow agreement which required the City to authorize the issuance of \$1,555,000 general obligation corporate purpose and refunding bonds. The trustee agreed to accept the cash from the bond proceeds, pay for all issuance costs of the bonds and invest the funds to be able to pay interest coming due on the portion of the 2013 bonds attributable to the 2008 refunding through and including June 1, 2015 and to pay the principal amount of \$825,000 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 was 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 were also used to pay interest on the refunding bonds through June 1, 2015. Interest paid from the refunding trust totaled \$16,171 for the year ended June 30, 2015.

Notes to the Financial Statements

(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 \$1,863,260. For the current year, principal, interest and fees paid and total customer net receipts were \$268,645 and \$228,211, respectively.

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

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

Except for sufficient rates being established to cause net revenue to be at least 110% of the bond payments, the City was in compliance with these requirements as of June 30, 2015.

(4) Pension and Retirement Benefits

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*, was implemented during fiscal year 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.

Plan Description

IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Notes to the Financial Statements

(4) Pension and Retirement Benefits

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July, 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to one percentage point. IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$52,432.

Notes to the Financial Statements

(4) Pension and Retirement Benefits

Collective Net Pension Liabilities, Collective Pension Expense and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$155,524. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. As of June 30, 2014, the City's proportion was 0.0039215%, which was a decrease of 0.001568% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$19,421, \$11,125 and \$127,409, respectively.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3%
Salary increases (effective June 30, 2014)	4%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.5% per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31%
Non-US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Notes to the Financial Statements

(4) Pension and Retirement Benefits

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability (asset)	\$431,486	\$155,524	(\$77,276)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Compensated Absences

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

(6) Other Postemployment Benefits (OPEB)

Plan Description

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

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

Notes to the Financial Statements

(6) Other Postemployment Benefits (OPEB)

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$562 for single coverage and \$1,738 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2015, the City contributed \$188,566 and plan members eligible for benefits contributed \$5,400 to the plan.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue Employee Benefits	<u>\$ 169,013</u>
Special Revenue Road Use	Special Revenue Employee Benefits	<u>39,591</u>
Debt Service	Special Revenue Local Option Tax Tax Increment Financing General	90,957 316,180 <u>1,958</u> <u>409,095</u>
Special Revenue Employee Benefits	General Special Revenue Road Use	9,317 <u>1,986</u> <u>11,303</u>
Total		<u>\$ 629,002</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$20,024 during the year ended June 30, 2015.

Notes to the Financial Statements

(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 \$1,212,000 and for Sewer Rehab - Phase II of approximately \$1,135,000 and for Sewer Rehab - Phase III of approximately \$102,000 as of June 30, 2015. The remaining commitments on these contracts were approximately \$1,151,000 and will be paid as the work on the projects progresses.

The City accepted a bid in June, 2015 of approximately \$186,000 for work on the Lafayette Avenue Paving Improvements Project. No work was performed on the project as of June 30, 2015, and the remaining commitment will be paid as the work progresses.

(11) Deficit Balance

Deficit balances result primarily from the timing between payments and grant funding or bond proceeds being received. The deficits will be eliminated in the future through those sources or through transfers from other funds. The following individual funds had a deficit as of June 30, 2015:

Special Revenue	
Tax Increment Financing	\$ 89,745
Capital Projects	
Lafayette Avenue.....	16,037
YMCA Recreation Building	1,478
Proprietary	
Sanitary Sewer	567,223
Storm Sewer.....	61,437

(12) Subsequent Events

Management has evaluated subsequent events through February 17, 2016, the date which the financial statements were available to be issued.

The City approved the issuance of \$1,297,000 of Sewer Revenue Bonds to pay for the Sanitary Sewer Project.

Other Information

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

Year Ended June 30, 2015

	Govern- mental Funds - Actual	Propri- etary Funds - Actual	Net	Original and Final Budget	Over (Under) Budget
Receipts					
Property tax	\$ 798,242	\$ —	\$ 798,242	\$ 755,154	\$ 43,088
Tax increment financing	199,462	—	199,462	194,000	5,462
Other city tax	333,178	—	333,178	399,259	(66,081)
Licenses and permits	40,839	—	40,839	6,000	34,839
Use of money and property	4,263	331	4,594	9,000	(4,406)
Intergovernmental	320,710	610,366	931,076	914,690	16,386
Charges for service	120,670	839,865	960,535	986,000	(25,465)
Miscellaneous	87,692	9,438	97,130	50,000	47,130
Total Receipts	<u>1,905,056</u>	<u>1,460,000</u>	<u>3,365,056</u>	<u>3,314,103</u>	<u>50,953</u>
Disbursements					
Public safety	382,903	—	382,903	357,750	25,153
Public works	304,461	—	304,461	392,000	(87,539)
Health and social services	25,154	—	25,154	12,000	13,154
Culture and recreation	327,621	—	327,621	265,000	62,621
Community and economic development	—	—	—	2,528	(2,528)
General government	185,482	—	185,482	160,300	25,182
Debt service	1,231,412	—	1,231,412	373,370	858,042
Capital projects	9,362	1,344,433	1,353,795	1,365,000	(11,205)
Business-type activities	—	860,436	860,436	970,000	(109,564)
Total Disbursements	<u>2,466,395</u>	<u>2,204,869</u>	<u>4,671,264</u>	<u>3,897,948</u>	<u>773,316</u>
Receipts Under Disbursements	(561,339)	(744,869)	(1,306,208)	(583,845)	(722,363)
Other Financing Sources (Uses), Net	<u>605</u>	<u>—</u>	<u>605</u>	<u>600,000</u>	<u>(599,395)</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(560,734)	(744,869)	(1,305,603)	16,155	(1,321,758)
Balances - Beginning of Year	<u>2,166,826</u>	<u>214,643</u>	<u>2,381,469</u>	<u>1,671,002</u>	<u>710,467</u>
Balances - End of Year	<u>\$ 1,606,092</u>	<u>\$ (530,226)</u>	<u>\$ 1,075,866</u>	<u>\$ 1,687,157</u>	<u>\$ (611,291)</u>

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2015

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, 2015, disbursements exceeded amounts budgeted in the Public Safety, Health and Social Services, Culture and Recreation, General Government and Debt Service functions.

Schedule of Proportionate Share of the Net Pension Liability ————— Iowa Public Employees' Retirement System

Last Fiscal Year*

	2015
City's proportion of the net pension liability	0.0039215%
City's proportionate share of the net pension liability	\$155,524
City's covered-employee payroll	\$561,370
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	27.70%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the City will present information for those years for which information is available.

Schedule of Contributions
Iowa Public Employees' Retirement System

Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 52,432	\$ 47,533	\$ 47,917	\$ 45,115	\$ 42,259	\$ 38,096	\$ 36,763	\$ 37,008	\$ 36,206	\$ 34,287
Contributions in relation to the statutorily required contributions.....	<u>(52,432)</u>	<u>(47,533)</u>	<u>(47,917)</u>	<u>(45,115)</u>	<u>(42,259)</u>	<u>(38,096)</u>	<u>(36,763)</u>	<u>(37,008)</u>	<u>(36,206)</u>	<u>(34,287)</u>
Contribution Deficiency (Excess).....	<u>\$ —</u>									
City's covered-employee payroll	\$ 587,000	\$ 532,000	\$ 553,000	\$ 559,000	\$ 608,000	\$ 573,000	\$ 579,000	\$ 612,000	\$ 630,000	\$ 596,000
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2015

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

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

As of and for the Year Ended June 30, 2015

	General	Insurance	Police Reserve	Library Miscellaneous	Capital Reserve	Memorial Building	Pool Renovations	Total
Receipts								
Property tax.....	\$ 456,820	\$ 66,032	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 522,852
Licenses and permits.....	40,839	—	—	—	—	—	—	40,839
Use of money and property	262	—	—	1,974	—	—	7	2,243
Intergovernmental	57,842	—	—	—	—	—	—	57,842
Charges for service	119,145	—	—	—	—	—	—	119,145
Miscellaneous.....	84,986	1,957	—	—	—	—	—	86,943
Total Receipts.....	<u>759,894</u>	<u>67,989</u>	<u>—</u>	<u>1,974</u>	<u>—</u>	<u>—</u>	<u>7</u>	<u>829,864</u>
Disbursements								
Public safety.....	382,903	—	—	—	—	—	—	382,903
Public works	52,448	—	—	—	—	—	—	52,448
Health and social services.....	25,154	—	—	—	—	—	—	25,154
Culture and recreation	326,388	—	—	1,233	—	—	—	327,621
General government.....	117,693	67,789	—	—	—	—	—	185,482
Total Disbursements.....	<u>904,586</u>	<u>67,789</u>	<u>—</u>	<u>1,233</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>973,608</u>
Receipts Over (Under) Disbursements	<u>(144,692)</u>	<u>200</u>	<u>—</u>	<u>741</u>	<u>—</u>	<u>—</u>	<u>7</u>	<u>(143,744)</u>
Other Financing Sources (Uses)								
Sale of capital assets.....	605	—	—	—	—	—	—	605
Transfers in	169,013	—	—	—	—	—	—	169,013
Transfers out	(9,317)	(1,957)	—	—	—	—	—	(11,274)
Total Other Financing Sources (Uses).....	<u>160,301</u>	<u>(1,957)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>158,344</u>
Change in Cash Balances.....	15,609	(1,757)	—	741	—	—	7	14,600
Cash Balances - Beginning of Year	223,608	—	793	156,632	52,670	532	5,222	439,457
Cash Balances - End of Year	<u>\$ 239,217</u>	<u>\$ (1,757)</u>	<u>\$ 793</u>	<u>\$ 157,373</u>	<u>\$ 52,670</u>	<u>\$ 532</u>	<u>\$ 5,229</u>	<u>\$ 454,057</u>
Cash Basis Fund Balances								
Restricted								
Other purposes	\$ —	\$ —	\$ —	\$ 134,440	\$ —	\$ 532	\$ 5,229	\$ 140,201
Assigned for other purposes.....	—	—	793	6,050	52,670	—	—	59,513
Unassigned	239,217	(1,757)	—	16,883	—	—	—	254,343
Total Cash Basis Fund Balances	<u>\$ 239,217</u>	<u>\$ (1,757)</u>	<u>\$ 793</u>	<u>\$ 157,373</u>	<u>\$ 52,670</u>	<u>\$ 532</u>	<u>\$ 5,229</u>	<u>\$ 454,057</u>

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

As of and for the Year Ended June 30, 2015

	<u>Special Revenue</u>	<u>Capital Projects</u>		<u>Permanent</u>	<u>Total</u>
	<u>Employee Benefits</u>	<u>Lafayette Avenue Improvements</u>	<u>YMCA Recreation Building</u>	<u>Cemetery Trust</u>	
Receipts					
Property tax	\$ 162,672	\$ —	\$ —	\$ —	\$ 162,672
Use of money and property	19	—	—	466	485
Charges for service	—	—	—	450	450
Total Receipts	<u>162,691</u>	<u>—</u>	<u>—</u>	<u>916</u>	<u>163,607</u>
Disbursements					
Capital projects	—	<u>7,884</u>	<u>1,478</u>	—	<u>9,362</u>
Receipts Over (Under) Disbursements	<u>162,691</u>	<u>(7,884)</u>	<u>(1,478)</u>	<u>916</u>	<u>154,245</u>
Other Financing Sources (Uses)					
Transfers in	11,303	—	—	—	11,303
Transfers out	(208,604)	—	—	—	(208,604)
Total Other Financing Sources (Uses)	<u>(197,301)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(197,301)</u>
Change in Cash Balances	<u>(34,610)</u>	<u>(7,884)</u>	<u>(1,478)</u>	<u>916</u>	<u>(43,056)</u>
Cash Balances - Beginning of Year	<u>39,501</u>	<u>(8,153)</u>	<u>—</u>	<u>67,189</u>	<u>98,537</u>
Cash Balances - End of Year	<u>\$ 4,891</u>	<u>\$ (16,037)</u>	<u>\$ (1,478)</u>	<u>\$ 68,105</u>	<u>\$ 55,481</u>
Cash Basis Fund Balances					
Nonspendable	\$ —	\$ —	\$ —	\$ 68,105	\$ 68,105
Restricted for other purposes	4,891	—	—	—	4,891
Unassigned	—	(16,037)	(1,478)	—	(17,515)
Total Cash Basis Fund Balances	<u>\$ 4,891</u>	<u>\$ (16,037)</u>	<u>\$ (1,478)</u>	<u>\$ 68,105</u>	<u>\$ 55,481</u>

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

As of and for the Year Ended June 30, 2015

	Water	Water Bond Sinking	Water Deposits	Total
Operating Receipts				
Charges for service	\$ 555,175	\$ —	\$ —	\$ 555,175
Miscellaneous.....	999	—	6,245	7,244
Total Operating Receipts	<u>556,174</u>	<u>—</u>	<u>6,245</u>	<u>562,419</u>
Operating Disbursements				
Business-type activities	<u>327,246</u>	<u>—</u>	<u>6,962</u>	<u>334,208</u>
Operating Receipts Over Operating Disbursements				
	<u>228,928</u>	<u>—</u>	<u>(717)</u>	<u>228,211</u>
Nonoperating Receipts (Disbursements)				
Interest on investments	99	—	—	99
Debt service	—	(268,645)	—	(268,645)
Net Nonoperating Receipts (Disbursements).....	<u>99</u>	<u>(268,645)</u>	<u>—</u>	<u>(268,546)</u>
Receipts Over (Under) Disbursements .	229,027	(268,645)	(717)	(40,335)
Other Financing Sources (Uses)				
Transfers in	—	268,645	—	268,645
Transfers out	(268,645)	—	—	(268,645)
Change in Cash Balances	(39,618)	—	(717)	(40,335)
Cash Balances - Beginning of Year	<u>89,527</u>	<u>—</u>	<u>49,252</u>	<u>138,779</u>
Cash Balances - End of Year	<u>\$ 49,909</u>	<u>\$ —</u>	<u>\$ 48,535</u>	<u>\$ 98,444</u>
Cash Basis Fund Balances				
Restricted for customer deposits	\$ —	\$ —	\$ 48,535	\$ 48,535
Unrestricted	<u>49,909</u>	<u>—</u>	<u>—</u>	<u>49,909</u>
Total Cash Basis Fund Balances	<u>\$ 49,909</u>	<u>\$ —</u>	<u>\$ 48,535</u>	<u>\$ 98,444</u>

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

As of and for the Year Ended June 30, 2015

	Sewer Rental	Sewer Replace- ment	Sewer Revolving	Sewer Rehab - Phase I	Sewer Rehab - Phase II	Sewer Rehab - Phase III	Total
Operating Receipts							
Charges for service	\$ 265,507	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 265,507
Miscellaneous.....	<u>842</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>842</u>
Total Operating Receipts	<u>266,349</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>266,349</u>
Operating Disbursements							
Business-type activities	<u>230,971</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>230,971</u>
Operating Receipts Over Operating Disbursements	<u>35,378</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>35,378</u>
Nonoperating Receipts (Disbursements)							
Interest on investments	140	—	—	—	—	—	140
Federal sources.....	—	—	—	596,466	13,900	—	610,366
Capital projects.....	—	—	—	(988,305)	(193,584)	(15,750)	(1,197,639)
Net Nonoperating Receipts (Disbursements).....	<u>140</u>	<u>—</u>	<u>—</u>	<u>(391,839)</u>	<u>(179,684)</u>	<u>(15,750)</u>	<u>(587,133)</u>
Change in Cash Balances.....	35,518	—	—	(391,839)	(179,684)	(15,750)	(551,755)
Cash Balances - Beginning of Year.....	<u>92,429</u>	<u>9,266</u>	<u>44,932</u>	<u>(138,195)</u>	<u>(23,910)</u>	<u>—</u>	<u>(15,478)</u>
Cash Balances - End of Year.....	<u>\$ 127,947</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ (530,034)</u>	<u>\$ (203,594)</u>	<u>\$ (15,750)</u>	<u>\$ (567,233)</u>
Cash Basis Fund Balances							
Unrestricted	<u>\$ 127,947</u>	<u>\$ 9,266</u>	<u>\$ 44,932</u>	<u>\$ (530,034)</u>	<u>\$ (203,594)</u>	<u>\$ (15,750)</u>	<u>\$ (567,233)</u>

Schedule of Indebtedness

Year Ended June 30, 2015

	Amount Originally Issued	Date of Issue	Interest Rates	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds								
Corporate purpose.....	\$ 1,250,000	5-15-08	3.45%	\$ 825,000	\$ —	\$ 825,000	\$ —	\$ 32,343
Corporate purpose and refunding.....	2,070,000	4-15-10	2.30 - 4.00	1,305,000	—	205,000	1,100,000	44,520
Corporate purpose and refunding.....	1,555,000	3-13-13	1.50 - 2.00	<u>1,455,000</u>	<u>—</u>	<u>100,000</u>	<u>1,355,000</u>	<u>23,500</u>
Total General Obligation Bonds.....				<u>\$ 3,585,000</u>	<u>\$ —</u>	<u>\$ 1,130,000</u>	<u>\$ 2,455,000</u>	<u>\$ 100,363</u>
Water Revenue Bonds	\$ 3,200,000	6-1-07	3.00%	<u>\$ 1,866,000</u>	<u>\$ —</u>	<u>\$ 208,000</u>	<u>\$ 1,658,000</u>	<u>\$ 60,645</u>

Schedule of Bond and Note Maturities

As of June 30, 2015

General Obligation Bonds							
Corporate Purpose and Refunding				Corporate Purpose and Refunding		Revenue Bonds	
Issued 3-13-13				Issued 4-15-10		Water Revenue	
Issued 3-13-13				Issued 4-15-10		Issued 6-1-07	
	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount
2016	1.50%	\$ 190,000	2.30%	\$ 95,000	\$ 285,000	3.00%	\$ 215,000
2017	1.50	200,000	3.00	95,000	295,000	3.00	222,000
2018	1.50	205,000	3.00	100,000	305,000	3.00	229,000
2019	1.50	205,000	3.30	105,000	310,000	3.00	236,000
2020	1.50	210,000	3.30	105,000	315,000	3.00	244,000
2021	2.00	145,000	3.60	110,000	255,000	3.00	252,000
2022	2.00	100,000	3.60	115,000	215,000	3.00	260,000
2023	2.00	100,000	3.60	120,000	220,000		—
2024		—	3.60	125,000	125,000		—
2025		—	4.00	130,000	130,000		—
Total		<u>\$ 1,355,000</u>		<u>\$ 1,100,000</u>	<u>\$ 2,455,000</u>		<u>\$ 1,658,000</u>

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

Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007
Receipts									
Property tax	\$ 798,242	\$ 772,581	\$ 746,058	\$ 728,694	\$ 710,258	\$ 716,162	\$ 743,470	\$ 695,512	\$ 704,943
Tax increment financing	199,462	165,592	173,602	173,171	170,615	189,854	170,743	197,031	203,582
Other city tax	333,178	358,946	354,820	366,526	334,739	284,167	307,806	295,825	303,514
Licenses and permits.....	40,839	36,033	8,939	9,093	9,369	10,382	10,350	5,624	3,674
Use of money and property	4,263	7,916	12,350	10,659	12,598	10,182	16,506	23,131	41,626
Intergovernmental	320,710	336,193	281,958	290,369	340,453	279,566	543,660	307,431	641,212
Charges for service	120,670	127,690	137,301	147,803	143,658	126,824	120,084	125,221	107,170
Miscellaneous.....	<u>87,692</u>	<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>
Total Receipts	<u>\$ 1,905,056</u>	<u>\$ 1,834,345</u>	<u>\$ 1,741,279</u>	<u>\$ 1,771,807</u>	<u>\$ 1,776,932</u>	<u>\$ 1,795,061</u>	<u>\$ 2,202,470</u>	<u>\$ 1,751,419</u>	<u>\$ 2,712,645</u>
Disbursements									
Operating									
Public safety.....	\$ 382,903	\$ 566,483	\$ 322,332	\$ 331,815	\$ 294,270	\$ 306,174	\$ 310,702	\$ 445,906	\$ 320,710
Public works.....	304,461	770,354	339,754	270,497	288,020	272,971	304,143	354,275	271,406
Health and social services.....	25,154	23,046	66,631	60,750	55,905	53,378	74,817	68,617	58,982
Culture and recreation.....	327,621	234,589	230,055	237,503	231,105	251,003	240,267	306,399	220,982
Community and economic development.....	—	736	1,950	9,191	15,456	106,472	10,064	2,302	—
General government	185,482	119,980	172,452	178,933	163,059	149,795	147,180	155,447	157,281
Debt service	1,231,412	494,750	419,530	423,280	443,744	1,244,142	478,930	361,598	308,371
Capital projects.....	<u>9,362</u>	<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>
Total Disbursements	<u>\$ 2,466,395</u>	<u>\$ 2,220,965</u>	<u>\$ 1,662,184</u>	<u>\$ 1,568,190</u>	<u>\$ 2,748,522</u>	<u>\$ 2,951,924</u>	<u>\$ 2,843,237</u>	<u>\$ 2,498,676</u>	<u>\$ 3,134,450</u>

Schedule of Insurance

Year Ended June 30, 2015

Policy	Coverage Dates	Amount of Coverage
Property		
Blanket (including certified acts of terrorism)	4/1/15 - 4/1/16	\$ 7,041,695
Liability		
Products/completed operations	4/1/15 - 4/1/16	5,000,000
General aggregate	4/1/15 - 4/1/16	5,000,000
Personal/advertising injury	4/1/15 - 4/1/16	1,000,000
Each occurrence	4/1/15 - 4/1/16	1,000,000
Damage to premises	4/1/15 - 4/1/16	100,000
Medical expense	4/1/15 - 4/1/16	5,000
Employment practices (occurrence and aggregate deductible \$2,500 per claim)	4/1/15 - 4/1/16	1,000,000
Crime		
Public employee dishonesty	4/1/15 - 4/1/16	1,000,000
Inland Marine		
Contractors equipment	4/1/15 - 4/1/16	731,868
Scheduled property floater (miscellaneous)	4/1/15 - 4/1/16	100,000
Automobile		
Liability	4/1/15 - 4/1/16	1,000,000
Uninsured	4/1/15 - 4/1/16	50,000
Underinsured	4/1/15 - 4/1/16	50,000
Physical damage	4/1/15 - 4/1/16	Loss less deductible
Comprehensive	4/1/15 - 4/1/16	Loss less deductible
Collision	4/1/15 - 4/1/16	Loss less deductible
Medical	4/1/15 - 4/1/16	5,000
Workers' Compensation		
Bodily injury by accident/accident	4/1/15 - 4/1/16	500,000
Bodily injury by disease/employee	4/1/15 - 4/1/16	500,000
Bodily injury by disease/limit	4/1/15 - 4/1/16	500,000
Umbrella		
Occurrence	4/1/15 - 4/1/16	2,000,000
Aggregate	4/1/15 - 4/1/16	2,000,000
Products completed aggregated	4/1/15 - 4/1/16	2,000,000
Bodily injury by disease aggregate	4/1/15 - 4/1/16	2,000,000
Public Official Error and Omissions		
Occurrence	4/1/15 - 4/1/16	1,000,000
Aggregate	4/1/15 - 4/1/16	5,000,000
Insured's deductible per loss	4/1/15 - 4/1/16	1,000

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
Indirect			
Pass-Through Iowa Economic Development Authority Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	13-WS-027	\$ 595,412
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	14-WS-011	<u>118,301</u>
Total U.S. Department of Housing and Urban Development.....			<u>713,713</u>
U.S. Department of Homeland Security			
Indirect			
Iowa Department of Public Defense Iowa Homeland Security and Emergency Management Division Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4187	<u>16,322</u>
Total Expenditures of Federal Awards.....			<u>\$ 730,035</u>

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the City of Marengo and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Subrecipients

There were no amounts provided to subrecipients from the City's federal award programs.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marengo, Iowa, as of and for the year ended June 30, 2015, 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 February 17, 2016. 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 II of the accompanying schedule of findings as items 15-II-R-1, 15-II-R-2, 15-II-R-3, 15-II-R-5 and 15-II-R-8 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 II of the accompanying schedule of findings as items 15-II-R-4, 15-II-R-6, 15-II-R-7 and 15-II-R-9 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marengo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in the accompanying schedule of findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 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

February 17, 2016

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Certified Public Accountants and Consultants

Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Marengo's compliance, with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Marengo's major federal program for the year ended June 30, 2015. The City of Marengo's major federal program is identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Marengo's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marengo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Marengo's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Marengo complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in Part I of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the City of Marengo is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Marengo's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Marengo's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying schedule of findings and questioned costs as item 15-III-A to be a material weakness.

The City of Marengo's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Marengo's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
February 17, 2016

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results:

Financial Statements

Type of auditor's report issued: Modified

Internal control over financial reporting:
Material weakness identified? yes no
Significant deficiency identified not considered to be material weakness? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness identified? yes no
Significant deficiency identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers or Cluster

14.228

Name of Federal Program

Community Development Block Grants/
State's Program and Non-Entitlement
Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

15-II-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 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 Finding - For most of the current year, the City Administrator was not available for normal duties within the City Hall. While the City did employ a finance assistant for the entire year, we noted that bank reconciliations were not prepared in a timely manner each month and that several months passed without the accounts being reconciled. In addition, we continued to find that no one is reviewing adjusting journal entries or bank reconciliations.

Auditor's Recommendation - Procedures should be implemented to ensure that bank accounts are reconciled in a timely manner each month and that a second person within the Finance Department reviews the bank reconciliations and journal entries.

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.

Schedule of Findings and Questioned Costs

15-II-R-2 Financial Reconciliations

Prior Year Finding and Recommendation - 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.

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.

Current Year Finding - We found that the same conditions existed and bank accounts were not reconciled for several months and were only completed in order for the 2015 audit to be able to begin.

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

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.

15-II-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.

Schedule of Findings and Questioned Costs

15-II-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.

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.

15-II-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.

15-II-R-6 Compliance with Code of Iowa

Current Year Finding - The City entered into a contract for financial statement audit services for the three years ended June 30, 2015 without utilizing a request for proposals (RFP).

Auditor's Recommendation - The City should use a competitive bidding process to select an audit firm for the June 30, 2016 financial statement audit.

City's Response - We will prepare a request for proposals (RFP) to select a firm to complete our financial statement audit for future fiscal years.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

15-II-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

15-II-R-8 Payroll Records

Prior Year Finding - During our audit, we noted that the City did not timely submit several 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.

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.

Current Year Finding - We found that the same condition existed.

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

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.

15-II-R-9 Utility Bill Delinquency Procedures

Prior Year Finding and Recommendation - 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.

The City needs to determine if and how any variations from the policy should be approved and documented.

Schedule of Findings and Questioned Costs

Current Year Finding - We found that the same condition existed.

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

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.

Part III: Findings and Questioned Costs For Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

All Programs Displayed on the Schedule of Expenditures of Federal Awards

15-III-A Segregation of Duties - The City did not properly segregate the handling, preparation and recording functions for cash receipts and disbursements, including those related to federal programs. See item 15-II-R-1.

Part IV: Findings Related to Statutory Reporting

15-IV-A Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in Public Safety, Health and Social Services, Culture and Recreation, General Government and Debt Service 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.

15-IV-B Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Iowa Workforce Development	Penalties and interest	\$ 1,412
United States Treasury	941 filing penalties	3,440

Schedule of Findings and Questioned Costs

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Auditor's Recommendation - The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

City's Response - We will comply with this recommendation.

Auditor's Conclusion - Response accepted.

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

15-IV-D Business Transactions - Business transactions between the City of Marengo and City officials and employees which may be conflicts of interest are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Travis Schlabach, Fireman Owner of S & S Plumbing	Equipment rental, parts and repairs	\$ 3,358
Mark Swift, Fireman Owner of Brown's Hardware	Supplies	5,081
Brian Miller Owner of Miller Excavating	Street, sewer and hydrant repairs and snow hauling	11,585

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 and Questioned Costs

15-IV-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.

15-IV-F Council Minutes

Current Year Findings - While published Council minutes did include a listing of approved claims, none of the minutes tested included a summary of total disbursements by fund or a summary of receipts.

We also noted that 19 of the 26 minutes tested had not been signed by the City Clerk, and 6 of 13 minutes tested were not published within 15 days.

Auditor's Recommendation - The City should review the requirements of Chapter 372.13(6) of the Code of Iowa and ensure that minutes are published within 15 days of the meeting. The published minutes should include a summary of total disbursements by fund and a summary of all receipts in accordance with Chapter 372.13(6) of the Code of Iowa. Additionally, the City Clerk should sign the minutes in accordance with Chapter 380.7 of the Code of Iowa.

City's Response - The City will comply with the Code of Iowa and properly publish, sign and include all required information in the minutes.

Auditor's Conclusion - Response accepted.

15-IV-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.

15-IV-H Revenue Bonds and Notes - The City violated the net revenue debt covenant for the water revenue bonds, which requires the City to "leave a balance of net revenues equal to at least 110% of the principal and interest on all bonds..." For the current year, the net revenue was only 85% of debt service requirements.

Auditor's Recommendation - The City should monitor the revenue and expenses of the Water Fund to ensure that net revenue is at least 110% of the outstanding principal and interest.

City's Response - The City will monitor revenue and expenses in the Water Fund in order to comply with debt covenants and consider increasing fees if necessary.

Auditor's Conclusion - Response accepted.

15-IV-I Tax Increment Financing (T.I.F.) Certification - During our audit, we found that the City had worked on an annual reconciliation for 2014 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 and Questioned Costs

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

City's Response - The T.I.F. certification for 2015 reconciles to the County Auditor's records.

Auditor's Conclusion - Response accepted.

15-IV-J Urban Renewal Annual Report - We determined that the urban renewal annual report for the year ended June 30, 2015 was not properly approved and filed on or before December 1, 2015.

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 take steps necessary to file this report timely in the future.

Auditor's Conclusion - Response accepted.

15-IV-K Financial Condition - The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$89,745. The Capital Projects Fund, Lafayette Avenue Improvements and YMCA Recreation Building had deficit balances of \$16,037 and \$1,478, respectively. The Sanitary Sewer Enterprise Fund had a deficit balance of \$567,233. The Storm Sewer Enterprise Fund had a deficit balance of \$61,347.

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 debt service and construction costs incurred prior to transfers of funds or issuance of bonds. These deficits will be eliminated in future years.

Auditor's Conclusion - Response accepted.

15-IV-L Annual Financial Report - We determined that the annual financial report for June 30, 2015, which was due December 1, 2015, was not approved nor filed by the due date as required by the Code of Iowa. The report was filed late because of the vacant financial manager and City Administrator positions in the Fall of 2015.

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.