



CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2006



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CITY OF MARION

City Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John B. Nieland	Mayor	December 31, 2007
Walter Cram	Council Member-First Ward	December 31, 2007
Paul E. Rehn	Council Member-Second Ward	December 31, 2009
Kay A. Lammers	Council Member-Third Ward	December 31, 2007
Craig Adamson	Council Member-Fourth Ward	December 31, 2009
Mary Lou Pazour	Council Member-At-Large	December 31, 2009
Nicholas A. Wagner	Council Member-At-Large	December 31, 2007
Jeffrey A. Schott	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Donald C. Hoskins	City Attorney	Indefinite
Tom Trehame	Director of Planning and Development	Indefinite
Harry Daugherty	Chief of Police	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Terry Jackson	Fire Chief	Civil Service
Susan Kling	Library Director	Indefinite
Richard Fox	Director of Parks and Recreation	Indefinite
Thomas Newbanks	Public Services Director	Indefinite
Robert A. Anderson	Marion Municipal Water Department - Trustee	November 1, 2008
Gregory O. Hapgood	Marion Municipal Water Department - Trustee 2003 Chairperson	November 1, 2010
Mary Ann McComas	Marion Municipal Water Department - Trustee 2004 Chairperson	November 1, 2006
David O. Kalkwarf	Marion Municipal Water Department - Administrator	Indefinite

CITY OF MARION

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Marion, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City of Marion's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marion at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City at June 30, 2006, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2006 on our consideration of the City of Marion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the 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.

Management's Discussion and Analysis and Budgetary Comparison information on pages 8 through 15 and 57 through 60 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1-5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Henderson LLP

Cedar Rapids, Iowa
September 5, 2006

Management's Discussion and Analysis

As management of the City of Marion, Iowa, we offer readers of the City of Marion's financial statements this narrative and analysis of the financial statements of the City of Marion for the fiscal year ended June 30, 2006. This section should be read in conjunction with the financial statements and the accompanying notes that follow. It should also be noted that the information contained here will provide information on both the governmental operations and the business activities of the City.

Financial Highlights

The assets of the City of Marion exceeded its liabilities at the close of June 30, 2006, by \$160 million (net assets). Of this amount, \$16.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total assets increased by \$12.6 million.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$7.9 million, or 66.4 percent of the total general fund expenditures. For the purpose of these financial statements, the General fund also includes the Equipment Replacement and the Tax Stabilization Funds.

Total general obligation debt decreased by \$1.86 million. This was due to a new general obligation debt issue of \$3.30 million and subsequent retirements of \$1.44 million.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Marion's basic financial statements. The City of Marion's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. The governmental activities of the City of Marion include general government, police and fire protection, streets and public buildings operation and maintenance, and parks and recreation activities. The major business-type activities include solid waste management collection and a sanitary sewer system. The City's only component unit, the Marion Municipal Water Department, is also included in the financial statements and notes.

Government-wide Financial Statements

The government-wide financial statements include the Statement of Net Assets. The Statement of Net Assets presents information on all of the City of Marion's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. For the first time, government activities reflect capital assets including infrastructure and long-term liabilities and business activities reflect capital assets and long-term liabilities.

The Statement of Activities is also included in the government-wide financial statements. The focus of the Statement of Activities is to show how the government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Assets and the Statement of Activities and can be found on pages 17-20 of this report.

Statement of Net Assets for the Fiscal year Ended June30, 2006 and 2005

A condensed version of the Statement of Net Assets as of June 30, 2006 and 2005 follows:

	Governmental		(in thousands)		Total	
	Activities		Business-type		Government	
	2006	2005	2006	2005	2006	2005
Cash and investments	\$ 23,562	\$ 23,688	\$ 6,378	\$ 6,029	\$ 29,940	\$ 29,717
Other assets	12,867	12,593	544	517	13,411	13,110
Capital assets	<u>126,919</u>	<u>115,741</u>	<u>17,362</u>	<u>16,417</u>	<u>144,281</u>	<u>132,158</u>
Total assets	<u>\$163,348</u>	<u>\$152,022</u>	<u>\$ 24,284</u>	<u>\$ 22,963</u>	<u>\$187,632</u>	<u>\$174,985</u>
Other liabilities	\$ 13,679	\$ 12,797	\$ 225	\$ 218	\$ 13,904	\$ 13,015
Noncurrent liabilities	<u>13,764</u>	<u>11,794</u>	<u>8</u>	<u>17</u>	<u>13,772</u>	<u>11,811</u>
Total liabilities	<u>\$ 27,443</u>	<u>\$ 24,591</u>	<u>\$ 233</u>	<u>\$ 235</u>	<u>\$ 27,676</u>	<u>\$ 24,826</u>
Net assets:						
Invested in capital assets, net of debt	\$114,430	\$105,173	\$ 17,336	\$ 16,311	\$131,766	\$121,484
Restricted	9,442	10,073	2,480	3,915	11,922	13,988
Unrestricted	<u>12,033</u>	<u>12,185</u>	<u>4,235</u>	<u>2,502</u>	<u>16,268</u>	<u>14,687</u>
Total net assets	<u>\$135,905</u>	<u>\$127,431</u>	<u>\$ 24,051</u>	<u>\$ 22,728</u>	<u>\$159,956</u>	<u>\$150,159</u>

Governmental Activities

Net assets increased \$9.8 million for the fiscal year 2006. About \$5.6 million of this increase was for improvements other than buildings, primarily street construction. The majority of the balance of \$4.2 million was costs related to the new City Hall and the Arts and Environmental Center.

Business-Type Activities

Total assets increased by \$1.3 million for the fiscal year 2006 primarily due to equipment purchases and system improvements.

Statement of Activities for the Fiscal Year Ended June 30, 2006 and 2005

A summary version of the Statement of Activities follows:

	Governmental Activities		(in thousands) Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Charges for services	\$ 1,280	\$ 1,280	\$ 3,680	\$ 3,402	\$ 4,960	\$ 4,682
Operating grants and contributions	667	498	-	-	667	498
Capital grants and contributions	8,623	5,449	663	843	9,286	6,292
General revenues:						
Property taxes	11,826	10,914	-	-	11,826	10,914
Other taxes	870	695	-	-	870	695
Franchise fees	-	-	-	-	-	-
Road use taxes	2,202	2,183	-	-	2,202	2,183
Investment income	1,152	916	286	204	1,438	1,120
Miscellaneous revenue	<u>529</u>	<u>113</u>	<u>-</u>	<u>92</u>	<u>529</u>	<u>205</u>
Total revenues	<u>27,149</u>	<u>22,048</u>	<u>4,629</u>	<u>4,541</u>	<u>31,778</u>	<u>26,589</u>
Expenses:						
Public safety	7,269	6,748	-	-	7,269	6,748
Public works	5,057	4,679	-	-	5,057	4,679
Culture and recreation	3,170	2,889	-	-	3,170	2,889
Community and economic development	1,529	1,067	-	-	1,529	1,067
General government	1,319	1,217	-	-	1,319	1,217
Interest on long-term debt	398	491	-	-	398	491
Sanitary sewer	-	-	2,103	1,966	2,103	1,966
Solid waste management	<u>-</u>	<u>-</u>	<u>1,245</u>	<u>1,175</u>	<u>1,245</u>	<u>1,175</u>
Total expenses	<u>18,742</u>	<u>17,091</u>	<u>3,348</u>	<u>3,141</u>	<u>22,090</u>	<u>20,232</u>
Transfers	<u>67</u>	<u>172</u>	<u>(67)</u>	<u>(172)</u>	<u>-</u>	<u>-</u>
Changes in net assets	8,474	5,129	1,214	1,228	9,688	6,357
Beginning net assets	<u>127,431</u>	<u>122,302</u>	<u>22,729</u>	<u>21,501</u>	<u>150,160</u>	<u>143,803</u>
Ending net assets	<u>\$135,905</u>	<u>\$127,431</u>	<u>\$ 23,943</u>	<u>\$ 22,729</u>	<u>\$159,848</u>	<u>\$150,160</u>

Governmental Activities

Charges for services make up 4.7 percent of governmental revenues. Operating and capital grants, primarily for street projects and building improvement projects, make up another 34.2 percent of governmental revenues. The remaining revenue comes from taxes, primarily property taxes, and interest revenue.

Business-Type Activities

As expected, charges for services is the primary revenue source for business-type activities. Sanitary sewer fees and solid waste fees are the primary charges for services that make up 79.5 percent of total revenues. Investment income accounts for an additional 6.2 percent of total revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City, like other state and local governments, uses fund accounting to insure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers can better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Marion maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General fund, Road Use Tax, Employee Benefits, Debt Service and the Capital Projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The basic governmental financial statements can be found on pages 21-28 of this report.

Proprietary Funds

The City of Marion maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its storm water, solid waste, and sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate internally among the City's various functions. The City of Marion uses an internal service fund to account for its city provided health insurance. Because this service predominately benefits governmental rather than business type functions, it has been included within the governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sanitary Sewer operations as this is considered a major fund of the City. Individual fund data for each of the non-major enterprise funds is provided in the form of combining statements elsewhere in this report. The Internal Service fund is shown in the proprietary fund financial statements. The basic proprietary financial statements can be found on pages 29-33 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City of Marion's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 34-35 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-55 of this report.

Budgetary Highlights - General Fund

The City had one budget amendment during the fiscal year, which is our common practice. The major increases in expenses were due to increased expenses for higher fuel and utility costs, also additional forfeiture expenditures for public safety, additional CDBG loan expenses as well as expected increase in debt payee charges. Increased expenses for the Community and Economic Development programs using additional grant proceeds. Also, increased legal fees for the business type programs. Decrease in capital projects as they will be carried over to FY 06-07.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the City had invested \$144.3 million (net of depreciation) in capital assets as are reflected in the following table. These investments include land, buildings, improvements, machinery and equipment, roads, bridges and infrastructure.

	Governmental Activities		(In thousands) Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 53,853	\$ 51,715	\$ -	\$ -	\$ 53,853	\$ 51,715
Building and structures	12,119	9,203	-	-	12,119	9,203
Improvements other than buildings	83,757	78,174	-	-	83,757	78,174
Machinery and equipment	6,974	6,501	1,881	1,529	8,855	8,030
Distribution system	-	-	27,206	26,323	27,206	26,323
Construction in progress	4,491	1,430	463	227	4,954	1,657
Accumulated depreciation	<u>(34,343)</u>	<u>(31,291)</u>	<u>(12,214)</u>	<u>(11,703)</u>	<u>(46,557)</u>	<u>(42,994)</u>
Total	<u>\$126,851</u>	<u>\$115,732</u>	<u>\$ 17,336</u>	<u>\$ 16,376</u>	<u>\$144,187</u>	<u>\$132,108</u>

The following table reconciles the change in capital assets. The amount for governmental activities is \$11.1 million that represents a 9.6 percent increase. For business type activities the amount is \$1.0 million that is a 5.9 percent increase. Detail of this summary is presented of pages 47-49 of the notes.

	Governmental Activities		(in thousands) Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Beginning balance	\$115,732	\$109,401	\$ 16,376	\$ 15,703	\$132,108	\$125,104
Additions	10,329	8,245	1,133	1,034	11,462	9,279
Retirement, net of depreciation	(185)	(33)	(46)	(1)	(231)	(34)
Depreciation	(3,516)	(3,311)	(590)	(587)	(4,106)	(3,898)
Construction in progress	<u>4,491</u>	<u>1,430</u>	<u>463</u>	<u>227</u>	<u>4,954</u>	<u>1,657</u>
Ending balance	<u>\$126,851</u>	<u>\$115,732</u>	<u>\$ 17,336</u>	<u>\$ 16,376</u>	<u>\$144,187</u>	<u>\$132,108</u>

Governmental Activities

Major additions to capital assets consisted primarily of a new Parks facility, streets, storm sewers and equipment. Primary retirements were the replacement of several police cars and other equipment that were scheduled to be replaced based on an on-going replacement schedule. In addition the old Parks facility was sold.

Business - Type Activities

Major additions were system improvements and miscellaneous equipment. Annually the solid waste division replaces a garbage truck at a cost of around \$130,000 as a scheduled replacement. In addition a smaller garbage truck was purchased for around \$80,000.

Debt Administration

The amount of general obligation debt outstanding at fiscal year end was \$12.4 million as compared to \$10.6 million the prior fiscal year. This debt is backed by the full faith and credit of the City. Every other year the City issues a general obligation bond issue to fund various street, sewer and other essential corporate purpose projects and during this year the City issued an additional \$3.3 million in general obligation debt.

Moody's Investment Services, has rated the City's general obligation bonds at Aa2 since December, 2001. Prior to that date the City's bonds were rated at Aa3 which was an upgrade from an A1 that was made in December, 1999.

For more detailed information on the City's debt, please refer to page 49-50 of the Notes to Financial Statements.

Economic Factors

The unemployment rate for Linn County is currently at 3.7 percent, which is less than the previous year of 4.5 percent and less than the national unemployment rate of 4.6 percent.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2005, most recent available, (April 1, 2004 to March 31, 2005), retail sales for Marion were \$287.1 million and \$2,872.5 million for Linn County. For fiscal year 2004, retail sales were \$259.1 million for Marion and \$2,832.7 million for Linn County.

The total value of building permits for fiscal year 2006 was approximately \$65.5 million, which is up slightly from the fiscal year 2005 amount of \$63.8 million. The past few fiscal years have been strong with the construction of two large retail outlets, a new school, two large industrial facilities and several large multi-family residential projects.

Next Year's Budget and Rates

The City Council established the goal that the fiscal year 06-07 budget should not increase City property tax payments for the typical homeowner by more than 3.5 percent. The adopted budget achieves this goal with an increase of only 0.5 percent and accomplishes all of the Council's long-standing objectives including maintaining the current level of services, maintaining adequate levels of cash reserves and complying with all of the City's financial policies.

The City does anticipate an increase in sanitary sewer operational costs but due to the growth of the city and the rate increase that was instituted in FY 05-06 there is no planned increase in sewer fees for FY 06-07. The City does anticipate an increase in landfill fees and is planning on adding two additional trucks this year so a small rate increase is proposed for solid waste fees in FY 06-07.

The total City tax levy rate for fiscal year 06-07 is 13.95525 per taxable valuation compared to 13.98852 for fiscal year 05-06. Net taxable valuation for fiscal year 06-07 is \$889.0 million, which was an increase of \$49.9 million from fiscal year 05-06 when it was \$839.1 million.

Financial Information Contact

The City's financial statements are designed to present users (citizens, taxpayers customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the Office of the Finance Director at 1225 6th Avenue, City Hall, Marion, Iowa 52302.

FINANCIAL STATEMENTS

CITY OF MARION

Statement of Net Assets

For the Year Ended June 30, 2006

	Primary Government			Component Unit
	Governmental	Business	Totals	Water
	Activities	Activities		
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 7,633,351	\$ 3,127,853	\$ 10,761,204	\$ 1,446,868
Investments	15,928,912	3,250,079	19,178,991	269,260
Receivables:				
Property tax	9,402,921		9,402,921	-
Accounts	2,991,063	224,113	3,215,176	298,602
Unbilled revenue	-	318,224	318,224	499,700
Interest	36,956		36,956	
Notes	20,419		20,419	
Due from other governments	314,054	2,009	316,063	
Inventories	71,711	-	71,711	120,259
Prepaid items	29,359	-	29,359	18,570
Total current assets	<u>36,428,746</u>	<u>6,922,278</u>	<u>43,351,024</u>	<u>2,653,259</u>
Noncurrent assets:				
Notes receivable	68,273	26,132	94,405	-
Land	53,852,772	-	53,852,772	325,254
Buildings	12,118,546	-	12,118,546	1,993,226
Improvements other than buildings	83,756,922	-	83,756,922	-
Equipment	6,973,709	1,880,599	8,854,308	364,972
Distribution system	-	26,710,442	26,710,442	8,459,274
Storm water system	-	495,826	495,826	-
Accumulated depreciation	(34,342,804)	(12,219,584)	(46,562,388)	(2,296,858)
Construction in progress	4,491,245	462,715	4,953,960	-
Total noncurrent assets	<u>126,918,663</u>	<u>17,356,130</u>	<u>144,274,793</u>	<u>8,845,868</u>
TOTAL ASSETS	<u>\$ 163,347,409</u>	<u>\$ 24,278,408</u>	<u>\$ 187,625,817</u>	<u>\$ 11,499,127</u>

	Primary Government			Component Unit
	Governmental	Business	Totals	Water
	<u>Activities</u>	<u>Activities</u>		
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 1,086,224	\$ 197,855	\$ 1,284,079	\$ 113,804
Accrued payroll	334,143	27,708	361,851	22,336
Interest payable	52,772	-	52,772	-
Other accrued expenses	-	-	-	4,859
Deferred revenue	12,205,869	-	12,205,869	-
Due to primary government	-	-	-	533,836
Total current liabilities	<u>13,679,008</u>	<u>225,563</u>	<u>13,904,571</u>	<u>674,835</u>
Noncurrent liabilities:				
Due within one year:				
General obligation bonds payable	1,265,000	-	1,265,000	-
Notes payable	-	-	-	-
Compensated absences	848,945	7,863	856,808	27,060
Due after one year:				
General obligation bonds payable	11,155,000	-	11,155,000	-
Notes payable	-	-	-	-
Compensated absences	494,625	-	494,625	27,437
Total noncurrent liabilities	<u>13,763,570</u>	<u>7,863</u>	<u>13,771,433</u>	<u>54,497</u>
Total liabilities	<u>27,442,578</u>	<u>233,426</u>	<u>27,676,004</u>	<u>729,332</u>
NET ASSETS				
Invested in capital assets, net of related debt	114,430,390	17,329,998	131,760,388	8,845,868
Restricted for:				
Future construction	9,441,447	2,480,315	11,921,762	-
Unrestricted	<u>12,032,994</u>	<u>4,234,669</u>	<u>16,267,663</u>	<u>1,923,927</u>
TOTAL NET ASSETS	<u>\$ 135,904,832</u>	<u>\$ 24,044,982</u>	<u>\$ 159,949,814</u>	<u>\$ 10,769,795</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

Statement of Activities

For the Year Ended June 30, 2006

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Operating:				
Public Safety	\$ 7,269,159	\$ 246,391	\$ 118,749	\$ 20,471
Public Works	5,057,490	24,395	3,400	7,812,705
Culture and Recreation	3,169,499	347,462	178,817	-
Community and Economic Development	1,529,305	590,239	220,783	789,631
General Government	1,319,169	72,116	145,518	-
Interest	398,029	-	-	-
Total Governmental Activities	<u>18,742,650</u>	<u>1,280,603</u>	<u>667,267</u>	<u>8,622,807</u>
Business Activities:				
Sewer	2,103,754	2,609,095	-	663,489
Solid Waste	1,244,930	1,172,607	-	-
Total Business Activities	<u>3,348,684</u>	<u>3,781,702</u>	<u>-</u>	<u>663,489</u>
Total Primary Government	<u>22,091,334</u>	<u>5,062,305</u>	<u>667,267</u>	<u>9,286,296</u>
Component Unit:				
Water	<u>5,635,246</u>	<u>5,628,347</u>	<u>-</u>	<u>447,471</u>
General Revenues:				
Property taxes				
TIF revenue				
Other city taxes				
Road use tax				
State replacement tax				
Franchise taxes				
Investment income				
Assessments				
Miscellaneous revenue				
Gain on sale of capital assets				
Transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
Governmental	Business		Unit
<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Water</u>
\$ (6,883,548)	\$ -	\$ (6,883,548)	\$ -
2,783,010	-	2,783,010	-
(2,643,220)	-	(2,643,220)	-
71,348	-	71,348	-
(1,101,535)	-	(1,101,535)	-
(398,029)	-	(398,029)	-
<u>(8,171,973)</u>	<u>-</u>	<u>(8,171,973)</u>	<u>-</u>
-	1,168,830	1,168,830	-
-	(72,323)	(72,323)	-
-	1,096,507	1,096,507	-
<u>(8,171,973)</u>	<u>1,096,507</u>	<u>(7,075,466)</u>	<u>-</u>
-	-	-	440,572
11,826,079	-	11,826,079	-
448,782	-	448,782	-
421,105	-	421,105	-
2,201,817	-	2,201,817	-
-	-	-	-
-	-	-	-
1,152,015	286,157	1,438,172	-
24,318	241	24,559	66,343
464,144	-	464,144	-
40,425	-	40,425	-
67,376	(67,276)	100	-
<u>16,646,061</u>	<u>219,122</u>	<u>16,865,183</u>	<u>66,343</u>
<u>8,474,088</u>	<u>1,315,629</u>	<u>9,789,717</u>	<u>506,915</u>
<u>127,430,744</u>	<u>22,729,353</u>	<u>150,160,097</u>	<u>10,262,880</u>
<u>\$ 135,904,832</u>	<u>\$ 24,044,982</u>	<u>\$ 159,949,814</u>	<u>\$ 10,769,795</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION
Balance Sheet
Governmental Funds

June 30, 2006

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
Assets:			
Cash and cash equivalents	\$ 3,440,623	\$ 214,053	\$ 320,610
Investments	4,713,345	1,256,958	-
Receivables:			
Property tax	7,803,241	-	-
Accounts	72,328	-	2,909,417
Interest	10,460	-	-
Notes	-	-	-
Due from other governments	22,052	171,727	-
Inventories	71,711	-	-
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 16,133,760</u>	<u>\$ 1,642,738</u>	<u>\$ 3,230,027</u>
Liabilities:			
Checks in excess of bank balance	\$ -	\$ -	\$ -
Accounts payable	142,669	118,487	2,842
Accrued expenses	304,379	29,764	-
Deferred revenue	7,735,829	-	2,885,467
	<hr/>	<hr/>	<hr/>
Total liabilities	8,182,877	148,251	2,888,309
Fund balances:			
Reserved for inventories	71,711	-	-
Unreserved:			
General	7,879,172	-	-
Special Revenue	-	1,494,487	341,718
Debt Service	-	-	-
Capital Projects	-	-	-
Perpetual Care	-	-	-
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>7,950,883</u>	<u>1,494,487</u>	<u>341,718</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 16,133,760</u>	<u>\$ 1,642,738</u>	<u>\$ 3,230,027</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 121,187	\$ 1,719,602	\$ 1,302,609	\$ 7,118,684
7,111	8,053,343	1,898,155	15,928,912
1,599,680	-	-	9,402,921
-	-	9,318	2,991,063
-	26,496	-	36,956
-	-	88,692	88,692
-	33,338	86,937	314,054
-	-	-	71,711
<u>\$ 1,727,978</u>	<u>\$ 9,832,779</u>	<u>\$ 3,385,711</u>	<u>\$ 35,952,993</u>
\$ -	\$ -	\$ 40,763	\$ 40,763
2	679,414	23,074	966,488
-	-	-	334,143
1,584,573	-	-	12,205,869
1,584,575	679,414	63,837	13,547,263
-	-	-	71,711
-	-	-	7,879,172
-	-	2,903,482	4,739,687
143,403	-	-	143,403
-	9,153,365	288,082	9,441,447
-	-	130,310	130,310
<u>143,403</u>	<u>9,153,365</u>	<u>3,321,874</u>	<u>22,405,730</u>
<u>\$ 1,727,978</u>	<u>\$ 9,832,779</u>	<u>\$ 3,385,711</u>	<u>\$ 35,952,993</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Fund balances - total government funds			\$ 22,405,730
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used for governmental activities are not financial resources and, therefore, are not reported in funds			126,850,390
Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the funds			
Internal service funds, net assets			435,694
Long-term liabilities, including bonds payable, are not due and payable in current period and, therefore, are not reported in the funds:			
Compensated absences	\$	(1,343,570)	
Bonds payable		(12,420,000)	
Accrued interest		(52,772)	
Bond issuance costs		29,359	
			<u>(13,786,983)</u>
Net assets - governmental activities			<u>\$ 135,904,832</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds

For the Year Ended June 30, 2006

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
Revenues:			
Property taxes	\$ 7,468,740	\$ -	\$ 2,658,096
Tax increment financing	-	-	-
Other taxes	421,105	-	-
Licenses and permits	592,713	-	-
Use of money and property	472,406	-	2,391
Intergovernmental	341,924	2,201,817	87,850
Charges for services	370,363	-	-
Fines and forfeitures	210,327	-	-
Special assessments	22	-	-
Miscellaneous	62,464	-	64,628
	<u>9,940,064</u>	<u>2,201,817</u>	<u>2,812,965</u>
Expenditures:			
Operating:			
Public safety	6,489,841	-	64,869
Public works	1,006,563	1,531,108	-
Culture and recreation	2,417,361	-	43,698
Community and economic development	676,917	-	-
General government	1,281,742	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Bond issue costs	-	-	-
Capital outlay	-	255,614	-
	<u>11,872,424</u>	<u>1,786,722</u>	<u>108,567</u>
Total expenditures			
	<u>11,872,424</u>	<u>1,786,722</u>	<u>108,567</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,932,360)</u>	<u>415,095</u>	<u>2,704,398</u>
Other financing sources (uses):			
Contributions	-	-	-
Transfers in (out):			
Operating transfers in	3,335,815	-	-
Operating transfers out	(987,466)	(334,339)	(2,645,815)
Sale of equipment	-	-	-
Bond proceeds	-	-	-
	<u>2,348,349</u>	<u>(334,339)</u>	<u>(2,645,815)</u>
Net other financing sources (uses)			
	<u>2,348,349</u>	<u>(334,339)</u>	<u>(2,645,815)</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 1,699,243	\$ -	\$ -	\$ 11,826,079
-	-	448,782	448,782
-	-	-	421,105
-	-	-	592,713
32,187	449,762	132,660	1,089,406
-	1,093,988	220,783	3,946,362
-	995	16,946	388,304
-	-	-	210,327
24,318	-	-	24,340
-	3,000	68,720	198,812
<u>1,755,748</u>	<u>1,547,745</u>	<u>887,891</u>	<u>19,146,230</u>
-	-	212,246	6,766,956
-	-	60,264	2,597,935
-	-	80,317	2,541,376
-	-	846,724	1,523,641
-	-	-	1,281,742
1,465,000	-	-	1,465,000
433,707	-	-	433,707
3,500	-	-	3,500
-	6,285,661	358,322	6,899,597
<u>1,902,207</u>	<u>6,285,661</u>	<u>1,557,873</u>	<u>23,513,454</u>
<u>(146,459)</u>	<u>(4,737,916)</u>	<u>(669,982)</u>	<u>(4,367,224)</u>
-	150,000	-	150,000
136,937	350,000	292,790	4,115,542
-	-	(80,546)	(4,048,166)
-	40,425	-	40,425
-	3,282,906	-	3,282,906
<u>136,937</u>	<u>3,823,331</u>	<u>212,244</u>	<u>3,540,707</u>

(continued)

CITY OF MARION

Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds

For the Year Ended June 30, 2006

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	415,989	80,756	58,583
Beginning Fund Balance	<u>7,534,894</u>	<u>1,413,731</u>	<u>283,135</u>
Ending Fund Balance	<u>\$ 7,950,883</u>	<u>\$ 1,494,487</u>	<u>\$ 341,718</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
(9,522)	(914,585)	(457,738)	(826,517)
<u>152,925</u>	<u>10,067,950</u>	<u>3,779,612</u>	<u>23,232,247</u>
<u>\$ 143,403</u>	<u>\$ 9,153,365</u>	<u>\$ 3,321,874</u>	<u>\$ 22,405,730</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

Reconciliation of Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (826,517)

Amounts reported for governmental activities in the statement of activities are different because:

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale of capital assets increase financial resources. Thus, the change in fund balance differs by the cost of the capital asset sold 17,128

Governmental funds reported capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay	\$ 6,873,706	
Depreciation expense	<u>(3,515,711)</u>	3,357,995

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds 7,812,705

The issuance of long-term debt provides current financial resources to governmental funds, which the repayment of the principal on long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Bond proceeds	(3,300,000)	
Repayment of bond principal	1,465,000	
Accrued interest	52,772	
Bond issuance costs	<u>12,265</u>	(1,769,963)

Expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported in governmental funds (109,256)

Internal service funds net change (8,005)

Change in net assets - governmental activities \$ 8,474,088

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Business-type Activities - Enterprise Funds			Governmental
	Sewer Rental	Other	Totals	Activities - Internal Service Fund
Assets:				
Current assets:				
Cash and cash equivalents	\$ 714,341	\$ 2,413,512	\$ 3,127,853	\$ 555,430
Investments	317,402	2,932,677	3,250,079	-
Receivables:				
Accounts	146,780	77,333	224,113	-
Unbilled revenue	221,636	96,588	318,224	-
Due from other governments	101	1,908	2,009	-
Interest	-	-	-	-
Total current assets	<u>1,400,260</u>	<u>5,522,018</u>	<u>6,922,278</u>	<u>555,430</u>
Noncurrent assets:				
Notes receivable	-	26,132	26,132	-
Equipment	538,267	1,342,332	1,880,599	-
Distribution system	26,710,442	-	26,710,442	-
Storm sewer system	-	495,826	495,826	-
Accumulated depreciation	(11,780,808)	(438,776)	(12,219,584)	-
Construction in progress	24,796	437,919	462,715	-
Total noncurrent assets	<u>15,492,697</u>	<u>1,863,433</u>	<u>17,356,130</u>	<u>-</u>
Total assets	<u>16,892,957</u>	<u>7,385,451</u>	<u>24,278,408</u>	<u>555,430</u>
Liabilities:				
Current liabilities:				
Accounts payable	102,610	95,245	197,855	119,736
Accrued payroll	<u>10,601</u>	<u>17,107</u>	<u>27,708</u>	<u>-</u>
Total current liabilities	<u>113,211</u>	<u>112,352</u>	<u>225,563</u>	<u>119,736</u>
Noncurrent liabilities:				
Due within one year:				
Compensated absences	7,863	-	7,863	-
Notes payable	-	-	-	-
Due after one year:				
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>7,863</u>	<u>-</u>	<u>7,863</u>	<u>-</u>
Total liabilities	<u>121,074</u>	<u>112,352</u>	<u>233,426</u>	<u>119,736</u>

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Other</u>	<u>Totals</u>	<u>Activities -</u> <u>Internal Service</u> <u>Fund</u>
Net Assets:				
Invested in capital assets, net of related debt	15,492,697	1,837,301	17,329,998	-
Restricted for:				
Future construction	-	2,480,315	2,480,315	-
Unrestricted	<u>1,279,185</u>	<u>2,955,484</u>	<u>4,234,669</u>	<u>435,694</u>
Total net assets	<u>\$ 16,771,882</u>	<u>\$ 7,273,100</u>	<u>\$ 24,044,982</u>	<u>\$ 435,694</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

CITY OF MARION

Exhibit H

Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds

June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service <u>Fund</u>
	<u>Sewer Rental</u>	<u>Other</u>	<u>Totals</u>	
Operating revenue:				
Charges for services	\$ 1,886,632	\$ 1,793,846	\$ 3,680,478	\$ -
Miscellaneous revenues	<u>-</u>	<u>101,224</u>	<u>101,224</u>	<u>1,461,714</u>
Total operating revenue	<u>1,886,632</u>	<u>1,895,070</u>	<u>3,781,702</u>	<u>1,461,714</u>
Operating expense:				
Business type activities:				
Personal services	389,448	618,067	1,007,515	-
Services and commodities	1,182,870	568,278	1,751,148	1,469,719
Depreciation	<u>452,537</u>	<u>137,484</u>	<u>590,021</u>	<u>-</u>
Total operating expense	<u>2,024,855</u>	<u>1,323,829</u>	<u>3,348,684</u>	<u>1,469,719</u>
Operating income (loss)	(138,223)	571,241	433,018	(8,005)
Nonoperating revenue (expense):				
Investment income	40,888	245,269	286,157	-
Special Assessments	164	77	241	-
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenue	<u>41,052</u>	<u>245,346</u>	<u>286,398</u>	<u>-</u>
Income (loss) before contributions and transfers	(97,171)	816,587	719,416	(8,005)
Capital contributions	663,489	-	663,489	-
Transfers in	37,991	347,969	385,960	-
Transfers out	(50,607)	(402,629)	(453,236)	-
Changes in net assets	553,702	761,927	1,315,629	(8,005)
Beginning net assets	<u>16,218,180</u>	<u>6,511,173</u>	<u>22,729,353</u>	<u>443,699</u>
Ending net assets	<u>\$ 16,771,882</u>	<u>\$ 7,273,100</u>	<u>\$ 24,044,982</u>	<u>\$ 435,694</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION

Statement of Cash Flows
Proprietary Funds

June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Other</u>	<u>Totals</u>	<u>Activities -</u> <u>Internal Service</u> <u>Fund</u>
Cash flows from operating activities:				
Cash received from users	\$ 1,862,741	\$ 1,891,577	\$ 3,754,318	\$ 1,461,714
Cash paid to employees	(399,770)	(616,049)	(1,015,819)	-
Cash paid to suppliers	(1,179,462)	(565,064)	(1,744,526)	(1,435,358)
Net cash provided by operating activities	<u>283,509</u>	<u>710,464</u>	<u>993,973</u>	<u>26,356</u>
Cash flows from non-capital financing activities:				
Operating transfer in (out)	(12,616)	(54,660)	(67,276)	-
Net cash flows used in non-capital financing activities	<u>(12,616)</u>	<u>(54,660)</u>	<u>(67,276)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Transferring of capital assets	-	15,660	15,660	-
Special assessment	164	77	241	-
Purchase of capital assets	(168,655)	(726,567)	(895,222)	-
Net cash flows used in capital and related financing activities	<u>(168,491)</u>	<u>(710,830)</u>	<u>(879,321)</u>	<u>-</u>
Cash flows from investing activities:				
Interest on investments	40,888	245,269	286,157	-
Payments received on notes receivable	-	14,933	14,933	-
Purchase of government securities	(11,008)	(19,189)	(30,197)	-
Net cash flows provided by investing activities	<u>29,880</u>	<u>241,013</u>	<u>270,893</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	132,282	185,987	318,269	26,356
Cash and cash equivalents, June 30, 2005	<u>582,059</u>	<u>2,227,525</u>	<u>2,809,584</u>	<u>529,074</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 714,341</u>	<u>\$ 2,413,512</u>	<u>\$ 3,127,853</u>	<u>\$ 555,430</u>

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Other</u>	<u>Totals</u>	<u>Activities -</u> <u>Internal Service</u> <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (138,223)	\$ 571,241	\$ 433,018	\$ (8,005)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	452,537	137,484	590,021	-
Change in assets and liabilities:				
Receivables	(24,368)	(3,281)	(27,649)	-
Due from other governments	477	(212)	265	-
Accounts payable	3,408	3,214	6,622	-
Accrued payroll	(756)	2,018	1,262	34,361
Accrued compensated absences	(9,566)	-	(9,566)	-
Net cash provided by operating activities	<u>\$ 283,509</u>	<u>\$ 710,464</u>	<u>\$ 993,973</u>	<u>\$ 26,356</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION

Exhibit J

Statement of Fiduciary Assets and Liabilities
Trust Funds

June 30, 2006

	<u>Cemetery Memorial</u>	<u>Library Memorial</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 1,063	\$ -	\$ 1,063
Net Assets:			
Held in trust	\$ 1,063	\$ -	\$ 1,063

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION

Exhibit K

Statement of Changes in Fiduciary Net Assets
Trust Funds

June 30, 2006

	<u>Cemetery Memorial</u>	<u>Library Memorial</u>	<u>Total</u>
Additions:			
Investment earnings:	\$ 224	\$ -	\$ 224
Interest			
Deductions:			
Culture and recreation	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	224	-	224
Net assets, beginning of year	<u>839</u>	<u>-</u>	<u>839</u>
Net assets, end of year	<u>\$ 1,063</u>	<u>\$ -</u>	<u>\$ 1,063</u>

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Marion is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1865 and operates under the Home Rule Provisions of the Constitution of Iowa. It operates under a Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general administrative services. It also provides sewer and sanitation services.

The financial statements of the City of Marion have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

These financial statements present the City of Marion (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Marion Municipal Water Department is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City, but is financially accountable to the City. Its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Water Department is governed by a three-member board appointed by the City Council and the Water Department's operating budget is subject to the approval of the City Council.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Jointly Governed Organizations

The City also participates in three jointly governed organizations for which the City is either not financially accountable or the nature and significance of the organizations' relationships with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Iowa League of Cities, Linn County Emergency Management Agency, Marion Economic Development Company (MEDCO) and Regional Planning Commission.

B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the City is reported separately from its component unit.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvements of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplementary information.

The City of Marion reports the following major governmental funds:

General Fund - The General Fund accounts for all the financial resources of the City, except for those required to be accounted for by other funds. The revenues of the General Fund are primarily derived from general property taxes, charges for services, fines and forfeitures, licenses and permits and certain revenues from state and federal sources. The expenditures of the General Fund primarily relate to general administration, police and fire protection, streets and public buildings operation and maintenance and parks and recreation oriented activities.

Special Revenue Funds:

Road Use Tax Fund - The Road Use Tax Fund accounts for the maintenance of the City's infrastructure, such as streets, bridges and storm sewers. The revenues of the Road Use Tax Fund are primarily derived from state taxes. The expenditures of the Road Use Tax Fund primarily relate to the upkeep of the City's infrastructure.

Employee Benefits Fund - The Employee Benefits Fund accounts for the City's employee benefits. The revenues of the Employee Benefits Fund primarily come from property tax levies. The expenditures of the Employee Benefits Fund are for payment of the employee benefits in other funds.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term and special debt principal, interest and related costs.

Capital Projects Fund - The Capital Projects Fund accounts for the construction or replacement of City fixed assets, such as streets, bridges, storm sewers, fire stations and City Hall.

The City of Marion reports the following major proprietary funds:

Sewer Rental Fund - The Sewer Rental Fund accounts for the operation and maintenance of the City's sewer system.

Additionally, the City of Marion reports the following fund types:

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Special revenue funds account for revenues derived from specific sources which are required to be accounted for as separate funds.

Fiduciary funds account for assets held by the City in an agency capacity for others and cannot be used to support the City's own programs. The City's fiduciary funds consists of:

Agency funds, which are custodial in nature, report on assets and liabilities and do not involve measurement of the results of operations.

Other enterprise funds account for operations and activities that are financed and operated in a manner similar to a private business enterprise, and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges, or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City has four funds classified as other enterprise funds and they are as follows: Sewer Rental Replacement, Solid Waste, Solid Waste Replacement, and Storm Sewer Management.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, local option sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Substantially all shared revenues are recorded when the underlying exchange transaction has occurred. For governmental funds, revenue from grant revenues is recorded as deferred revenue until they become available.

Revenue from federal awards is recognized when the City has done everything necessary to establish its right to revenue. For governmental funds, revenue from federal grants is recognized when they become both measurable and available. Expenditures of federal awards are recognized in the accounting period when the liability is incurred. Income from accounts receivable and unbilled usage is recognized when earned. Licenses and permits, fines and forfeits, fees and refunds, charges for service (other than enterprise), miscellaneous and other revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(continued)

Special assessment receivables are recorded at the time of their levy. The related revenue is recognized at the time it is due in the governmental funds and when levied for government-wide statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow subsequent private-sector guidance.

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended are separately reported in the respective funds' operating statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are user fees and charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(continued)

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statement:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2006. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ percent per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors by the City Council in March 2005.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Property and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimates Useful Lives (In Years)</u>
Buildings	40-50
Improvements other than buildings	5-50
Equipment	2-20

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use Tax and Sewer Rental Funds.

Long-term Liabilities - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation. The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amount budgeted in any of the functions.

(2) Deposits and Investments

Deposits

The City's and its discretely presented component unit's deposits at June 30, 2006 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 that there will be no loss of public funds.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(2) Deposits and Investments (continued)

Investments

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 and the Treasurer of the State of Iowa; 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 had the following investments at fair value:

Investment Type	Original Maturities		
	<u>Less Than 1 Year</u>	<u>6 to 10 Years</u>	<u>10+ Years</u>
US Instrumentalities	\$ <u>-</u>	\$ <u>303,011</u>	\$ <u>12,281,608</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$3,078,037 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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 with in 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk. The City's US Instrumentalities investments at June 30, 2006 are rated Aaa or better by Moody's Investors service. The investment in Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk. The City places no limit on the amount that may be invested in any one issuer.

(3) Notes Receivable

The City has established a revolving loan program using funds from the repayment of loans previously made to local businesses through grants received from the Iowa Department of Economic Development using Community Development Block Grant funds. These loans bear interest at 3 percent and have monthly payments maturing through December, 2010. The outstanding balances of these loans at June 30, 2006 totaled \$88,692.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(3) Notes Receivable (continued)

During the year ended June 30, 1998, the City accepted a note receivable for reimbursement of costs to extend a sanitary sewer to a new housing development. The amount is being repaid over ten years with interest at 6.5 percent. The outstanding balance at June 30, 2006 was \$26,132.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 51,715,226	\$ 2,208,546	\$ 71,000	\$ 53,852,772
Construction in progress	<u>1,429,722</u>	<u>6,962,335</u>	<u>3,900,812</u>	<u>4,491,245</u>
Total capital assets not being depreciated	<u>53,144,948</u>	<u>9,170,881</u>	<u>3,971,812</u>	<u>58,344,017</u>
Capital assets being depreciated:				
Buildings	9,203,459	3,150,000	234,913	12,118,546
Improvements other than buildings	78,174,260	5,582,662	-	83,756,922
Equipment	<u>6,501,393</u>	<u>886,621</u>	<u>414,305</u>	<u>6,973,709</u>
Total capital assets being depreciated	<u>93,879,112</u>	<u>9,619,283</u>	<u>649,218</u>	<u>102,849,177</u>
Less accumulated depreciation for:				
Buildings	2,518,218	222,814	112,237	2,628,795
Improvements other than buildings	25,630,735	2,651,868	-	28,282,603
Equipment	<u>3,142,199</u>	<u>641,029</u>	<u>351,822</u>	<u>3,431,406</u>
Total accumulated depreciation	<u>31,291,152</u>	<u>3,515,711</u>	<u>464,059</u>	<u>34,342,804</u>
Total capital assets being depreciated, net	<u>62,587,960</u>	<u>6,103,572</u>	<u>185,159</u>	<u>68,506,373</u>
Governmental activities capital assets, net	<u>\$115,732,908</u>	<u>\$ 15,274,453</u>	<u>\$ 4,156,971</u>	<u>\$126,850,390</u>

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(4) Capital Assets (continued)

Depreciation expense was charged to functions of the primary government as follows:

Government activities:	
Public safety	\$ 436,424
Public works	2,448,581
Culture and recreation	612,850
General government	<u>17,856</u>
 Total depreciation expense, governmental activities	 <u>\$ 3,515,711</u>

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 226,766	\$ 462,715	\$ 226,766	\$ 462,715
Capital assets being depreciated:				
Equipment	1,528,678	471,070	119,149	1,880,599
Distribution system	25,864,059	846,383	-	26,710,442
Storm sewer system	<u>458,868</u>	<u>36,958</u>	<u>-</u>	<u>495,826</u>
 Total capital assets being depreciated	 <u>27,851,605</u>	 <u>1,354,411</u>	 <u>119,149</u>	 <u>29,086,867</u>
Less accumulated depreciation for:				
Equipment	522,571	177,493	73,094	626,970
Distribution system	11,171,079	406,331	-	11,577,410
Storm sewer system	<u>9,006</u>	<u>6,198</u>	<u>-</u>	<u>15,204</u>
 Total accumulated depreciation	 <u>11,702,656</u>	 <u>590,022</u>	 <u>73,094</u>	 <u>12,219,584</u>
 Total capital assets being depreciated, net	 <u>16,148,949</u>	 <u>764,389</u>	 <u>46,055</u>	 <u>16,867,282</u>
 Business-type activities capital assets, net	 <u>\$ 16,375,715</u>	 <u>\$ 1,227,104</u>	 <u>\$ 272,821</u>	 <u>\$ 17,329,998</u>

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(4) Capital Assets (continued)

Depreciation expense was charged to business-type activities as follows:

Business-type activities:		
Sewer	\$	452,538
Solid waste		131,286
Systems		<u>6,198</u>
Total depreciation expense, business-type activities	\$	<u>590,022</u>

(5) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	General Obligation Bonds	Compensated Absences	Total
Beginning balance	\$ 10,560,000	\$ 1,252,044	\$ 11,812,044
Increases	3,000,000	891,712	3,891,712
Decreases	<u>1,440,000</u>	<u>792,323</u>	<u>2,232,323</u>
Ending balance	<u>\$ 12,420,000</u>	<u>\$ 1,351,433</u>	<u>\$ 13,771,433</u>
Due within one year	<u>\$ 1,265,000</u>	<u>\$ 856,808</u>	<u>\$ 2,121,808</u>

Bonds Payable

Eight issues of unmatured general obligation bonds, totaling \$12,420,000, are outstanding at June 30, 2006. General obligation bonds bear interest at rates ranging from 2.20% to 4.85% per annum and mature in varying annual amounts ranging from \$65,000 to \$385,000, with the final maturities due in the year ending June 30, 2017.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(5) Changes in Long-Term Liabilities (continued)

Details of general obligation bonds payable at June 30, 2006 are as follows:

Government Activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding at June 30, 2006
General Obligation Bonds:						
Corporate purpose	December 1, 1997	4.50-4.60%	June 1, 2012	\$125,000-215,000	\$ 2,000,000	\$ 1,145,000
Refunding corporate purpose	April 1, 1998	3.95-4.40%	June 1, 2007	10,000-20,000	1,830,000	95,000
Corporate purpose	December 15, 1998	4.75-4.85%	June 1, 2012	105,000-275,000	2,500,000	1,460,000
Refunding corporate purpose	December 1, 2001	3.50-4.30%	June 1, 2010	10,000-220,000	1,355,000	725,000
Corporate purposes	December 1, 2001	4.05-4.75%	June 1, 2014	145,000-280,000	2,700,000	1,945,000
Corporate purposes	December 1, 2003	2.50-3.75%	June 1, 2016	260,000-370,000	3,100,000	3,100,000
Corporate purposes	December 1, 2004	2.20-3.65%	June 1, 2015	50,000-80,000	700,000	650,000
Corporate purposes	December 1, 2005	3.30-3.80%	June 1, 2017	70,000-380,000	3,300,000	3,300,000
						<u>\$ 12,420,000</u>

A summary of the annual general obligation bond principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,265,000	\$ 538,277	\$ 1,803,277
2008	1,390,000	432,332	1,822,332
2009	1,450,000	379,785	1,829,785
2010	1,505,000	323,467	1,828,467
2011	1,375,000	264,047	1,639,047
2012	1,455,000	209,195	1,664,195
2013	1,010,000	150,077	1,160,077
2014	1,050,000	111,870	1,161,870
2015	795,000	71,210	866,210
2016	740,000	42,195	782,195
2017	<u>385,000</u>	<u>14,630</u>	<u>399,630</u>
Total	<u>\$ 12,420,000</u>	<u>\$ 2,537,085</u>	<u>\$ 14,957,085</u>

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(6) Summary of Nonbonded Indebtedness

During the year ended June 30, 2001, the City entered into an agreement with a donor to pay an annuity of \$25,000 each year for as long as the donor lives in exchange for a gift of 180 acres of land to be used for park purposes. Using an estimated life span based on annuity tables and discounted at the City's estimated incremental borrowing rate of 4.25 percent, an estimated liability of \$225,246 was calculated. This annuity liability is revalued annually based upon changes in life expectancy and discount rates.

Since the development of this land for park purposes is not expected to be fully completed for many years, the agreement with the donors allows the City to lease this land or any part of it for farming purposes pending full development. The City has entered into a three-year agreement to lease 170 acres of cropland at \$100 per acre per year, subject to proportionate reduction as land is developed.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

	Transfers In						Totals
	General	Road Use	Employee Benefits	Nonmajor Governmental Funds	Sewers	Nonmajor Enterprise Funds	
Transfers Out:							
General	\$ -	\$ 20,000	\$2,645,815	\$ 50,000	\$ 10,000	\$ -	\$2,725,815
Debt Services	-	80,610	-	-	29,232	27,095	136,937
Capital Projects	350,000	-	-	-	-	-	35,000
Nonmajor:							
RUT Replacement	-	205,000	-	-	-	-	205,000
Employee Benefits	27,566	28,729	-	-	11,375	20,122	87,790
Equipment Reserve	610,000	-	-	-	-	-	610,000
	<u>\$ 987,566</u>	<u>\$ 334,339</u>	<u>\$2,645,815</u>	<u>\$ 50,000</u>	<u>\$ 50,607</u>	<u>\$ 47,217</u>	<u>\$4,115,542</u>

Transfers are used to move resources from the fund that will be providing the resources to the fund in which certain expenditures/expenses are being accounted for. Transfers are generally used to fund the cost of administration, debt services or capital projects.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(8) Retirement System

The City offers City employees the following retirement plans:

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 - 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35 percent of earnable compensation and the City's contribution rate may not be less than 25 percent of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2006, 2005 and 2004 were \$993,779, \$813,723 and \$612,232, respectively, which met the required minimum contribution for each year.

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70 percent of their annual salary and the City is required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$256,359, \$229,211 and \$214,469, respectively, equal to the required contributions for each year.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(9) **Compensated Absences**

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Employees covered under the International Association of Firefighters contract are also eligible for compensation at normal retirement of accumulated sick leave in excess of 90 days, to a maximum payment of 60 days. Employees covered under the Marion Policeman's Protective Association contract are eligible for compensation at normal retirement of 50 percent of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Municipal Water Department employees and all other non-union City employees, sick leave can be accumulated but is payable only when used. Retiring employees of the Marion Municipal Water Department who have accumulated 30 or more days of unused sick leave are entitled to one and one-half months of regular pay as severance pay. City employees may also accumulate compensatory hours for overtime worked to be used subsequently or paid out upon termination, retirement or death. The City's approximate maximum liability for earned compensated absences payable to employees, including related tax and fringe amounts, is as follows:

Sick leave	\$ 494,625
Vacation and personal leave	708,438
Compensatory time	<u>148,370</u>
Total	<u>\$ 1,351,433</u>

The above liabilities have been computed based on rates of pay as of June 30, 2006.

(10) **Conduit Debt**

The City has issued \$33,570,000 of industrial development revenue and health care facility revenue bonds under provisions of Chapter 419 of the Code of Iowa.

The amounts of these bonds which were still outstanding at June 30, 2006 are not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(11) **Employee Health Care Plan**

The City self-funds for health insurance claims to a stop-loss insured amount of \$30,000 per participant and a 125 percent aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The following is a summary of claims paid during the year and an estimate of the claims incurred but not reported at June 30, 2006:

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(11) Employee Health Care Plan (continued)

Claims paid during the year	\$ 1,141,085
Estimated claims incurred but unpaid at June 30, 2006	150,000

The City has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The risk financing is accounted for as an internal service fund where assets are set aside for claim settlements. The cost of these benefits is charged to each department and fund based upon the number of employees whose salary is charged to the department and fund and the type of plan (single or family) chosen by the employee. Amounts charged are \$371 per month single or \$928 per month family, which is an actuarially determined amount with a reasonable provision for future unexpected claims. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

(12) Related Party Transactions

The Marion Municipal Water Department bills and collects for sewer and garbage services provided for the City of Marion to its residents. During the year ended June 30, 2006, the Marion Municipal Water Department collected and remitted to the City \$2,497,331 for sewer and \$1,040,400 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$72,908.

(13) Local Government Risk Pool

The City is a member in the Iowa Municipal Workers' Compensation Association (IMWCA). IMWCA is a local government risk sharing pool established for the purpose of managing and funding workers' compensation claims against its members. During the year ended June 30, 2006, the City remitted \$92,996 to IMWCA for workers' compensation premiums.

(14) Primary Government

The City is involved in construction of capital assets, mainly streets and sanitary sewer lines. At June 30, 2006, the City was committed to approximately \$4,696,816 in construction contracts, capital asset purchases and other services.

Litigation

At June 30, 2006, the City was involved in various claims and lawsuits against the City that are being defended primarily through its insurance carriers. Counsel has indicated that, although the results are uncertain, insurance coverage is adequate to cover any judgments, claims or awards against the City.

CITY OF MARION

Notes to Financial Statements

June 30, 2006

(14) Primary Government (continued)

The City has one lawsuit against it that the insurance company will not cover. The City's legal counsel has stated that the case is weak against the City and a favorable outcome is expected. The amount is not material to the City's financial statements taken as a whole.

Risk Management

The City 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. Settled claims from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

Component Unit

The Water Department provides single premium health insurance coverage for a period not to exceed three continuous years for retirees with a minimum of 30 years of service.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARION

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

Required Supplementary Information

Year Ended June 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Revenues:		
Property taxes	\$ 11,812,041	\$ -
Tax increment financing	446,762	-
Other taxes	405,807	-
Licenses and permits	596,192	-
Use of money and property	1,086,744	286,157
Intergovernmental	3,886,836	-
Charges for services	594,881	3,666,776
Special assessments	25,578	800
Miscellaneous	<u>1,693,903</u>	<u>101,224</u>
Total receipts	<u>20,548,744</u>	<u>4,054,957</u>
Expenditures:		
Operating:		
Public safety	6,746,793	-
Public works	2,584,545	-
Culture and recreation	2,528,544	-
Community and economic development	1,544,165	-
General government	1,286,845	-
Debt service	1,902,207	-
Capital projects	6,850,105	-
Business-type activities	<u>1,465,905</u>	<u>3,608,480</u>
Total expenditures	<u>24,909,109</u>	<u>3,608,480</u>
Excess (deficiency) of revenues over (under) expenditures	(4,360,365)	446,477
Other financing sources (uses) net	<u>3,571,253</u>	<u>(97,822)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(789,112)	348,655
Beginning fund balance	<u>24,351,018</u>	<u>6,030,092</u>
Ending fund balance	<u>\$ 23,561,906</u>	<u>\$ 6,378,747</u>

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 11,812,041	\$ 11,539,135	\$ 11,539,135	\$ 272,906
446,762	426,917	426,917	19,845
405,807	342,140	342,140	63,667
596,192	422,800	422,800	173,392
1,372,901	1,120,365	1,120,365	252,536
3,886,836	3,471,822	3,471,822	415,014
4,261,657	5,949,355	5,949,355	(1,687,698)
26,378	11,720	11,720	14,658
<u>1,795,127</u>	<u>2,692,773</u>	<u>2,692,773</u>	<u>(897,646)</u>
<u>24,603,701</u>	<u>25,977,027</u>	<u>25,977,027</u>	<u>(1,373,326)</u>
6,746,793	6,881,608	6,931,608	184,815
2,584,545	2,725,109	2,750,109	165,564
2,528,544	2,611,375	2,711,375	182,831
1,544,165	1,590,093	1,740,093	195,928
1,286,845	2,971,383	3,021,383	1,734,538
1,902,207	1,902,307	1,903,807	1,600
6,850,105	7,083,761	9,195,261	2,345,156
<u>5,074,385</u>	<u>5,638,346</u>	<u>5,973,346</u>	<u>898,961</u>
<u>28,517,589</u>	<u>31,403,982</u>	<u>34,226,982</u>	<u>5,709,393</u>
(3,913,888)	(5,426,955)	(8,249,955)	4,336,067
<u>3,473,431</u>	<u>3,300,000</u>	<u>3,300,000</u>	<u>173,431</u>
(440,457)	(2,126,955)	(4,949,955)	4,509,498
<u>30,381,110</u>	<u>28,681,193</u>	<u>30,382,100</u>	<u>(990)</u>
<u>\$ 29,940,653</u>	<u>\$ 26,554,238</u>	<u>\$ 25,432,145</u>	<u>\$ 4,508,508</u>

These financial statements should be read only in connection with the accompanying independent auditor's report.

CITY OF MARION

Budget to GAAP Reconciliation

Required Supplementary Information

Year Ended June 30, 2006

	<u>Government Funds</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjust-</u> <u>ments</u>	<u>Modified</u> <u>Accrual</u> <u>Basis</u>
Revenues	\$ 20,548,744	\$ (1,402,514)	\$ 19,146,230
Expenditures	24,909,109	(1,395,655)	23,513,454
Net	(4,360,365)	(6,859)	(4,367,224)
Other financing sources, net	3,571,253	(30,546)	3,540,707
Beginning balances	<u>24,351,018</u>	<u>(1,118,771)</u>	<u>23,232,247</u>
Ending Balances	<u>\$ 23,561,906</u>	<u>\$ (1,156,176)</u>	<u>\$ 22,405,730</u>

Proprietary Funds		
Enterprise		
<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjust-</u> <u>ments</u>	<u>Accrual</u> <u>Basis</u>
\$ 4,054,957	\$ 13,143	\$ 4,068,100
3,608,480	(259,796)	3,348,684
446,477	272,939	719,416
(97,822)	694,035	596,213
<u>6,030,092</u>	<u>16,699,261</u>	<u>22,729,353</u>
<u>\$ 5,932,270</u>	<u>\$ 18,112,712</u>	<u>\$ 24,044,982</u>

These financial statements should be read only in connection
with the accompanying Independent auditor's report

CITY OF MARION

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Government 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. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 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 Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$2,823,000. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MARION

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue			
	<u>Road Use Replacement</u>	<u>Tax Increment Financing</u>	<u>Community Development Block Grant</u>	<u>Police Retirement</u>
Assets:				
Cash and cash equivalents	\$ 287,020	\$ 299,439	\$ -	\$ -
Investments	113,094	-	-	781,374
Receivables:				
Accounts	519	3,200	-	1,474
Interest	-	-	-	-
Notes	-	-	88,692	-
Due from other governments	-	-	86,937	-
	<u>400,633</u>	<u>302,639</u>	<u>175,629</u>	<u>782,848</u>
Total assets	<u>\$ 400,633</u>	<u>\$ 302,639</u>	<u>\$ 175,629</u>	<u>\$ 782,848</u>
Liabilities:				
Checks in excess of bank balance	\$ -	\$ -	\$ 29,230	\$ 11,533
Accounts payable	-	979	21,788	-
	<u>-</u>	<u>979</u>	<u>51,018</u>	<u>11,533</u>
Total liabilities	<u>-</u>	<u>979</u>	<u>51,018</u>	<u>11,533</u>
Fund balances:				
Unreserved:				
Special Revenue	400,633	301,660	124,611	771,315
Capital Projects	-	-	-	-
Perpetual Care	-	-	-	-
	<u>400,633</u>	<u>302,639</u>	<u>175,629</u>	<u>782,848</u>
Total liabilities and fund balances	<u>\$ 400,633</u>	<u>\$ 302,639</u>	<u>\$ 175,629</u>	<u>\$ 782,848</u>

<u>Employee Benefits</u>	<u>Capital Projects</u>			<u>Total</u>
	<u>Park Development</u>	<u>Maintenance Bond</u>	<u>Cemetery Perpetual Care</u>	<u>Nonmajor Governmental Funds</u>
\$ 417,192	\$ 92,031	\$ 196,051	\$ 10,876	\$ 1,302,609
884,253	-	-	119,434	1,898,155
4,125	-	-	-	9,318
-	-	-	-	-
-	-	-	-	88,692
-	-	-	-	86,937
<u>\$ 1,305,570</u>	<u>\$ 92,031</u>	<u>\$ 196,051</u>	<u>\$ 130,310</u>	<u>\$ 3,385,711</u>
\$ -	\$ -	\$ -	\$ -	\$ 40,763
307	-	-	-	23,074
307	-	-	-	63,837
1,305,263	-	-	-	2,903,482
-	92,031	196,051	-	288,082
-	-	-	130,310	130,310
<u>\$ 1,305,570</u>	<u>\$ 92,031</u>	<u>\$ 196,051</u>	<u>\$ 130,310</u>	<u>\$ 3,385,711</u>

CITY OF MARION

Statement of Revenues, Expenditures
and Changes in Fund Balance
Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	Special Revenue			
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Police Retirement
Revenues:				
Tax increment financing	\$ -	\$ 448,782	\$ -	\$ -
Use of money and property	12,236	-	1,417	36,196
Intergovernmental	-	-	220,783	-
Charges for services	-	-	-	-
Miscellaneous	-	-	320	-
Total revenue	<u>12,236</u>	<u>448,782</u>	<u>222,520</u>	<u>36,196</u>
Expenditure:				
Operating:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	505,955	321,538	-
Capital projects	337,078	-	-	-
Total expenditures	<u>337,078</u>	<u>505,955</u>	<u>321,538</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(324,842)</u>	<u>(57,173)</u>	<u>(99,018)</u>	<u>36,196</u>
Other financing sources (uses):				
Transfers in	205,000	-	-	-
Transfers out	-	-	-	(50,000)
Net other financing sources (uses)	<u>205,000</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(119,842)</u>	<u>(57,173)</u>	<u>(99,018)</u>	<u>(13,804)</u>
Beginning fund balance	<u>520,475</u>	<u>358,833</u>	<u>223,629</u>	<u>785,119</u>
Ending fund balance	<u>\$ 400,633</u>	<u>\$ 301,660</u>	<u>\$ 124,611</u>	<u>\$ 771,315</u>

<u>Employee Benefits</u>	<u>Capital Projects</u>			<u>Total</u>	
	<u>Park Development</u>	<u>Maintenance Bond</u>	<u>Cemetery Perpetual Care</u>	<u>Nonmajor Governmental Funds</u>	
\$ -	\$ -	\$ -	\$ -	\$ 448,782	
73,686	1,147	7,978	-	132,660	
-	-	-	-	220,783	
-	-	16,946	-	16,946	
-	65,000	-	3,400	68,720	
<u>73,686</u>	<u>66,147</u>	<u>24,924</u>	<u>3,400</u>	<u>887,891</u>	
212,246	-	-	-	212,246	
60,264	-	-	-	60,264	
80,317	-	-	-	80,317	
19,231	-	-	-	846,724	
<u>20,244</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>358,322</u>	
<u>392,302</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,557,873</u>	
<u>(318,616)</u>	<u>65,147</u>	<u>24,924</u>	<u>3,400</u>	<u>(669,982)</u>	
87,790	-	-	-	292,790	
<u>(30,546)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,546)</u>	
<u>57,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,244</u>	
(261,372)	65,147	24,924	3,400	(457,738)	
<u>1,566,635</u>	<u>26,884</u>	<u>171,127</u>	<u>126,910</u>	<u>3,779,612</u>	
<u>\$ 1,305,263</u>	<u>\$ 92,031</u>	<u>\$ 196,051</u>	<u>\$ 130,310</u>	<u>\$ 3,321,874</u>	

**Combining Statement of Net Assets
Nonmajor Enterprise Funds**

For the Year Ended June 30, 2006

	<u>Business-type Activities - Other Enterprises</u>				
	<u>Sewer Rent</u>	<u>Solid</u>	<u>Solid Waste</u>	<u>Storm Water</u>	
	<u>Replacement</u>	<u>Waste</u>	<u>Replacement</u>	<u>Management</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 1,424,521	\$ 47,566	\$ 20,951	\$ 920,474	\$ 2,413,512
Investments	613,500	1,154,042	402,000	763,135	2,932,677
Receivables:					
Accounts	3,000	68,833	2,000	3,500	77,333
Unbilled revenue	-	96,588	-	-	96,588
Interest	-	-	-	-	-
Due from other governments	-	1,908	-	-	1,908
Total current assets	<u>2,041,021</u>	<u>1,368,937</u>	<u>424,951</u>	<u>1,687,109</u>	<u>5,522,018</u>
Noncurrent assets:					
Notes receivable	26,132	-	-	-	26,132
Equipment	-	1,342,332	-	-	1,342,332
Storm water system	-	-	-	495,826	495,826
Accumulated depreciation	-	(423,571)	-	(15,205)	(438,776)
Construction in progress	-	-	55,427	382,492	437,919
Total noncurrent assets	<u>26,132</u>	<u>918,761</u>	<u>55,427</u>	<u>863,113</u>	<u>1,863,433</u>
Total assets	<u>\$ 2,067,153</u>	<u>\$ 2,287,698</u>	<u>\$ 480,378</u>	<u>\$ 2,550,222</u>	<u>\$ 7,385,451</u>
Liabilities:					
Accounts payable	\$ 11,788	\$ 33,316	\$ -	\$ 50,141	\$ 95,245
Accrued payroll	-	17,107	-	-	17,107
Total current liabilities	<u>11,788</u>	<u>50,423</u>	<u>-</u>	<u>50,141</u>	<u>112,352</u>
Net assets:					
Invested in capital assets, net of related debt	-	918,761	55,427	863,113	1,837,301
Restricted for:					
Future construction	2,055,364	-	424,951	-	2,480,315
Unrestricted	-	1,318,516	-	1,636,968	2,955,484
Total net assets	<u>\$ 2,055,364</u>	<u>\$ 2,237,277</u>	<u>\$ 480,378</u>	<u>\$ 2,500,081</u>	<u>\$ 7,273,100</u>

**Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Nonmajor Enterprise Funds**

For the Year Ended June 30, 2006

	<u>Business-type Activities - Other Enterprises</u>				
	<u>Sewer Rent</u>	<u>Solid</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>
	<u>Replacement</u>	<u>Waste</u>	<u>Replacement</u>	<u>Management</u>	
Operating revenue:					
Charges for services	\$ 323,302	\$ 915,326	\$ 156,057	\$ 399,161	\$ 1,793,846
Miscellaneous revenues	-	101,224	-	-	101,224
	<u>323,302</u>	<u>1,016,550</u>	<u>156,057</u>	<u>399,161</u>	<u>1,895,070</u>
Total operating revenue					
Operating expense:					
Personal services	-	618,067	-	-	618,067
Services and commodities	51,450	495,577	-	21,251	568,278
Depreciation	-	131,286	-	6,198	137,484
	<u>51,450</u>	<u>1,244,930</u>	<u>-</u>	<u>27,449</u>	<u>1,323,829</u>
Total operating expense					
Operating income (loss)	<u>271,852</u>	<u>(228,380)</u>	<u>156,057</u>	<u>371,712</u>	<u>571,241</u>
Nonoperating revenue (expense):					
Investment income	91,192	44,212	29,083	80,782	245,269
Special assessments	-	77	-	-	77
	<u>91,192</u>	<u>44,289</u>	<u>29,083</u>	<u>80,782</u>	<u>245,346</u>
Total nonoperating revenue					
Income (loss) before contributions and transfers	363,044	(184,091)	185,140	452,494	816,587
Other financing sources (uses)					
Transfers In	-	347,969	-	-	347,969
Transfers out	(24,796)	(36,242)	(330,618)	(10,973)	(402,629)
	<u>338,248</u>	<u>127,636</u>	<u>(145,478)</u>	<u>441,521</u>	<u>761,927</u>
Change in net assets					
Beginning net assets	<u>1,717,116</u>	<u>2,109,641</u>	<u>625,856</u>	<u>2,058,560</u>	<u>6,511,173</u>
Ending net assets	<u>\$ 2,055,364</u>	<u>\$ 2,237,277</u>	<u>\$ 480,378</u>	<u>\$ 2,500,081</u>	<u>\$ 7,273,100</u>

CITY OF MARION

Combining Statement of Cash Flows
Nonmajor Enterprise Funds

June 30, 2006

	Business-type Activities - Other Enterprises			
	Sewer Rent Replacement	Solid Waste	Solid Waste Replacement	Storm Water Management
Cash flows from operating activities:				
Cash received from users	\$ 323,330	\$ 1,013,029	\$ 156,057	\$ 399,161
Cash paid to employees	-	(616,049)	-	-
Cash paid to suppliers	(81,726)	(506,912)	(2)	23,576
Net cash flows from operating activities	<u>241,604</u>	<u>(109,932)</u>	<u>156,055</u>	<u>422,737</u>
Cash flows from non-capital financing activities:				
Special assessment	-	77	-	-
Operating transfers in (out)	(24,796)	311,727	(330,618)	(10,973)
Net cash flows from non-capital financing activities	<u>(24,796)</u>	<u>311,804</u>	<u>(330,618)</u>	<u>(10,973)</u>
Cash flows from capital and related financing activities:				
Transfer out of capital assets	15,660	-	-	-
Purchase of capital assets	-	(337,258)	(6,817)	(382,492)
Net cash flows from capital and related activities	<u>15,660</u>	<u>(337,258)</u>	<u>(6,817)</u>	<u>(382,492)</u>
Cash flows from investing activities:				
Interest from investments	91,192	44,212	29,083	80,782
Purchases of investments	-	(19,189)	-	-
Payments received on notes receivable	14,933	-	-	-
Net cash flows from investing activities	<u>106,125</u>	<u>25,023</u>	<u>29,083</u>	<u>80,782</u>
Net increase (decrease) in cash and cash equivalents	338,593	(110,363)	(152,297)	110,054
Cash and cash equivalents, June 30, 2005	<u>1,085,928</u>	<u>157,929</u>	<u>173,248</u>	<u>810,420</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 1,424,521</u>	<u>\$ 47,566</u>	<u>\$ 20,951</u>	<u>\$ 920,474</u>

Total

\$ 1,891,577
(616,049)
(565,064)

710,464

77
(54,660)

(54,583)

15,660
(726,567)

(710,907)

245,269
(19,189)
14,933

241,013

185,987
2,227,525

\$ 2,413,512

(continued)

CITY OF MARION

Combining Statement of Cash Flows
Nonmajor Enterprise Funds

June 30, 2006

	<u>Business-type Activities - Other Enterprises</u>			
	<u>Sewer Rent Replacement</u>	<u>Solid Waste</u>	<u>Solid Waste Replacement</u>	<u>Storm Water Management</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:				
Operating income (loss)	\$ 271,852	\$ (228,380)	\$ 156,057	\$ 371,712
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation expense	-	131,286	-	6,198
Change in assets and liabilities:				
Receivables	-	(3,281)	-	-
Due from other governments	28	(240)	-	-
Accounts payable	(30,276)	(11,335)	(2)	44,827
Accrued expenses	-	2,018	-	-
	<u>\$ 241,604</u>	<u>\$ (109,932)</u>	<u>\$ 156,055</u>	<u>\$ 422,737</u>

Total

\$ 571,241

137,484

(3,281)

(212)

3,214

2,018

\$ 710,464

**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
Marion, Iowa

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Marion as of and for the year ended June 30, 2006 which collectively comprise City of Marion's basic financial statements and have issued our report thereon dated September 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Marion's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Marion's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item I-A-06, I-B-06, I-C-06.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Marion'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*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

This report is intended solely for the information and use of the audit committee, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Marion during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Clifton Henderson LLP

Cedar Rapids, Iowa
September 5, 2006

CITY OF MARION

Schedule of Findings

Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 SEGREGATION OF DUTIES IN THE CASH RECEIPTS FUNCTION

Criteria: The City has a responsibility to establish and maintain effective internal controls over financial transactions and reporting, which includes adequate segregation of duties.

Condition: A position in the Finance Department has the authority to open mail, list out cash receipts and make bank deposits.

Questioned Costs: None.

Context: During inquiries of management and our audit of the accounts payable function, we noted that there were individuals in the Finance Department that could perform all of the steps in the cash receipts function.

Effect: Incompatible duties were not properly segregated.

Cause: Ideal separation of incompatible duties is difficult with the size of the Finance Department.

Recommendation: When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

Management Response and corrective action plan: We agree, and the City will continue to look for ways to realign and reassign duties where practical.

I-B-06 SEGREGATION OF DUTIES IN THE CASH RECONCILIATIONS FUNCTION

Criteria: The City has a responsibility to establish and maintain effective internal controls over financial transactions and reporting, which includes adequate segregation of duties.

Condition: A position in the Finance Department that has the responsibility for maintaining cash records also performs the monthly bank reconciliations.

CITY OF MARION

Schedule of Findings

Year Ended June 30, 2006

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

**I-B-06 SEGREGATION OF DUTIES IN THE CASH RECONCILIATIONS FUNCTION
(continued):**

Questioned Costs: None.

Context: During inquiries of management and our audit of the accounts payable function, we noted that there were individuals in the Finance Department that could perform all of the steps in the maintaining and reconciling the cash records.

Effect: Incompatible duties were not properly segregated.

Cause: Ideal separation of incompatible duties is difficult with the size of the Finance Department.

Recommendation: When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

Management Response and corrective action plan: We agree, and the City will continue to look for ways to realign and reassign duties where practical.

I-C-06 SEGREGATION OF DUTIES IN THE CASH DISBURSEMENT FUNCTION

Criteria: The City has a responsibility to establish and maintain effective internal controls over financial transactions and reporting, which includes adequate segregation of duties.

Condition: A position in the Finance Department has the authority to prepare and sign checks and also perform monthly bank reconciliations.

Questioned Costs: None.

Context: During inquiries of management and our audit of the accounts payable function, we noted that there were individuals in the Finance Department that could perform all of the steps in the cash disbursements function and perform the bank reconciliations.

Effect: Incompatible duties were not properly segregated.

Cause: Ideal separation of incompatible duties is difficult with the size of the Finance Department.

Recommendation: When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

CITY OF MARION

Schedule of Findings

Year Ended June 30, 2006

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

I-C-06 SEGREGATION OF DUTIES IN THE CASH DISBURSEMENT FUNCTION (continued)

Management Response and corrective action plan: We agree, and the City will continue to look for ways to realign and reassign duties where practical.

Part II: Findings Related to Statutory Reporting

- II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-06 Business Transactions - We noted no business transactions between the City and City officials or employees.
- II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should continue to be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Council Minutes - We noted no transactions that we believe should have been approved in the council minutes and were not.
- II-G-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

CITY OF MARION

Audit Staff

This audit was performed by:

William Murray, CPA

William Vincent, CPA

Andrew J. Johnson

Justin Zimmerman, CPA

Tonya Determan