

**CITY OF MARION, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2007**

# Table of Contents

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<b>Officials</b> .....	1
<b>Independent Auditor's Report</b> .....	2-3
<b>Management's Discussion and Analysis (MD&amp;A)</b> .....	4-10
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets .....	11
Statement of Activities .....	12
Governmental Fund Financial Statements	
Balance Sheet.....	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets...	14
Statement of Revenue, Expenditures and Changes in Fund Balances .....	15
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	16
Proprietary Fund Financial Statements	
Statement of Net Assets .....	17
Statement of Revenue, Expenses and Changes in Fund Net Assets.....	18
Statement of Cash Flows.....	19
Trust Funds Financial Statements	
Statement of Fiduciary Assets and Liabilities .....	20
Statement of Changes in Fiduciary Net Assets .....	21
Notes to the Financial Statements.....	22-37
<b>Required Supplementary Information</b>	
Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget to Actual (Cash Basis) - All Governmental Funds and Proprietary Funds.....	38
Schedule of Budgetary Comparison - Budget to GAAP Reconciliation.....	39
<b>Other Supplementary Information</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet Schedule .....	40
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances .....	41
Nonmajor Enterprise Funds	
Combining Statement of Net Assets .....	42
Combining Statement of Revenue, Expenditures and Changes in Fund Net Assets .....	43
Combining Statement of Cash Flows.....	44
Schedule of Revenue by Source and Expenditures by Function - All Governmental Funds.....	45
<b>Financial Assistance Section</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters .....	46-47
Schedule of Findings.....	48

## Officials

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
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
Lon Pluckhahn	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 2006 Chairperson	November 1, 2010
Mary Ann McComas	Marion Municipal Water Department - Trustee 2007 Chairperson	November 1, 2012
David O. Kalkwarf	Marion Municipal Water Department - Administrator	Indefinite

## Independent Auditor's Report

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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, 2007, which collectively comprise the City's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the City of Marion, Iowa'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, Iowa, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008 on our consideration of the City of Marion, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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.

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

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 10 and Pages 38 and 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion, Iowa's basic financial statements. The financial statements and supplemental data for the years ended June 30, 2006, 2005 and 2004 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements and supplemental data. Other supplementary information included on Pages 40 through 45 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.

*HOGAN - HANSEN*

HOGAN - HANSEN

Cedar Rapids, Iowa  
March 19, 2008

## **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, 2007. 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, 2007 by \$171.2 million (net assets). Of this amount, \$26.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$11.3 million.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$8.5 million, or 66.3% 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 approximately \$900,000. There were \$345,832 of general obligation notes issued during the year.

### **Overview of the Financial Statements**

This discussion and analysis is 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 primary 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.

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 11-12 of this report.

### Statement of Net Assets for the Fiscal Year Ended June 30, 2007 and 2006

A condensed version of the Statement of Net Assets as of June 30, 2007 and 2006 follows:

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	2007	2006	2007	2006	2007	2006
Cash and investments	\$ 21,857	\$ 23,562	\$ 6,962	\$ 6,378	\$ 28,819	\$ 29,940
Other assets	13,500	12,936	522	571	14,022	13,507
Capital assets	<u>137,697</u>	<u>126,850</u>	<u>18,123</u>	<u>17,329</u>	<u>155,820</u>	<u>144,179</u>
<b>Total Assets</b>	<b><u>173,054</u></b>	<b><u>163,348</u></b>	<b><u>25,607</u></b>	<b><u>24,278</u></b>	<b><u>198,661</u></b>	<b><u>187,626</u></b>
Other liabilities	15,378	13,679	161	225	15,539	13,904
Noncurrent liabilities	<u>11,895</u>	<u>13,764</u>	<u>13</u>	<u>8</u>	<u>11,908</u>	<u>13,772</u>
<b>Total Liabilities</b>	<b><u>27,273</u></b>	<b><u>27,443</u></b>	<b><u>174</u></b>	<b><u>233</u></b>	<b><u>27,447</u></b>	<b><u>27,676</u></b>
<b>Net Assets</b>						
Invested in capital assets, net of debt	126,210	114,430	18,123	17,330	144,333	131,760
Unrestricted	<u>19,571</u>	<u>21,475</u>	<u>7,310</u>	<u>6,715</u>	<u>26,881</u>	<u>28,190</u>
<b>Total Net Assets</b>	<b><u>\$ 145,781</u></b>	<b><u>\$ 135,905</u></b>	<b><u>\$ 25,433</u></b>	<b><u>\$ 24,045</u></b>	<b><u>\$ 171,214</u></b>	<b><u>\$ 159,950</u></b>

### Governmental Activities

Net assets increased \$9.9 million for the fiscal year 2007. About \$4.2 million of this increase was for improvements other than buildings, primarily street construction. The majority of the balance of \$5.7 million was costs related to the new City Hall. This increased the invested in capital assets, net of related debt category of net assets.

### Business-Type Activities

Total assets increased by \$1.4 million for the fiscal year 2007 primarily due to equipment purchases and system improvements which increased the invested in capital assets, net of related debt category of net assets.

## Statement of Activities for the Fiscal Year Ended June 30, 2007 and 2006

A summary version of the Statement of Activities follows:

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Revenue</b>						
Charges for services	\$ 1,190	\$ 1,280	\$ 3,837	\$ 3,782	\$ 5,027	\$ 5,062
Operating grants and contributions	466	667	—	—	466	667
Capital grants and contributions	10,982	8,623	951	663	11,933	9,286
General Revenue						
Property taxes	12,513	11,826	—	—	12,513	11,826
Other taxes	533	870	—	—	533	870
Franchise fees	289	—	—	—	289	—
Road use taxes	2,200	2,202	—	—	2,200	2,202
Investment income	1,199	1,152	352	286	1,551	1,438
Miscellaneous revenue	380	529	—	—	380	529
<b>Total Revenue</b>	<b><u>29,752</u></b>	<b><u>27,149</u></b>	<b><u>5,140</u></b>	<b><u>4,731</u></b>	<b><u>34,892</u></b>	<b><u>31,880</u></b>
<b>Program Expenses</b>						
Public safety	7,741	7,269	—	—	7,741	7,269
Public works	5,266	5,057	—	—	5,266	5,057
Culture and recreation	3,319	3,170	—	—	3,319	3,170
Community and economic development	1,374	1,529	—	—	1,374	1,529
General government	1,888	1,319	—	—	1,888	1,319
Interest on long-term debt	552	398	—	—	552	398
Sanitary sewer	—	—	2,264	2,103	2,264	2,103
Solid waste management	—	—	1,224	1,245	1,224	1,245
<b>Total Expenses</b>	<b><u>20,140</u></b>	<b><u>18,742</u></b>	<b><u>3,488</u></b>	<b><u>3,348</u></b>	<b><u>23,628</u></b>	<b><u>22,090</u></b>
Transfers	<b><u>264</u></b>	<b><u>67</u></b>	<b><u>(264)</u></b>	<b><u>(67)</u></b>	<b><u>—</u></b>	<b><u>—</u></b>
<b>Changes in Net Assets</b>	<b>9,876</b>	<b>8,474</b>	<b>1,388</b>	<b>1,316</b>	<b>11,264</b>	<b>9,790</b>
Beginning net assets	<u>135,905</u>	<u>127,431</u>	<u>24,045</u>	<u>22,729</u>	<u>159,950</u>	<u>150,160</u>
<b>Ending Net Assets</b>	<b><u>\$ 145,781</u></b>	<b><u>\$ 135,905</u></b>	<b><u>\$ 25,433</u></b>	<b><u>\$ 24,045</u></b>	<b><u>\$ 171,214</u></b>	<b><u>\$ 159,950</u></b>

### Governmental Activities

Charges for services make up 4% of governmental revenues. Operating and capital grants, primarily for street projects and building improvement projects, make up another 38.5% 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 74.6% of total revenues. Investment income accounts for an additional 6.8% 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 fund, Employee Benefits fund, Debt Service fund 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 13-16 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 17-19 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 20-21 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 22-37 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 from property acquisition, payout of employee benefits and increased expenses for the Community and Economic Development programs using additional grant proceeds. There was also offsetting revenue increases from interest income, grant revenue and building permits.

## Capital Assets and Debt Administration

### Capital Assets

As of June 30, 2007, the City had invested \$155.8 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.

(in thousands - net of depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 61,173	\$ 53,853	\$ —	\$ —	\$ 61,173	\$ 53,853
Building and structures	16,708	12,119	—	—	16,708	12,119
Improvements other than buildings	87,927	83,757	—	—	87,927	83,757
Machinery and equipment	7,541	6,974	2,062	1,881	9,603	8,855
Distribution system	—	—	28,636	27,206	28,636	27,206
Construction in progress	941	4,491	259	463	1,200	4,954
Accumulated depreciation	<u>(36,593)</u>	<u>(34,343)</u>	<u>(12,834)</u>	<u>(12,214)</u>	<u>(49,427)</u>	<u>(46,557)</u>
<b>Total</b>	<b><u>\$ 137,697</u></b>	<b><u>\$ 126,851</u></b>	<b><u>\$ 18,123</u></b>	<b><u>\$ 17,336</u></b>	<b><u>\$ 155,820</u></b>	<b><u>\$ 144,187</u></b>

The following table reconciles the change in capital assets. The amount for governmental activities is \$10.8 million that represents an 8.6% increase. For business-type activities, the amount is \$0.8 million which is a 4.5% increase. Details of this summary are presented on Pages 30-31 of the notes.

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 126,851	\$ 115,732	\$ 17,336	\$ 16,376	\$ 144,187	\$ 132,108
Additions	14,037	10,329	1,239	1,133	15,276	11,462
Retirement, net of depreciation	(163)	(185)	(36)	(46)	(199)	(231)
Depreciation	(3,969)	(3,516)	(675)	(590)	(4,644)	(4,106)
Construction in progress	941	4,491	259	463	1,200	4,954
<b>Ending Balance</b>	<b><u>\$ 137,697</u></b>	<b><u>\$ 126,851</u></b>	<b><u>\$ 18,123</u></b>	<b><u>\$ 17,336</u></b>	<b><u>\$ 155,820</u></b>	<b><u>\$ 144,187</u></b>

### Governmental Activities

Major additions to capital assets consisted primarily of a new City Hall 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 City Hall 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 \$11.5 million as compared to \$12.4 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.

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 Pages 31-32 of the Notes to the Financial Statements.

## **Economic Factors**

The unemployment rate for Linn County is currently at 3.7%, which is about where it was the previous year and less than the National unemployment rate of 4.7%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2006, most recent available, (April 1, 2005 to March 31, 2006), retail sales for Marion were \$337.1 million and \$2.925 billion for Linn County. For fiscal year 2005, retail sales were \$287.1 million for Marion and \$2.872 billion for Linn County.

The total value of building permits for fiscal year 2007 was approximately \$61.4 million, which is down slightly from the fiscal year 2006 amount of \$65.5 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 07-08 budget should not increase City property tax payments for the typical homeowner by more than 3.25%. The adopted budget achieves this goal and actually decreases tax payments by 2.2% 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 07-08 with respect to basic operational costs. However, in order to establish reserves for future trunk sewer improvements, there is a 9.25% planned increase in fees for FY 07-08. The City does anticipate a small increase in landfill fees and is planning on adding two additional trucks this year but does not feel there is a need for a rate increase for solid waste fees in FY 07-08.

The total City tax levy rate for fiscal year 07-08 is 13.78572 per taxable valuation compared to 13.95525 for fiscal year 06-07. Net taxable valuation for fiscal year 07-08 is \$933.9 million, which was an increase of \$44.9 million from fiscal year 06-07 when it was \$889.0 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.

## **Basic Financial Statements**

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# Statement of Net Assets

At June 30, 2007

	Primary Government			Component Unit Water
	Governmental Activities	Business Activities	Total	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents .....	\$ 5,697,245	\$ 3,668,396	\$ 9,365,641	\$ 1,917,736
Investments .....	16,159,342	3,293,448	19,452,790	—
Receivables				
Accounts, net of allowance for uncollectible accounts....	105,266	202,763	308,029	81,051
Unbilled revenue .....	—	295,764	295,764	154,073
Interest .....	46,594	13,595	60,189	12,169
Notes.....	73,482	11,199	84,681	—
Property Taxes				
Delinquent.....	127,242	—	127,242	—
Succeeding year .....	12,775,684	—	12,775,684	—
Due from other governments.....	197,441	3,430	200,871	—
Due from other funds.....	11,254	(4,262)	6,992	—
Inventories .....	88,023	—	88,023	60,922
Prepaid items.....	500	—	500	18,700
<b>Total Current Assets .....</b>	<b><u>35,282,073</u></b>	<b><u>7,484,333</u></b>	<b><u>42,766,406</u></b>	<b><u>2,244,651</u></b>
<b>Noncurrent Assets</b>				
Notes receivable.....	74,879	—	74,879	—
Capital assets (net of accumulated depreciation).....	75,582,696	17,863,926	93,446,622	9,006,608
Capital assets not being depreciated .....	62,114,018	259,257	62,373,275	504,746
<b>Total Noncurrent Assets</b>	<b><u>137,771,593</u></b>	<b><u>18,123,183</u></b>	<b><u>155,894,776</u></b>	<b><u>9,511,354</u></b>
<b>Total Assets .....</b>	<b><u>\$ 173,053,666</u></b>	<b><u>\$ 25,607,516</u></b>	<b><u>\$ 198,661,182</u></b>	<b><u>\$ 11,756,005</u></b>

See accompanying notes to the financial statements.

	<u>Primary Government</u>			<u>Component</u>
	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>Unit</u>
	<u>Activities</u>	<u>Activities</u>		<u>Water</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable .....	\$ 794,991	\$ 149,042	\$ 944,033	\$ 103,096
Accrued payroll.....	182,846	11,697	194,543	13,150
Accrued interest.....	37,276	—	37,276	—
Other.....	—	—	—	4,118
Due Within One Year				
General obligation bonds				
payable.....	1,390,000	—	1,390,000	—
Notes payable .....	28,677	—	28,677	—
Compensated absences .....	—	—	—	36,859
Deferred revenue.....	12,775,684	—	12,775,684	—
Self-insured estimated claims.....	132,781	—	132,781	12,219
Reinsurance premiums payable.	35,714	—	35,714	3,286
<b>Total Current Liabilities .</b>	<b><u>15,377,969</u></b>	<b><u>160,739</u></b>	<b><u>15,538,708</u></b>	<b><u>172,728</u></b>
<b>Noncurrent Liabilities</b>				
Due After One Year				
General obligation bonds				
payable.....	9,765,000	—	9,765,000	—
Notes payable .....	303,189	—	303,189	—
Compensated absences .....	1,826,637	13,369	1,840,006	—
<b>Total Noncurrent</b>				
<b>Liabilities.....</b>	<b><u>11,894,826</u></b>	<b><u>13,369</u></b>	<b><u>11,908,195</u></b>	<b><u>—</u></b>
<b>Total Liabilities .....</b>	<b><u>27,272,795</u></b>	<b><u>174,108</u></b>	<b><u>27,446,903</u></b>	<b><u>172,728</u></b>
<b>Net Assets</b>				
Invested in capital assets, net				
of related debt.....	126,209,848	18,123,183	144,333,031	9,511,354
Restricted for customer deposits	—	—	—	79,831
Unrestricted .....	19,571,023	7,310,225	26,881,248	1,992,092
<b>Total Net Assets .....</b>	<b><u>145,780,871</u></b>	<b><u>25,433,408</u></b>	<b><u>171,214,279</u></b>	<b><u>11,583,277</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 173,053,666</u></b>	<b><u>\$ 25,607,516</u></b>	<b><u>\$ 198,661,182</u></b>	<b><u>\$ 11,756,005</u></b>

# Statement of Activities

As of and for the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Governmental Activities</b>								
Public safety .....	\$ 7,740,837	\$ 222,995	\$ 69,063	\$ —	\$ (7,448,779)	\$ —	\$ (7,448,779)	\$ —
Public works .....	5,266,139	25,321	3,420	10,768,357	5,530,959	—	5,530,959	—
Culture and recreation .....	3,319,473	352,313	232,539	—	(2,734,621)	—	(2,734,621)	—
Community and economic development .....	1,373,501	528,888	137,883	213,841	(492,889)	—	(492,889)	—
General government.....	1,888,357	60,665	23,186	—	(1,804,506)	—	(1,804,506)	—
Interest.....	552,138	—	—	—	(552,138)	—	(552,138)	—
<b>Total Governmental Activities .....</b>	<b>20,140,445</b>	<b>1,190,182</b>	<b>466,091</b>	<b>10,982,198</b>	<b>(7,501,974)</b>	<b>—</b>	<b>(7,501,974)</b>	<b>—</b>
<b>Business-Type Activities</b>								
Sewer .....	2,263,804	2,617,558	—	950,698	—	1,304,452	1,304,452	—
Solid waste .....	1,223,740	1,219,510	—	—	—	(4,230)	(4,230)	—
<b>Total Business-Type Activities .....</b>	<b>3,487,544</b>	<b>3,837,068</b>	<b>—</b>	<b>950,698</b>	<b>—</b>	<b>1,300,222</b>	<b>1,300,222</b>	<b>—</b>
<b>Total Primary Government .....</b>	<b>\$ 23,627,989</b>	<b>\$ 5,027,250</b>	<b>\$ 466,091</b>	<b>\$ 11,932,896</b>	<b>(7,501,974)</b>	<b>1,300,222</b>	<b>(6,201,752)</b>	<b>—</b>
<b>Component Unit - Water .....</b>	<b>\$ 1,755,336</b>	<b>\$ 2,028,355</b>	<b>\$ —</b>	<b>\$ 516,278</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>789,297</b>
<b>General Receipts</b>								
Property taxes .....					12,512,678	—	12,512,678	—
Tax increment financing revenue .....					385,572	—	385,572	—
<b>Other Taxes</b>								
Cable television franchise .....					289,415	—	289,415	—
Hotel/motel .....					147,781	—	147,781	—
Road use tax.....					2,200,066	—	2,200,066	—
Investment income .....					1,198,728	352,250	1,550,978	91,236
Assessments .....					23,716	314	24,030	—
Miscellaneous revenue.....					233,257	—	233,257	91,975
Gain (loss) on sale of capital assets.....					122,440	—	122,440	(9,026)
Contributions to primary government .....					—	—	—	(150,000)
<b>Transfers .....</b>					<b>264,360</b>	<b>(264,360)</b>	<b>—</b>	<b>—</b>
<b>Total General Receipts and Transfers .....</b>					<b>17,378,013</b>	<b>88,204</b>	<b>17,466,217</b>	<b>24,185</b>
<b>Change in Net Assets.....</b>					<b>9,876,039</b>	<b>1,388,426</b>	<b>11,264,465</b>	<b>813,482</b>
Net Assets - Beginning of Year .....					135,904,832	24,044,982	159,949,814	10,769,795
<b>Net Assets - End of Year.....</b>					<b>\$ 145,780,871</b>	<b>\$ 25,433,408</b>	<b>\$ 171,214,279</b>	<b>\$ 11,583,277</b>

See accompanying notes to the financial statements.

## Balance Sheet - Governmental Funds

As of and for the Year Ended June 30, 2007

	General	Road Use	Employee Benefits	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
<b>Assets</b>							
Cash and cash equivalents .....	\$ 3,050,628	\$ —	\$ 344,762	\$ 117,898	\$ —	\$ 1,369,939	\$ 4,883,227
Investments .....	4,740,594	1,319,096	—	7,460	8,309,172	1,783,020	16,159,342
Receivables							
Accounts .....	102,066	—	—	—	—	3,200	105,266
Interest .....	12,239	—	—	—	26,839	7,516	46,594
Property Taxes							
Delinquent .....	80,596	—	30,050	16,596	—	—	127,242
Succeeding year .....	8,211,349	—	2,862,086	1,702,249	—	—	12,775,684
Due from other governments .....	3,858	182,873	—	—	—	10,710	197,441
Due from other funds .....	795,052	—	—	—	—	—	795,052
Inventories .....	88,023	—	—	—	—	—	88,023
<b>Total Assets .....</b>	<b>\$ 17,084,405</b>	<b>\$ 1,501,969</b>	<b>\$ 3,236,898</b>	<b>\$ 1,844,203</b>	<b>\$ 8,336,011</b>	<b>\$ 3,174,385</b>	<b>\$ 35,177,871</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Current Liabilities							
Due to other funds .....	\$ —	\$ 139,302	\$ —	\$ —	\$ 644,496	\$ —	\$ 783,798
Accounts payable .....	152,777	211,611	7,912	—	300,548	12,674	685,522
Accrued expenses .....	165,165	17,681	—	—	—	—	182,846
Deferred revenue .....	8,211,349	—	2,862,086	1,702,249	—	—	12,775,684
<b>Total Liabilities .....</b>	<b>8,529,291</b>	<b>368,594</b>	<b>2,869,998</b>	<b>1,702,249</b>	<b>945,044</b>	<b>12,674</b>	<b>14,427,850</b>
<b>Fund Balances</b>							
Reserved for inventories .....	88,023	—	—	—	—	—	88,023
Reserved for debt service .....	—	—	—	141,954	—	—	141,954
Unreserved							
General .....	8,467,091	—	—	—	—	—	8,467,091
Special revenue .....	—	1,133,375	366,900	—	—	2,707,537	4,207,812
Capital projects .....	—	—	—	—	7,390,967	320,444	7,711,411
Perpetual care .....	—	—	—	—	—	133,730	133,730
<b>Total Fund Balances .....</b>	<b>8,555,114</b>	<b>1,133,375</b>	<b>366,900</b>	<b>141,954</b>	<b>7,390,967</b>	<b>3,161,711</b>	<b>20,750,021</b>
<b>Total Liabilities and Fund Balances .....</b>	<b>\$ 17,084,405</b>	<b>\$ 1,501,969</b>	<b>\$ 3,236,898</b>	<b>\$ 1,844,203</b>	<b>\$ 8,336,011</b>	<b>\$ 3,174,385</b>	<b>\$ 35,177,871</b>

See accompanying notes to the financial statements.

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

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At June 30, 2007

<b>Total Fund Balances for Governmental Funds (Page 13).....</b>		<b>\$ 20,750,021</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds .....		137,696,714
Notes receivable are not financial resources and, therefore, are not reported as assets in the governmental funds .....		148,361
Internal service funds, net assets.....		536,054
Prepaid items are not financial resources and, therefore, are not reported as assets in the governmental funds .....		500
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences .....	\$ (1,826,637)	
Bonds payable .....	(11,155,000)	
Accrued interest .....	(37,276)	
Notes payable .....	<u>(331,866)</u>	<u>(13,350,779)</u>
 <b>Net Assets of Governmental Activities (Page 12) .....</b>		 <b><u>\$ 145,780,871</u></b>

**Statement of Revenue, Expenditures and Changes in Fund Balances -  
Governmental Funds**

Year Ended June 30, 2007

	General Fund	Road Use	Employee Benefits	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
<b>Revenue</b>							
Property taxes .....	\$ 7,929,980	\$ —	\$ 2,958,199	\$ 1,624,499	\$ —	\$ —	\$ 12,512,678
Tax increment financing .....	—	—	—	—	—	385,572	385,572
Other taxes .....	437,196	—	—	—	—	—	437,196
Licenses and permits.....	528,180	—	—	—	—	—	528,180
Use of money and property .....	611,913	—	3,551	32,790	408,053	142,489	1,198,796
Intergovernmental.....	268,108	2,200,066	50,729	—	286,949	137,883	2,943,735
Charges for services.....	376,857	—	—	—	725	16,801	394,383
Fines and forfeitures.....	195,057	—	—	—	—	—	195,057
Special assessments.....	21	—	—	23,695	—	—	23,716
Miscellaneous.....	25,614	—	33,647	—	990	31,764	92,015
<b>Total Revenue.....</b>	<b>10,372,926</b>	<b>2,200,066</b>	<b>3,046,126</b>	<b>1,680,984</b>	<b>696,717</b>	<b>714,509</b>	<b>18,711,328</b>
<b>Expenditures</b>							
Current							
Public safety.....	6,758,330	—	45,328	—	—	67,315	6,870,973
Public works.....	990,742	1,545,483	—	—	—	26,917	2,563,142
Culture and recreation .....	2,573,354	—	36,056	—	—	3,267	2,612,677
Community and economic development.....	783,460	—	—	—	—	654,062	1,437,522
General government .....	1,667,545	—	—	—	—	109,236	1,776,781
Debt Service							
Principal .....	—	—	—	1,311,815	—	—	1,311,815
Interest .....	—	—	—	538,275	—	—	538,275
Bond issue costs.....	—	—	—	3,000	—	—	3,000
Capital projects.....	—	609,713	—	—	3,405,025	194,689	4,209,427
<b>Total Expenditures.....</b>	<b>12,773,431</b>	<b>2,155,196</b>	<b>81,384</b>	<b>1,853,090</b>	<b>3,405,025</b>	<b>1,055,486</b>	<b>21,323,612</b>
<b>Revenue Over (Under) Expenditures</b>	<b>(2,400,505)</b>	<b>44,870</b>	<b>2,964,742</b>	<b>(172,106)</b>	<b>(2,708,308)</b>	<b>(340,977)</b>	<b>(2,612,284)</b>
<b>Other Financing Sources (Uses)</b>							
Contributions .....	—	—	—	—	150,000	—	150,000
Operating transfers in.....	3,641,560	—	—	170,657	187,978	303,164	4,303,359
Operating transfers out.....	(659,799)	(405,982)	(2,939,560)	—	—	(33,658)	(4,038,999)
Sale of equipment.....	22,975	—	—	—	262,100	—	285,075
Note proceeds .....	—	—	—	—	345,832	—	345,832
<b>Total Other Financing Sources (Uses).....</b>	<b>3,004,736</b>	<b>(405,982)</b>	<b>(2,939,560)</b>	<b>170,657</b>	<b>945,910</b>	<b>269,506</b>	<b>1,045,267</b>
<b>Net Change in Fund Balances.....</b>	<b>604,231</b>	<b>(361,112)</b>	<b>25,182</b>	<b>(1,449)</b>	<b>(1,762,398)</b>	<b>(71,471)</b>	<b>(1,567,017)</b>
Fund Balances - Beginning of Year (Restated - Note 14) .....	7,950,883	1,494,487	341,718	143,403	9,153,365	3,233,182	22,317,038
<b>Fund Balances - End of Year.....</b>	<b>\$ 8,555,114</b>	<b>\$ 1,133,375</b>	<b>\$ 366,900</b>	<b>\$ 141,954</b>	<b>\$ 7,390,967</b>	<b>\$ 3,161,711</b>	<b>\$ 20,750,021</b>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2007

**Changes in Fund Balances - Total Governmental Funds (Page 15) \$ (1,567,017)**

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

Certain prepaid items are not financial resources and the change in those items causes a difference in the changes in fund balance and the changes in net assets..... 500

In the statement of activities, notes receivable are recognized but they do not represent current financial resources. Thus, the change in fund balances differs by the change in the notes receivable balance..... 59,669

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 balances differs by the cost less accumulated depreciation of the capital assets sold. .... (162,635)

Governmental funds report 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 .....	\$ 4,209,427	
Depreciation expense .....	<u>(3,968,825)</u>	240,602

Contributed land and infrastructure that does not constitute current financial resources is not reported as revenue in the fund statements but is in the statement of activities..... 10,768,357

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.

Repayment of bond principal .....	\$ 1,265,000	
Note proceeds.....	(345,832)	
Repayment of note principal .....	13,966	
Change in accrued interest .....	15,495	
Amortization of bond issue costs .....	<u>(29,359)</u>	919,270

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..... (483,067)

Internal service funds net change ..... 100,360

**Change in Net Assets of Governmental Activities (Page 12) \$ 9,876,039**

# Statement of Net Assets - Proprietary Funds

At June 30, 2007

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer Rental</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents .....	\$ 940,202	\$ 2,728,194	\$ 3,668,396	\$ 814,018
Investments .....	332,994	2,960,454	3,293,448	—
Receivables				
Accounts .....	133,628	69,135	202,763	—
Unbilled revenue .....	198,219	97,545	295,764	—
Interest .....	—	13,595	13,595	—
Notes receivable .....	11,199	—	11,199	—
Due from other governments .....	473	2,957	3,430	—
<b>Total Current Assets .....</b>	<b><u>1,616,715</u></b>	<b><u>5,871,880</u></b>	<b><u>7,488,595</u></b>	<b><u>814,018</u></b>
<b>Noncurrent Assets</b>				
Capital assets (net of accumulated depreciation) .....	16,043,991	1,819,935	17,863,926	—
Capital assets not being depreciated .....	154	259,103	259,257	—
<b>Total Noncurrent Assets .....</b>	<b><u>16,044,145</u></b>	<b><u>2,079,038</u></b>	<b><u>18,123,183</u></b>	<b><u>—</u></b>
<b>Total Assets .....</b>	<b><u>\$ 17,660,860</u></b>	<b><u>\$ 7,950,918</u></b>	<b><u>\$ 25,611,778</u></b>	<b><u>\$ 814,018</u></b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Due to other funds .....	\$ —	\$ 4,262	\$ 4,262	\$ —
Accounts payable .....	102,857	46,185	149,042	109,469
Self-insured estimated claims .....	—	—	—	132,781
Reinsurance premiums payable .....	—	—	—	35,714
Accrued payroll .....	4,388	7,309	11,697	—
<b>Total Current Liabilities .....</b>	<b><u>107,245</u></b>	<b><u>57,756</u></b>	<b><u>165,001</u></b>	<b><u>277,964</u></b>
<b>Noncurrent Liabilities</b>				
Compensated absences .....	<u>13,369</u>	<u>—</u>	<u>13,369</u>	<u>—</u>
<b>Total Liabilities .....</b>	<b><u>120,614</u></b>	<b><u>57,756</u></b>	<b><u>178,370</u></b>	<b><u>277,964</u></b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt .....	16,044,145	2,079,038	18,123,183	—
Unrestricted .....	<u>1,496,101</u>	<u>5,814,124</u>	<u>7,310,225</u>	<u>536,054</u>
<b>Total Net Assets .....</b>	<b><u>17,540,246</u></b>	<b><u>7,893,162</u></b>	<b><u>25,433,408</u></b>	<b><u>536,054</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 17,660,860</u></b>	<b><u>\$ 7,950,918</u></b>	<b><u>\$ 25,611,778</u></b>	<b><u>\$ 814,018</u></b>

See accompanying notes to the financial statements.

# Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds

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Year Ended June 30, 2007

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Govern- mental Activities Internal Service Fund</u>
	<u>Sewer Rental</u>	<u>Nonmajor</u>	<u>Total</u>	
<b>Operating Revenue</b>				
Charges for services.....	\$ 1,882,058	\$ 1,846,139	\$ 3,728,197	\$ —
Miscellaneous revenue.....	<u>—</u>	<u>108,871</u>	<u>108,871</u>	<u>1,630,799</u>
<b>Total Operating Revenue.....</b>	<b><u>1,882,058</u></b>	<b><u>1,955,010</u></b>	<b><u>3,837,068</u></b>	<b><u>1,630,799</u></b>
<b>Operating Expenses</b>				
Personal services .....	408,811	639,064	1,047,875	—
Services and commodities.....	1,225,336	539,398	1,764,734	1,530,439
Depreciation .....	<u>470,836</u>	<u>204,099</u>	<u>674,935</u>	<u>—</u>
<b>Total Operating Expenses...</b>	<b><u>2,104,983</u></b>	<b><u>1,382,561</u></b>	<b><u>3,487,544</u></b>	<b><u>1,530,439</u></b>
<b>Operating Income (Loss) .....</b>	<b><u>(222,925)</u></b>	<b><u>572,449</u></b>	<b><u>349,524</u></b>	<b><u>100,360</u></b>
<b>Nonoperating Revenue</b>				
Investment income .....	61,604	290,646	352,250	—
Special assessments.....	<u>60</u>	<u>254</u>	<u>314</u>	<u>—</u>
<b>Total Nonoperating Revenue</b>	<b><u>61,664</u></b>	<b><u>290,900</u></b>	<b><u>352,564</u></b>	<b><u>—</u></b>
<b>Income (Loss) Before Contributions and Transfers...</b>	<b>(161,261)</b>	<b>863,349</b>	<b>702,088</b>	<b>100,360</b>
Capital contributions .....	950,698	—	950,698	—
Transfers in.....	29,199	272,228	301,427	—
Transfers out .....	<u>(50,272)</u>	<u>(515,515)</u>	<u>(565,787)</u>	<u>—</u>
<b>Changes in Net Assets.....</b>	<b>768,364</b>	<b>620,062</b>	<b>1,388,426</b>	<b>100,360</b>
Net Assets - Beginning of Year .....	<u>16,771,882</u>	<u>7,273,100</u>	<u>24,044,982</u>	<u>435,694</u>
<b>Net Assets - End of Year.....</b>	<b><u>\$ 17,540,246</u></b>	<b><u>\$ 7,893,162</u></b>	<b><u>\$ 25,433,408</u></b>	<b><u>\$ 536,054</u></b>

See accompanying notes to the financial statements.

# Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2007

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Governmental</b>
	<b>Sewer Rental</b>	<b>Nonmajor</b>	<b>Total</b>	<b>Activities</b> <b>Internal</b> <b>Service</b> <b>Fund</b>
<b>Cash Flows From Operating Activities</b>				
Receipts from customers .....	\$ 1,918,254	\$ 1,965,463	\$ 3,883,717	\$ 1,630,799
Payments to employees.....	(409,518)	(648,862)	(1,058,380)	—
Payments to suppliers.....	(1,225,089)	(588,457)	(1,813,546)	(1,372,211)
<b>Net Cash Provided by Operating Activities</b>	<b>283,647</b>	<b>728,144</b>	<b>1,011,791</b>	<b>258,588</b>
<b>Cash Flows From Noncapital Financing Activities</b>				
Net operating transfers .....	(47,205)	(161,728)	(208,933)	—
<b>Cash Flows From Capital and Related Financing Activities</b>				
Special assessments.....	60	254	314	—
Purchase of capital assets .....	(71,586)	(501,262)	(572,848)	—
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(71,526)</b>	<b>(501,008)</b>	<b>(572,534)</b>	<b>—</b>
<b>Cash Flows From Investing Activities</b>				
Interest received.....	61,604	277,051	338,655	—
Payments received on notes receivable .....	14,933	—	14,933	—
Purchase of government securities.....	(15,592)	(27,777)	(43,369)	—
<b>Net Cash Provided by Investing Activities</b>	<b>60,945</b>	<b>249,274</b>	<b>310,219</b>	<b>—</b>
<b>Net Increase in Cash and Cash Equivalents ...</b>	<b>225,861</b>	<b>314,682</b>	<b>540,543</b>	<b>258,588</b>
Cash and Cash Equivalents at Beginning of Year	714,341	2,413,512	3,127,853	555,430
<b>Cash and Cash Equivalents at End of Year ....</b>	<b>\$ 940,202</b>	<b>\$ 2,728,194</b>	<b>\$ 3,668,396</b>	<b>\$ 814,018</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Operating income (loss) .....	\$ (222,925)	\$ 572,449	\$ 349,524	\$ 100,360
Adjustments to Reconcile Income (Loss)				
From Operations to Net Cash Provided by Operating Activities				
Depreciation .....	470,836	204,099	674,935	—
Change in Assets and Liabilities				
Decrease in receivables .....	36,568	7,240	43,808	—
Increase in due from other governments.....	(372)	(1,049)	(1,421)	—
Increase (decrease) in accounts payable.....	247	(44,797)	(44,550)	158,228
Decrease in accrued payroll.....	(6,213)	(9,798)	(16,011)	—
Increase in accrued compensated absences	5,506	—	5,506	—
<b>Net Cash Provided by Operating Activities.....</b>	<b>\$ 283,647</b>	<b>\$ 728,144</b>	<b>\$ 1,011,791</b>	<b>\$ 258,588</b>

## Schedule of Noncash Financing and Investing Activities

A note receivable in the amount of \$26,132 was transferred from nonmajor enterprise funds to the sewer rental fund. Construction in progress of \$55,427 was transferred between funds. \$950,698 of capital assets were received as donations from local contractors.

# Statement of Fiduciary Assets and Liabilities - Trust Funds

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At June 30, 2007

	<b>Cemetery Memorial</b>
<b>Assets</b>	
Cash and Investments.....	<u>\$ 8,365</u>
<b>Liabilities</b>	
Due to other funds.....	\$ 6,991
<b>Net Assets</b>	
Held in Trust.....	<u>1,374</u>
<b>Total Liabilities and Net Assets</b> .....	<u>\$ 8,365</u>

# Statement of Changes in Fiduciary Net Assets - Trust Funds

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At June 30, 2007

	<b>Cemetery Memorial</b>
<b>Additions</b>	
Investment Earnings	
Interest .....	\$ 311
Net Assets - Beginning of Year .....	<u>1,063</u>
<b>Net Assets - End of Year .....</b>	<b><u>\$ 1,374</u></b>

# Notes to the Financial Statements

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## **(1) Summary of Significant Accounting Policies**

The City of Marion, Iowa, (City) 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. The City operates under the Council-Manager form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general administrative services. It also provides sewer and sanitation services.

### **Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, account groups, 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 Water Department is presented in a separate column 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.

### **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.

## **Basis of Presentation**

### ***Government-Wide Financial Statements***

The statement of net assets and the statement of activities report information on all the nonfiduciary 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 property taxes and intergovernmental revenue, are reported separately for business-type activities, which rely to a significant extent on fees and charges for service. Likewise, the City is reported separately from its component unit.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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 that are attributed to the acquisition, construction or improvement of those assets.

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

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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, 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 revenue are reported instead as general revenue.

### **Fund Financial Statements**

Separate financial statements are provided for governmental, proprietary 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. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City had the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Use Special Revenue Fund is used to account for the maintenance of the City's infrastructure, such as streets, bridges and storm sewers. The revenue of the Road Use Tax Fund is primarily derived from state taxes. The expenditures primarily relate to the upkeep of the City's infrastructure.

The Trust and Agency (Employee Benefits) Special Revenue Fund is required by the Code of Iowa to account for property taxes levied for employee benefits. This fund either pays benefits as expenditures (primarily police and fire pension costs) or transfers cash to the General Fund to reimburse allowable benefits paid therefrom.

The Debt Service Fund is required by the Code of Iowa to account for the accumulation of resources for, and payment of, debt service on general obligation long-term debt.

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

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

The City had the following major proprietary fund:

### **Enterprise Fund**

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

## **Description of Funds**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenue and expenditures or expenses, and other financing sources and uses, as appropriate. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into categories as follows:

### **Governmental Fund Types**

*General fund* is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

*Special revenue funds* are used to account for proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt service funds* are used to account for the accumulation of financial resources for, and the payment of, interest and principal on the City's long-term debt which is not paid by another fund.

*Capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by another fund.

### **Proprietary Fund Type**

*Enterprise funds* are used to account for operations (a) that are financed and operated in a manner similar to that of a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

*Internal service funds* are utilized to 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.

### **Fiduciary Fund Type**

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

## (1) Summary of Significant Accounting Policies

### Measurement Focus and Basis of Accounting

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. Revenue is 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 revenue 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 focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days after year end.

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 revenue 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.

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 recognized as expenditures only when payment is due.

Substantially all shared revenue is recorded when the underlying exchange transaction has occurred. For governmental funds, revenue from grant revenue is recorded as deferred revenue until it becomes 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 it becomes 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 forfeitures, fees and refunds, charges for service (other than enterprise), miscellaneous and other revenue is recorded as revenue when received in cash because it is generally not measurable until actually received.

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.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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

Amounts reported as program revenue includes 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 revenue rather than as program revenue. Likewise, general revenue include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the City's proprietary funds is 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

### **Assets, Liabilities and Fund Equity**

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

***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 nonnegotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, the City considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

***Property Taxes Receivable, Including Tax Increment Financing*** - Property taxes, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property taxes receivable are recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City Council to the County Board of Supervisors. Current year property taxes receivable represent taxes collected by the County but not remitted to the City at June 30, 2007 and unpaid taxes. The succeeding year property taxes receivable represent 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 taxes receivable has 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.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

Property tax revenue recognized in these funds become due and collectible in September and March of the current fiscal year with a 1-1/2% per month penalty for delinquent payments, is based on January 1, 2005 assessed property valuations, is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2006.

**Due From Other Governments** - Due from other governments represents amounts due from the State of Iowa, various shared revenue, 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 City) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets and in the proprietary funds 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 value at the date of donation. The costs of normal maintenance and repair not adding 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.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives.

<b>Asset Class</b>	<b>Estimated Useful Lives</b>
Buildings.....	40 - 50 Years
Improvements other than buildings.....	5 - 50 Years
Equipment.....	2 - 20 Years
Infrastructure.....	3 - 80 Years

**Deferred Revenue** - Although certain revenue is measurable, it is 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 represents 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 delinquent property taxes receivable and other receivables not collected within 60 days after year end.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

Deferred revenue in the statement of net assets consists of succeeding year property taxes 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, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use and Sewer Rental Funds.

**Long-Term Liabilities** - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities column in the statement of net assets and the proprietary fund statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 either through the enabling legislation adopted by the City or 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.

### **Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as required supplementary information.

### **Estimates and Assumptions**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## Notes to the Financial Statements

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### (2) Deposits and Investments

#### Deposits

The City's deposits at June 30, 2007 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.

#### 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.

On June 30, 2007, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$3,229,246 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

The City's cash and investments at June 30, 2007 were as follows:

Cash .....	\$ 9,365,641
Pooled cash investments - Iowa Public Agency Investment Trust .....	3,229,246
Money market accounts .....	3,621,416
U.S. Instrumentalities	
Original maturities 6 to 10 years .....	308,019
Original maturities 10+ years .....	<u>12,294,109</u>
<b>Total</b> .....	<b><u>\$ 28,818,431</u></b>

#### Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) 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 U.S. Instrumentalities investments at June 30, 2007 are rated Aaa or better by Moody's Investors service. The investment in the Iowa Public Agency Investment Trust is unrated.

### (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% and have monthly payments maturing through December, 2010. The outstanding balances of these loans at June 30, 2007 totaled \$148,361.

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%. The outstanding balance at June 30, 2007 was \$11,199.

## Notes to the Financial Statements

### (4) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land.....	\$ 53,852,772	\$ 7,345,374	\$ 25,000	\$ 61,173,146
Construction in progress.....	<u>4,491,245</u>	<u>3,404,719</u>	<u>6,955,092</u>	<u>940,872</u>
Total Capital Assets Not Being Depreciated.....	<u>58,344,017</u>	<u>10,750,093</u>	<u>6,980,092</u>	<u>62,114,018</u>
Capital Assets Being Depreciated				
Buildings.....	12,118,546	4,720,076	130,978	16,707,644
Improvements other than buildings	83,756,922	5,515,234	1,344,702	87,927,454
Equipment.....	<u>6,973,709</u>	<u>947,473</u>	<u>380,875</u>	<u>7,540,307</u>
Total Capital Assets Being Depreciated.....	<u>102,849,177</u>	<u>11,182,783</u>	<u>1,856,555</u>	<u>112,175,405</u>
Less Accumulated Depreciation for				
Buildings.....	2,628,795	400,931	80,284	2,949,442
Improvements other than buildings	28,282,603	2,870,590	1,344,702	29,808,491
Equipment.....	<u>3,431,406</u>	<u>697,304</u>	<u>293,934</u>	<u>3,834,776</u>
Total Accumulated Depreciation...	<u>34,342,804</u>	<u>3,968,825</u>	<u>1,718,920</u>	<u>36,592,709</u>
Net Capital Assets Being Depreciated	<u>68,506,373</u>	<u>7,213,958</u>	<u>137,635</u>	<u>75,582,696</u>
<b>Net Governmental Activities</b>				
Capital Assets.....	<u>\$ 126,850,390</u>	<u>\$ 17,964,051</u>	<u>\$ 7,117,727</u>	<u>\$ 137,696,714</u>
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated				
Construction in progress.....	\$ 462,715	\$ 467,383	\$ 670,841	\$ 259,257
Capital Assets Being Depreciated				
Equipment.....	1,880,599	278,644	97,350	2,061,893
Distribution system.....	26,710,442	1,046,925	—	27,757,367
Storm sewer system.....	<u>495,826</u>	<u>382,492</u>	<u>—</u>	<u>878,318</u>
Total Capital Assets Being Depreciated.....	<u>29,086,867</u>	<u>1,708,061</u>	<u>97,350</u>	<u>30,697,578</u>
Less Accumulated Depreciation for				
Equipment.....	626,970	240,915	60,867	807,018
Distribution system.....	11,577,410	423,042	—	12,000,452
Storm sewer system.....	<u>15,204</u>	<u>10,978</u>	<u>—</u>	<u>26,182</u>
Total Accumulated Depreciation...	<u>12,219,584</u>	<u>674,935</u>	<u>60,867</u>	<u>12,833,652</u>
Net Capital Assets Being Depreciated	<u>16,867,283</u>	<u>1,033,126</u>	<u>36,483</u>	<u>17,863,926</u>
<b>Net Business-Type Activities</b>				
Capital Assets.....	<u>\$ 17,329,998</u>	<u>\$ 1,500,509</u>	<u>\$ 707,324</u>	<u>\$ 18,123,183</u>

## Notes to the Financial Statements

### (4) Capital Assets

Depreciation expense was charged by the City as follows for the year ended June 30, 2007:

Governmental Activities	
Public safety.....	\$ 444,835
Public works.....	2,692,205
Culture and recreation.....	674,324
General government .....	157,461
<b>Total Governmental Activities Depreciation Expense .....</b>	<b><u>\$ 3,968,825</u></b>
Business-Type Activities	
Sewer.....	\$ 470,836
Solid waste.....	193,120
Systems .....	10,979
<b>Total Business-Type Activities Depreciation Expense.....</b>	<b><u>\$ 674,935</u></b>

### (5) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2007:

	Balance - Beginning of Year	Additions	Retirements	Balance - End of Year	Amount Due in the Next Year	Range of Interest Rates
<b>Governmental Activities</b>						
General obligation bonds	\$ 12,420,000	\$ —	\$ 1,265,000	\$ 11,155,000	\$ 1,390,000	2.200-4.85%
General obligation notes ..	—	345,832	13,966	331,866	28,677	4.375-5.20%
Compensated absences ..	1,343,570	687,354	204,287	1,826,637	—	N/A
<b>Totals.....</b>	<b><u>\$ 13,763,570</u></b>	<b><u>\$ 1,033,186</u></b>	<b><u>\$ 1,483,253</u></b>	<b><u>\$ 13,313,503</u></b>	<b><u>\$ 1,418,677</u></b>	
<b>Business-Type Activities</b>						
Compensated absences	<b><u>\$ 7,863</u></b>	<b><u>\$ 5,506</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 13,369</u></b>	<b><u>\$ 13,369</u></b>	

### Bonds Payable

Eight issues of unmatured general obligation bonds totaling \$11,155,000 were outstanding at June 30, 2007. General obligation bonds bear interest at rates ranging from 2.2% to 4.85% per annum and mature in varying annual amounts ranging from \$10,000 to \$535,000, with the final maturities due in the year ending June 30, 2017.

Details of the City's general obligation bonds payable at June 30, 2007 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-07
<b>General Obligation Bonds</b>						
Corporate purpose	12-1-97	4.50 - 4.60%	6-1-12	\$125,000 - \$215,000	\$2,000,000	\$ 975,000
Refunding corporate purpose	4-1-98	3.95 - 4.40	6-1-07	80,000 - 535,000	1,830,000	—
Corporate purpose	12-15-99	4.75 - 4.85	6-1-12	105,000 - 275,000	2,500,000	1,245,000
Refunding corporate purpose	12-1-01	3.50 - 4.30	6-1-10	10,000 - 195,000	1,355,000	550,000
Corporate purposes	12-1-01	4.05 - 4.75	6-1-14	145,000 - 280,000	2,700,000	1,730,000
Corporate purposes	12-1-03	2.50 - 3.75	6-1-16	260,000 - 370,000	3,100,000	2,840,000
Corporate purposes	12-1-04	2.20 - 3.65	6-1-15	50,000 - 80,000	700,000	585,000
Corporate purposes	12-1-05	3.30 - 3.80	6-1-17	70,000 - 385,000	3,300,000	3,230,000
						<b><u>\$ 11,155,000</u></b>

## Notes to the Financial Statements

### (5) Long-Term Debt

Year Ending June 30,	Principal	Interest	Total
2008.....	\$ 1,390,000	\$ 432,333	\$ 1,822,333
2009.....	1,450,000	379,785	1,829,785
2010.....	1,505,000	323,467	1,828,467
2011.....	1,375,000	264,048	1,639,048
2012.....	1,455,000	209,195	1,664,195
2013-2017 .....	3,980,000	389,982	4,369,982
	<u>\$ 11,155,000</u>	<u>\$ 1,998,810</u>	<u>\$ 13,153,810</u>

### General Obligation Notes

Two issues of unmatured general obligation notes totaling \$331,866 were outstanding at June 30, 2007. General obligation notes bear interest at rates ranging from 4.375% to 5.2% and mature in monthly amounts ranging from \$645 to \$2,944, with the final maturities due in the year ending June 30, 2017.

Details of the City's general obligation notes payable at June 30, 2007 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-07
<b>General Obligation Notes</b>						
Geo-Thermal note	7-20-06	5.200%	7-1-16	\$ 369 - \$ 7,740	\$ 60,255	\$ 55,767
Geo-Thermal note	12-28-06	4.375	1-1-17	14,870 - 35,327	285,577	276,099
						<u>\$ 331,866</u>

Year Ending June 30,	Principal	Interest	Total
2008.....	\$ 28,677	\$ 14,390	\$ 43,067
2009.....	29,999	13,068	43,067
2010.....	31,384	11,683	43,067
2011.....	32,832	10,235	43,067
2012.....	34,347	8,720	43,067
2013-2017 .....	174,627	18,565	193,192
	<u>\$ 331,866</u>	<u>\$ 76,661</u>	<u>\$ 408,527</u>

### (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%, an estimated liability of \$224,014 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.

## Notes to the Financial Statements

### (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer From	Amount
General Fund	Road Use	\$ 20,000
General Fund	Sewer Rental	10,000
General Fund	Trust and Agency	2,939,560
General Fund	Police Retirement	25,000
General Fund	Storm Water Management	15,000
General Fund	General Fund - Equipment Reserve	632,000
Capital Projects	Storm Water Management	125,720
Capital Projects	Road Use	62,258
Debt Service Fund	Road Use	79,800
Debt Service Fund	Sewer Rental	28,924
Debt Service Fund	Solid Waste	15,960
Debt Service Fund	Storm Water Management	45,973
Employee Benefits	Sewer Rental	11,348
Employee Benefits	Solid Waste	20,093
Employee Benefits	General Fund	27,799
Employee Benefits	Road Use	28,674
Road Use Replacement	Road Use	215,250
Sewer Rental	Sewer Rental Replacement	26,286
Sewer Rental	Employee Benefits	2,913
Solid Waste	Employee Benefits	5,745
Solid Waste	Solid Waste Replacement	266,483
		<u>\$ 4,604,786</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources or are for other purposes. Transfers are generally used to fund the cost of administration, debt services or capital projects.

### (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.

# Notes to the Financial Statements

## (8) Retirement System

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 25% of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2007, 2006 and 2005 were \$994,639, \$993,779 and \$813,723, respectively, which met the required minimum contribution for the 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 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$264,667, \$256,359 and \$229,211, respectively, equal to the required contributions for each year.

## (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% of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Water Department employees and all other nonunion City employees, sick leave can be accumulated but is payable only when used. Retiring employees of the Marion 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:

Type of Benefit	Amount 6-30-07
<b>Primary Government</b>	
Sick leave .....	\$ 680,240
Vacation and personal leave .....	920,926
Compensatory time .....	238,840
	<u>\$ 1,840,006</u>
<b>Component Unit</b>	
Sick leave .....	\$ 245,034
Vacation.....	32,504
	<u>\$ 277,538</u>

The above liabilities have been computed based on rates of pay as of June 30, 2007.

## Notes to the Financial Statements

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### (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, 2007 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% 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, 2007:

	<b>Primary Government</b>	<b>Discretely Presented Component Unit</b>	<b>Total</b>
Claims paid during the year.....	\$ 1,167,313	\$ 70,142	\$ 1,237,455
Estimated claims incurred but unpaid at June 30, 2007 ....	132,781	12,219	145,000

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 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, 2007, the Marion Water Department collected and remitted to the City \$2,515,985 for sewer and \$1,087,783 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$73,367.

# Notes to the Financial Statements

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## (13) Local Government Risk Pool

### Iowa Municipalities Workers' Compensation Association

The City is a member of the Iowa Municipalities Workers' Compensation Association (Association). The Association is a local government risk-sharing pool whose approximately 500 members include various municipal and county governments throughout the State of Iowa. The Pool was formed in July, 1981 to formulate, develop and administer, on behalf of the member governments, a program of joint self-insurance to stabilize costs related to members' workers' compensation liabilities. Program components include claims management, member education and loss control services. There have been no reductions in insurance coverage from prior years.

Each member pays annual premiums determined by using applicable standard rates for the exposure to risk and applicable experience modification factors of the National Council on Compensation Insurance. Each member may be subject to additional premiums to pay its pro rata share of claims which exceeds the Association's resources available to pay such claims. A distribution to members may also be made if the Association has excess monies remaining after payment of claims and expenses.

The City's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. Premiums paid to the Association for the year ended June 30, 2007 were \$95,283.

The Association uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. Claims exceeding \$500,000 are reinsured in an amount not to exceed \$1,500,000 per occurrence.

Members may withdraw from the Association at any time provided they provide assets for settlement of all pending claims.

## (14) Restatement of Fund Balance

The City included notes receivable in the Community Development Block Grant fund as assets. The notes receivable are not considered current financial resources and therefore should not have been included in the assets of the Community Development Block Grant fund.

Community Development Block Grant fund balance, as originally stated .....	\$ 124,611
Notes receivable included above.....	(88,692)
<b>Fund Balance - June 30, 2006, as Restated .....</b>	<b><u>\$ 35,919</u></b>

## (15) Commitments and Contingencies

### Primary Government

The City is involved in construction of capital assets, mainly streets and sanitary sewer lines. At June 30, 2007, the City was committed to approximately \$1,175,000 in construction contracts, capital asset purchases and other services.

### **(15) Commitments and Contingencies**

#### **Litigation**

At June 30, 2007, 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.

#### **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 25 years of service.

### **(16) Subsequent Events**

Subsequent to June 30, 2007, the City entered into several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$600,000.

Subsequent to June 30, 2007, the City took actions to issue approximately \$8 million of new debt to fund construction projects and refund existing debt issues.

**Required Supplementary Information**

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

Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual			Over (Under) Budget
			Governmental Fund Types	Proprietary Funds	Total	
<b>Receipts</b>						
Property taxes .....	\$ 12,205,869	\$ 12,205,869	\$ 12,442,180	\$ —	\$ 12,442,180	\$ 236,311
Tax increment financing	445,382	445,382	385,572	—	385,572	(59,810)
Other city taxes .....	348,291	348,291	479,818	—	479,818	131,527
Licenses and permits ....	488,225	488,225	546,587	—	546,587	58,362
Use of money and property	1,028,165	1,128,165	1,277,638	331,916	1,609,554	481,389
Intergovernmental .....	4,587,692	4,897,692	3,033,148	—	3,033,148	(1,864,544)
Charges for services .....	6,421,350	6,471,350	850,074	5,676,738	6,526,812	55,462
Special assessments ....	20,225	20,225	23,695	314	24,009	3,784
Miscellaneous .....	2,861,493	2,861,493	2,237,868	21,140	2,259,008	(602,485)
<b>Total Receipts .....</b>	<b>28,406,692</b>	<b>28,866,692</b>	<b>21,276,580</b>	<b>6,030,108</b>	<b>27,306,688</b>	<b>(1,560,004)</b>
<b>Disbursements</b>						
Public safety .....	7,075,390	7,075,390	6,946,902	—	6,946,902	(128,488)
Public works .....	2,829,750	2,829,750	2,638,218	—	2,638,218	(191,532)
Culture and recreation ..	2,818,590	2,818,590	2,659,032	—	2,659,032	(159,558)
Community and economic development .....	1,659,854	1,859,854	1,463,705	—	1,463,705	(396,149)
General government .....	3,211,162	3,471,162	3,140,910	—	3,140,910	(330,252)
Debt service .....	1,880,529	1,880,529	1,853,091	—	1,853,091	(27,438)
Capital projects .....	6,937,275	6,937,275	4,566,949	—	4,566,949	(2,370,326)
Business-type activities	5,654,034	5,654,034	—	5,292,118	5,292,118	(361,916)
<b>Total Disbursements</b>	<b>32,066,584</b>	<b>32,526,584</b>	<b>23,268,807</b>	<b>5,292,118</b>	<b>28,560,925</b>	<b>(3,965,659)</b>
<b>Receipts Over (Under) Disbursements .....</b>	<b>(3,659,892)</b>	<b>(3,659,892)</b>	<b>(1,992,227)</b>	<b>737,990</b>	<b>(1,254,237)</b>	<b>2,405,655</b>
<b>Other Financing Sources (Uses)</b>						
Other financing sources	4,079,966	4,079,966	4,461,213	—	4,461,213	381,247
Other financing uses .....	(4,079,966)	(4,079,966)	(4,029,056)	(86,325)	(4,115,381)	(35,415)
<b>Total Other Financing Sources (Uses) .....</b>	<b>—</b>	<b>—</b>	<b>432,157</b>	<b>(86,325)</b>	<b>345,832</b>	<b>345,832</b>
<b>Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses</b>						
<b>Balance - Beginning of Year</b>	<b>26,554,238</b>	<b>25,432,145</b>	<b>23,561,906</b>	<b>6,378,747</b>	<b>29,940,653</b>	<b>\$ 2,751,487</b>
<b>Balance - End of Year</b>	<b>\$ 22,894,346</b>	<b>\$ 21,772,253</b>	<b>\$ 22,001,836</b>	<b>\$ 7,030,412</b>	<b>\$ 29,032,248</b>	

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, except blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, permanent funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment increased budgeted disbursements by approximately \$460,000. This budget amendment is reflected in the final budgeted amounts.

# Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2007

	<b>Governmental Fund Types</b>		
	<b>Cash Basis</b>	<b>Accrual Adjustments</b>	<b>GAAP Basis</b>
Revenue .....	\$ 21,276,580	\$ (2,565,252)	\$ 18,711,328
Expenditures.....	<u>23,268,807</u>	<u>(1,945,195)</u>	<u>21,323,612</u>
Net .....	(1,992,227)	(620,057)	(2,612,284)
Other financing sources (uses).....	432,157	613,110	1,045,267
Beginning fund balances (as restated) .....	<u>23,561,906</u>	<u>(1,244,868)</u>	<u>22,317,038</u>
<b>Ending Fund Balances.....</b>	<b><u>\$ 22,001,836</u></b>	<b><u>\$ (1,251,815)</u></b>	<b><u>\$ 20,750,021</u></b>

	<b>Proprietary Fund Types</b>		
	<b>Cash Basis</b>	<b>Accrual Adjustments</b>	<b>GAAP Basis</b>
Revenue .....	\$ 6,030,108	\$ (1,840,476)	\$ 4,189,632
Expenditures.....	<u>5,292,118</u>	<u>(1,804,574)</u>	<u>3,487,544</u>
Net .....	737,990	(35,902)	702,088
Other financing sources (uses).....	(86,325)	772,663	686,338
Beginning fund balances .....	<u>6,378,747</u>	<u>17,666,235</u>	<u>24,044,982</u>
<b>Ending Fund Balances.....</b>	<b><u>\$ 7,030,412</u></b>	<b><u>\$ 18,402,996</u></b>	<b><u>\$ 25,433,408</u></b>

**Other Supplementary Information**

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**Combining Balance Sheet Schedule - Nonmajor Governmental Funds**

Year Ended June 30, 2007

	Special Revenue					Capital Projects			Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Develop- ment Block Grant	Police Retirement	Employee Benefits	Park Develop- ment	Maintenance Bond	Cemetery Perpetual Care	
<b>Assets</b>									
Cash and cash equivalents .....	\$ 360,079	\$ 216,348	\$ 7,714	\$ 92,366	\$ 359,078	\$ 96,882	\$ 223,892	\$ 13,580	\$ 1,369,939
Investments .....	85,129	—	—	693,488	884,253	—	—	120,150	1,783,020
Receivables									
Accounts .....	—	3,200	—	—	—	—	—	—	3,200
Interest .....	491	—	—	1,598	5,427	—	—	—	7,516
Due from other governments.....	—	—	10,710	—	—	—	—	—	10,710
<b>Total Assets .....</b>	<b>\$ 445,699</b>	<b>\$ 219,548</b>	<b>\$ 18,424</b>	<b>\$ 787,452</b>	<b>\$ 1,248,758</b>	<b>\$ 96,882</b>	<b>\$ 223,892</b>	<b>\$ 133,730</b>	<b>\$ 3,174,385</b>
<b>Liabilities</b>									
Accounts payable .....	\$ 9,688	\$ 505	\$ 2,151	\$ —	\$ —	\$ 330	\$ —	\$ —	\$ 12,674
<b>Fund Balances</b>									
Unreserved									
Special revenue .....	436,011	219,043	16,273	787,452	1,248,758	—	—	—	2,707,537
Capital projects .....	—	—	—	—	—	96,552	223,892	—	320,444
Perpetual care.....	—	—	—	—	—	—	—	133,730	133,730
<b>Total Fund Balances .....</b>	<b>436,011</b>	<b>219,043</b>	<b>16,273</b>	<b>787,452</b>	<b>1,248,758</b>	<b>96,552</b>	<b>223,892</b>	<b>133,730</b>	<b>3,161,711</b>
<b>Total Liabilities and Fund Balances .....</b>	<b>\$ 445,699</b>	<b>\$ 219,548</b>	<b>\$ 18,424</b>	<b>\$ 787,452</b>	<b>\$ 1,248,758</b>	<b>\$ 96,882</b>	<b>\$ 223,892</b>	<b>\$ 133,730</b>	<b>\$ 3,174,385</b>

**Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**

Year Ended June 30, 2007

	<u>Special Revenue</u>					<u>Capital Projects</u>		Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Develop- ment Block Grant	Police Retirement	Employee Benefits	Park Develop- ment	Maintenance Bond		
<b>Revenue</b>									
Tax increment financing .....	\$ —	\$ 385,572	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 385,572
Use of money and property .....	14,817	—	—	41,137	70,644	4,851	11,040	—	142,489
Intergovernmental.....	—	—	137,883	—	—	—	—	—	137,883
Charges for services.....	—	—	—	—	—	—	16,801	—	16,801
Miscellaneous.....	—	—	28,344	—	—	—	—	3,420	31,764
<b>Total Revenue.....</b>	<b><u>14,817</u></b>	<b><u>385,572</u></b>	<b><u>166,227</u></b>	<b><u>41,137</u></b>	<b><u>70,644</u></b>	<b><u>4,851</u></b>	<b><u>27,841</u></b>	<b><u>3,420</u></b>	<b><u>714,509</u></b>
<b>Expenditures</b>									
Current									
Public safety.....	—	—	—	—	67,315	—	—	—	67,315
Public works.....	—	—	—	—	26,917	—	—	—	26,917
Culture and recreation.....	—	—	—	—	2,937	330	—	—	3,267
Community and economic development.....	—	468,189	185,873	—	—	—	—	—	654,062
General government .....	—	—	—	—	109,236	—	—	—	109,236
Capital projects.....	194,689	—	—	—	—	—	—	—	194,689
<b>Total Expenditures.....</b>	<b><u>194,689</u></b>	<b><u>468,189</u></b>	<b><u>185,873</u></b>	<b><u>—</u></b>	<b><u>206,405</u></b>	<b><u>330</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>1,055,486</u></b>
<b>Revenue Over (Under) Expenditures.....</b>	<b><u>(179,872)</u></b>	<b><u>(82,617)</u></b>	<b><u>(19,646)</u></b>	<b><u>41,137</u></b>	<b><u>(135,761)</u></b>	<b><u>4,521</u></b>	<b><u>27,841</u></b>	<b><u>3,420</u></b>	<b><u>(340,977)</u></b>
<b>Other Financing Sources (Uses)</b>									
Transfers in.....	215,250	—	—	—	87,914	—	—	—	303,164
Transfers out .....	—	—	—	(25,000)	(8,658)	—	—	—	(33,658)
<b>Total Other Financing Sources (Uses).....</b>	<b><u>215,250</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>(25,000)</u></b>	<b><u>79,256</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>269,506</u></b>
<b>Revenue and Other Financing Sources Over (Under)</b>									
<b>Expenditures and Other Financing Uses.....</b>	<b><u>35,378</u></b>	<b><u>(82,617)</u></b>	<b><u>(19,646)</u></b>	<b><u>16,137</u></b>	<b><u>(56,505)</u></b>	<b><u>4,521</u></b>	<b><u>27,841</u></b>	<b><u>3,420</u></b>	<b><u>(71,471)</u></b>
Fund Balances - Beginning of Year (as restated).....	400,633	301,660	35,919	771,315	1,305,263	92,031	196,051	130,310	3,233,182
<b>Fund Balances - End of Year.....</b>	<b><u>\$ 436,011</u></b>	<b><u>\$ 219,043</u></b>	<b><u>\$ 16,273</u></b>	<b><u>\$ 787,452</u></b>	<b><u>\$ 1,248,758</u></b>	<b><u>\$ 96,552</u></b>	<b><u>\$ 223,892</u></b>	<b><u>\$ 133,730</u></b>	<b><u>\$ 3,161,711</u></b>

# Combining Statement of Net Assets - Nonmajor Enterprise Funds

At June 30, 2007

	Sewer Rental Replacement	Solid Waste	Solid Waste Replace- ment	Storm Water Manage- ment	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents ...	\$ 1,602,009	\$ 77,053	\$ —	\$ 1,049,132	\$ 2,728,194
Investments .....	613,500	1,181,819	402,000	763,135	2,960,454
Receivables					
Accounts .....	—	69,135	—	—	69,135
Unbilled revenue .....	—	97,545	—	—	97,545
Interest .....	3,947	2,412	2,631	4,605	13,595
Due from other governments	—	2,957	—	—	2,957
<b>Total Current Assets .....</b>	<b><u>2,219,456</u></b>	<b><u>1,430,921</u></b>	<b><u>404,631</u></b>	<b><u>1,816,872</u></b>	<b><u>5,871,880</u></b>
<b>Noncurrent Assets</b>					
Capital assets (net of accumulated depreciation)	—	967,801	—	852,134	1,819,935
Capital assets not being depreciated .....	<u>259,032</u>	<u>—</u>	<u>—</u>	<u>71</u>	<u>259,103</u>
<b>Total Noncurrent Assets .....</b>	<b><u>259,032</u></b>	<b><u>967,801</u></b>	<b><u>—</u></b>	<b><u>852,205</u></b>	<b><u>2,079,038</u></b>
<b>Total Assets .....</b>	<b><u>\$ 2,478,488</u></b>	<b><u>\$ 2,398,722</u></b>	<b><u>\$ 404,631</u></b>	<b><u>\$ 2,669,077</u></b>	<b><u>\$ 7,950,918</u></b>
<b>Liabilities</b>					
Due to other funds .....	\$ —	\$ —	\$ 4,262	\$ —	\$ 4,262
Accounts payable .....	13,092	30,750	—	2,343	46,185
Accrued payroll .....	—	7,309	—	—	7,309
<b>Total Current Liabilities</b>	<b><u>13,092</u></b>	<b><u>38,059</u></b>	<b><u>4,262</u></b>	<b><u>2,343</u></b>	<b><u>57,756</u></b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt .....	259,032	967,801	—	852,205	2,079,038
Unrestricted .....	<u>2,206,364</u>	<u>1,392,862</u>	<u>400,369</u>	<u>1,814,529</u>	<u>5,814,124</u>
<b>Total Net Assets .....</b>	<b><u>2,465,396</u></b>	<b><u>2,360,663</u></b>	<b><u>400,369</u></b>	<b><u>2,666,734</u></b>	<b><u>7,893,162</u></b>
<b>Total Liabilities and Net Assets .....</b>	<b><u>\$ 2,478,488</u></b>	<b><u>\$ 2,398,722</u></b>	<b><u>\$ 404,631</u></b>	<b><u>\$ 2,669,077</u></b>	<b><u>\$ 7,950,918</u></b>

## Combining Statement of Revenue, Expenditures and Changes in Fund Net Assets - Nonmajor Enterprise Funds

Year Ended June 30, 2007

	Sewer Rental Replacement	Solid Waste	Solid Waste Replace- ment	Storm Water Manage- ment	Total
<b>Operating Revenue</b>					
Charges for services.....	\$ 354,632	\$ 947,660	\$ 162,979	\$ 380,868	\$ 1,846,139
Miscellaneous revenue.....	—	108,871	—	—	108,871
<b>Total Operating Revenue</b>	<b><u>354,632</u></b>	<b><u>1,056,531</u></b>	<b><u>162,979</u></b>	<b><u>380,868</u></b>	<b><u>1,955,010</u></b>
<b>Operating Expenses</b>					
Personal services .....	—	639,064	—	—	639,064
Services and commodities.....	39,175	391,556	—	108,667	539,398
Depreciation .....	—	193,120	—	10,979	204,099
<b>Total Operating Expenses</b>	<b><u>39,175</u></b>	<b><u>1,223,740</u></b>	<b><u>—</u></b>	<b><u>119,646</u></b>	<b><u>1,382,561</u></b>
<b>Operating Income (Loss) ....</b>	<b><u>315,457</u></b>	<b><u>(167,209)</u></b>	<b><u>162,979</u></b>	<b><u>261,222</u></b>	<b><u>572,449</u></b>
<b>Nonoperating Revenue</b>					
Investment income .....	120,861	54,166	23,495	92,124	290,646
Special assessments.....	—	254	—	—	254
<b>Total Nonoperating Revenue</b>	<b><u>120,861</u></b>	<b><u>54,420</u></b>	<b><u>23,495</u></b>	<b><u>92,124</u></b>	<b><u>290,900</u></b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b><u>436,318</u></b>	<b><u>(112,789)</u></b>	<b><u>186,474</u></b>	<b><u>353,346</u></b>	<b><u>863,349</u></b>
Transfers in.....	—	272,228	—	—	272,228
Transfers out .....	<u>(26,286)</u>	<u>(36,053)</u>	<u>(266,483)</u>	<u>(186,693)</u>	<u>(515,515)</u>
<b>Change in Net Assets</b>	<b><u>410,032</u></b>	<b><u>123,386</u></b>	<b><u>(80,009)</u></b>	<b><u>166,653</u></b>	<b><u>620,062</u></b>
Net Assets - Beginning of Year	<u>2,055,364</u>	<u>2,237,277</u>	<u>480,378</u>	<u>2,500,081</u>	<u>7,273,100</u>
<b>Net Assets - End of Year</b>	<b><u>\$ 2,465,396</u></b>	<b><u>\$ 2,360,663</u></b>	<b><u>\$ 400,369</u></b>	<b><u>\$ 2,666,734</u></b>	<b><u>\$ 7,893,162</u></b>

# Combining Statement of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2007

	Sewer Rental Replacement	Solid Waste	Solid Waste Replace- ment	Storm Water Manage- ment	Total
<b>Cash Flows From Operating Activities</b>					
Receipts from customers .....	\$ 357,631	\$ 1,054,223	\$ 169,241	\$ 384,368	\$ 1,965,463
Payments to employees.....	—	(648,862)	—	—	(648,862)
Payments to suppliers.....	(37,871)	(394,121)	—	(156,465)	(588,457)
<b>Net Cash Provided by Operating Activities.....</b>	<b><u>319,760</u></b>	<b><u>11,240</u></b>	<b><u>169,241</u></b>	<b><u>227,903</u></b>	<b><u>728,144</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>					
Operating transfers in (out) .....	(154)	236,175	(211,056)	(186,693)	(161,728)
<b>Cash Flows From Capital and Related Financing Activities</b>					
Special assessments.....	—	254	—	—	254
Purchase of capital assets .....	(259,032)	(242,159)	—	(71)	(501,262)
<b>Net Cash Used in Capital and Related Financing Activities .....</b>	<b><u>(259,032)</u></b>	<b><u>(241,905)</u></b>	<b><u>—</u></b>	<b><u>(71)</u></b>	<b><u>(501,008)</u></b>
<b>Cash Flows From Investing Activities</b>					
Interest received.....	116,914	51,754	20,864	87,519	277,051
Purchase of government securities.....	—	(27,777)	—	—	(27,777)
<b>Net Cash Provided by Investing Activities.....</b>	<b><u>116,914</u></b>	<b><u>23,977</u></b>	<b><u>20,864</u></b>	<b><u>87,519</u></b>	<b><u>249,274</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents.....</b>	<b><u>177,488</u></b>	<b><u>29,487</u></b>	<b><u>(20,951)</u></b>	<b><u>128,658</u></b>	<b><u>314,682</u></b>
Cash and Cash Equivalents at Beginning of Year.....	1,424,521	47,566	20,951	920,474	2,413,512
<b>Cash and Cash Equivalents at End of Year .....</b>	<b><u>\$ 1,602,009</u></b>	<b><u>\$ 77,053</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 1,049,132</u></b>	<b><u>\$ 2,728,194</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>					
Operating income (loss) .....	\$ 315,457	\$ (167,209)	\$ 162,979	\$ 261,222	\$ 572,449
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities					
Depreciation .....	—	193,120	—	10,979	204,099
(Increase) decrease in receivables .....	2,999	(1,259)	2,000	3,500	7,240
Increase in due from other governments.....	—	(1,049)	—	—	(1,049)
Increase (decrease) in accounts payable .....	1,304	(2,565)	4,262	(47,798)	(44,797)
Decrease in accrued payroll.....	—	(9,798)	—	—	(9,798)
<b>Net Cash Provided by Operating Activities.....</b>	<b><u>\$ 319,760</u></b>	<b><u>\$ 11,240</u></b>	<b><u>\$ 169,241</u></b>	<b><u>\$ 227,903</u></b>	<b><u>\$ 728,144</u></b>

## Schedule of Noncash Financing and Investing Activities

Transfer of construction in progress to other funds - \$55,427.  
Transfer of note receivable to other funds - \$26,132.

## Schedule of Revenue by Source and Expenditures by Function All Governmental Funds

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Years Ended June 30, 2004 Through 2007

	2007	2006	2005	2004
<b>Revenue</b>				
Property taxes .....	\$ 12,512,678	\$ 11,826,079	\$ 10,914,028	\$ 10,241,000
Tax increment financing and other city taxes.....	822,768	869,887	694,740	342,128
Special assessments.....	23,716	24,340	59,444	12,795
Licenses and permits.....	528,180	592,713	604,373	545,391
Use of money and property .....	1,198,796	1,089,406	916,855	657,703
Intergovernmental.....	2,943,735	3,946,362	3,139,845	3,423,035
Charges for service .....	394,383	388,304	357,767	384,108
Miscellaneous.....	<u>287,072</u>	<u>409,139</u>	<u>375,854</u>	<u>306,974</u>
<b>Total Revenue .....</b>	<b><u>\$ 18,711,328</u></b>	<b><u>\$ 19,146,230</u></b>	<b><u>\$ 17,062,906</u></b>	<b><u>\$ 15,913,134</u></b>
<b>Expenditures</b>				
Operating				
Public safety.....	\$ 6,870,973	\$ 6,766,956	\$ 6,246,486	\$ 5,655,995
Public works.....	2,563,142	2,597,935	2,375,455	2,189,523
Culture and recreation .....	2,612,677	2,541,376	2,277,750	2,235,656
Community and economic development.....	1,437,522	1,523,641	1,061,538	1,090,282
General government .....	1,776,781	1,281,742	1,248,325	1,245,788
Debt service.....	1,853,090	1,902,207	1,970,226	1,769,025
Capital projects.....	<u>4,209,427</u>	<u>6,899,597</u>	<u>4,666,646</u>	<u>2,118,065</u>
<b>Total Expenditures .....</b>	<b><u>\$ 21,323,612</u></b>	<b><u>\$ 23,513,454</u></b>	<b><u>\$ 19,846,426</u></b>	<b><u>\$ 16,304,334</u></b>

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

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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 aggregate 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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 19, 2008. 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 the City of Marion, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City of Marion, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marion, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Marion, Iowa's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the City of Marion, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Marion, Iowa's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Marion, Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Marion, Iowa'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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Marion, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Marion, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and the use of the officials, employees and citizens of the City of Marion, Iowa, and other parties to whom the City of Marion, Iowa, may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Cedar Rapids, Iowa  
March 19, 2008

# Schedule of Findings

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Year Ended June 30, 2007

## Part I: Findings Related to the Financial Statements:

### **Instances of Noncompliance**

There were no prior year or current year instances of noncompliance identified.

### **Significant Deficiencies**

#### **07-I-R-1 Segregation of Duties**

**Auditor's Finding and Recommendation** - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that incompatible duties are being performed by the same person. We realize that with a limited number of employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

**City's Response** - The City is aware of the lack of segregation of duties and has considered alternatives to improve this situation.

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

## Part II: Other Findings Related to Statutory Reporting

- 07-II-A Certified Budget** - Disbursements during the year ended June 30, 2007 did not exceed the amounts in the amended budget.
- 07-II-B Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion.
- 07-II-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 07-II-D Business Transactions** - No business transactions were noted between the City and City officials or employees.
- 07-II-E Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 07-II-F Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 07-II-G Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.