

**CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2008**

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Officials

Name	Title	Term Expires
Paul E. Rehn	Mayor	December 31, 2011
Steve Sprague	Council Member - First Ward	December 31, 2011
Joe Spinks	Council Member - Second Ward	December 31, 2009
Kay A. Lammers	Council Member - Third Ward	December 31, 2011
Craig Adamson	Council Member - Fourth Ward	December 31, 2009
Mary Lou Pazour	Council Member - At-Large	December 31, 2009
Nick Glew	Council Member - At-Large	December 31, 2011
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 2008 Chairperson	November 1, 2008
Gregory O. Hapgood	Marion Municipal Water Department - Trustee	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

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, 2008, 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, 2008, 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 December 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
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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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements and supplemental data for the years ended June 30, 2006 and 2005 (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
December 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, 2008. 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, 2008 by \$175.5 million (net assets). Of this amount, \$31.8 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 \$4.3 million.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$8.4 million, or 62.5% 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 increased by \$3,635,000. There were \$7,250,000 of general obligation notes issued during the year and repayment of bond principal of \$3,615,000.

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, 2008 and 2007

A condensed version of the Statement of Net Assets as of June 30, 2008 and 2007 follows:

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	2008	2007	2008	2007	2008	2007
Cash and investments	\$ 26,125	\$ 21,857	\$ 7,579	\$ 6,962	\$ 33,704	\$ 28,819
Other assets	15,045	13,500	563	522	15,608	14,022
Capital assets	<u>140,206</u>	<u>137,697</u>	<u>18,631</u>	<u>18,123</u>	<u>158,837</u>	<u>155,820</u>
Total Assets	<u>181,376</u>	<u>173,054</u>	<u>26,773</u>	<u>25,607</u>	<u>208,149</u>	<u>198,661</u>
Current liabilities	16,925	15,378	244	174	17,169	15,552
Noncurrent liabilities	<u>15,437</u>	<u>11,895</u>	—	—	<u>15,437</u>	<u>11,895</u>
Total Liabilities	<u>32,362</u>	<u>27,273</u>	<u>244</u>	<u>174</u>	<u>32,606</u>	<u>27,447</u>
Net Assets						
Invested in capital assets, net of debt	125,113	126,210	18,631	18,123	143,744	144,333
Unrestricted	<u>23,901</u>	<u>19,571</u>	<u>7,898</u>	<u>7,310</u>	<u>31,799</u>	<u>26,881</u>
Total Net Assets	<u>\$ 149,014</u>	<u>\$ 145,781</u>	<u>\$ 26,529</u>	<u>\$ 25,433</u>	<u>\$ 175,543</u>	<u>\$ 171,214</u>

Governmental Activities

Net assets increased \$3.2 million for the fiscal year 2008 due to revenues exceeding expenses.

Business-Type Activities

Net assets increased by \$1.1 million for the fiscal year 2008 due to revenues exceeding expenses.

Statement of Activities for the Fiscal Year Ended June 30, 2008 and 2007

A summary version of the Statement of Activities follows:

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue						
Charges for services	\$ 1,132	\$ 1,190	\$ 4,138	\$ 3,837	\$ 5,270	\$ 5,027
Operating grants and contributions	548	466	—	—	548	466
Capital grants and contributions	5,078	10,982	246	951	5,324	11,933
General Revenue						
Property taxes	12,821	12,513	—	—	12,821	12,513
Other taxes	502	533	—	—	502	533
Franchise fees	355	289	—	—	355	289
Road use taxes	2,253	2,200	—	—	2,253	2,200
Investment income	1,135	1,199	326	352	1,461	1,551
Miscellaneous revenue	119	380	1	—	120	380
Total Revenue	<u>23,943</u>	<u>29,752</u>	<u>4,711</u>	<u>5,140</u>	<u>28,654</u>	<u>34,892</u>
Program Expenses						
Public safety	7,884	7,741	—	—	7,884	7,741
Public works	5,639	5,266	—	—	5,639	5,266
Culture and recreation	3,731	3,319	—	—	3,731	3,319
Community and economic development	1,376	1,374	—	—	1,376	1,374
General government	1,596	1,888	—	—	1,596	1,888
Interest on long-term debt	529	552	—	—	529	552
Sanitary sewer	—	—	2,197	2,264	2,197	2,264
Solid waste management	—	—	1,373	1,224	1,373	1,224
Total Expenses	<u>20,755</u>	<u>20,140</u>	<u>3,570</u>	<u>3,488</u>	<u>24,325</u>	<u>23,628</u>
Transfers	<u>45</u>	<u>264</u>	<u>(45)</u>	<u>(264)</u>	<u>—</u>	<u>—</u>
Changes in Net Assets	3,233	9,876	1,096	1,388	4,329	11,264
Beginning net assets	<u>145,781</u>	<u>135,905</u>	<u>25,433</u>	<u>24,045</u>	<u>171,214</u>	<u>159,950</u>
Ending Net Assets	<u>\$ 149,014</u>	<u>\$ 145,781</u>	<u>\$ 26,529</u>	<u>\$ 25,433</u>	<u>\$ 175,543</u>	<u>\$ 171,214</u>

Governmental Activities

Charges for services make up 4.7% of governmental revenues. Operating and capital grants, primarily for street projects and building improvement projects, make up another 23.5% 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 87.8% of total revenues. Investment income accounts for an additional 6.9% 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 disbursements were due to higher than budgeted fuel costs, spending of additional grant revenue, higher usage of winter sand and salt as well as related overtime and the refunding payment of older general obligation bonds. There was also offsetting revenue increases from grant revenue and the issuance of refunding general obligation bonds.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the City had invested \$158.8 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>	
	2008	2007	2008	2007	2008	2007
Land	\$ 62,810	\$ 61,173	\$ —	\$ —	\$ 62,810	\$ 61,173
Building and structures	17,033	16,708	—	—	17,033	16,708
Improvements other than buildings	90,533	87,927	—	—	90,533	87,927
Machinery and equipment	8,051	7,541	2,116	2,062	10,167	9,603
Distribution system	—	—	29,181	28,636	29,181	28,636
Construction in progress	1,738	941	710	259	2,448	1,200
Accumulated depreciation	(39,959)	(36,593)	(13,376)	(12,834)	(53,335)	(49,427)
Total	\$ 140,206	\$ 137,697	\$ 18,631	\$ 18,123	\$ 158,837	\$ 155,820

The following table reconciles the change in capital assets. The amount for governmental activities is \$140.2 million that represents a 1.8% increase. For business-type activities, the amount is \$18.6 million which is a 2.8% 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Beginning balance	\$ 137,697	\$ 126,851	\$ 18,123	\$ 17,336	\$ 155,820	\$ 144,187
Additions	5,746	14,037	801	1,239	6,547	15,276
Retirement, net of depreciation	(65)	(163)	(67)	(36)	(132)	(199)
Depreciation	(3,969)	(3,969)	(677)	(675)	(4,646)	(4,644)
Construction in progress	797	941	451	259	1,248	1,200
Ending Balance	<u>\$ 140,206</u>	<u>\$ 137,697</u>	<u>\$ 18,631</u>	<u>\$ 18,123</u>	<u>\$ 158,837</u>	<u>\$ 155,820</u>

Governmental Activities

Major additions to capital assets consisted primarily of 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.

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.

Debt Administration

The amount of general obligation debt outstanding at fiscal year end was \$14.8 million as compared to \$11.5 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 3.9%, which is higher than it was the previous year and less than the National unemployment rate of 6.0%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2007, most recent available, (April 1, 2006 to March 31, 2007), retail sales for Marion were \$344.5 million and \$3.016 billion for Linn County. For fiscal year 2006, retail sales were \$337.1 million for Marion and \$2.925 billion for Linn County.

The total value of building permits for fiscal year 2008 was approximately \$47.7 million, which is down from the fiscal year 2007 amount of \$61.4 million. The past few fiscal years have been strong with the construction of two large retail outlets, a new school (\$16.8 million in fiscal year 2007), two large industrial facilities and several large multi-family residential projects so the decrease was expected.

Next Year's Budget and Rates

The City Council established the goal that the fiscal year 08-09 budget should not increase City property tax payments for the typical homeowner by more than 3.0%. The adopted budget achieves this goal and actually decreases tax payments by 0.8% 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 07-08, there is no planned increase in sewer fees for FY 08-09 with respect to basic operational costs. The City does anticipate an increase in landfill fees and a need for a rate increase for solid waste fees in FY 08-09.

The total City tax levy rate for fiscal year 08-09 is 14.13850 per taxable valuation compared to 13.78572 for fiscal year 07-08. Net taxable valuation for fiscal year 08-09 is \$1,005.9 million, which was an increase of \$72 million from fiscal year 07-08 when it was \$933.9 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

Statement of Net Assets

At June 30, 2008

	Primary Government			Component Unit Water
	Governmental Activities	Business Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents	\$ 9,537,143	\$ 4,362,047	\$ 13,899,190	\$ 1,575,518
Investments	16,587,593	3,216,547	19,804,140	263,000
Receivables				
Accounts, net of allowance for uncollectible accounts....	168,993	219,242	388,235	94,731
Unbilled revenue	—	334,716	334,716	143,977
Interest	45,858	9,727	55,585	9,455
Notes.....	38,406	—	38,406	—
Property Taxes				
Delinquent.....	60,680	—	60,680	—
Succeeding year	14,065,385	—	14,065,385	—
Due from other governments.....	442,514	—	442,514	—
Due from other funds.....	24,862	—	24,862	—
Inventories	107,847	—	107,847	124,024
Prepaid items.....	—	—	—	18,088
Total Current Assets	<u>41,079,281</u>	<u>8,142,279</u>	<u>49,221,560</u>	<u>2,228,793</u>
Noncurrent Assets				
Notes receivable.....	37,284	—	37,284	—
Bond issue costs	53,333	—	53,333	—
Capital assets (net of accumulated depreciation).....	75,658,210	17,920,878	93,579,088	9,491,634
Capital assets not being depreciated	<u>64,548,174</u>	<u>709,668</u>	<u>65,257,842</u>	<u>358,104</u>
Total Noncurrent Assets	<u>140,297,001</u>	<u>18,630,546</u>	<u>158,927,547</u>	<u>9,849,738</u>
Restricted Assets				
Cash	—	—	—	44,734
Certificates of deposit.....	—	—	—	37,000
Total Restricted Assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>81,734</u>
Total Assets	<u>\$ 181,376,282</u>	<u>\$ 26,772,825</u>	<u>\$ 208,149,107</u>	<u>\$ 12,160,265</u>

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>
Liabilities				
Current Liabilities				
Accounts payable	\$ 473,839	\$ 190,863	\$ 664,702	\$ 83,321
Accrued payroll.....	214,469	21,633	236,102	20,223
Accrued interest.....	131,562	—	131,562	—
Due to other funds.....	—	17,579	17,579	—
Due Within One Year				
General obligation bonds payable.....	1,790,000	—	1,790,000	—
Notes payable	30,000	—	30,000	—
Compensated absences	12,335	13,639	25,974	40,077
Nonbonded indebtedness	24,977	—	24,977	—
Deferred revenue.....	14,065,385	—	14,065,385	—
Self-insured estimated claims.....	146,592	—	146,592	13,408
Reinsurance premiums payable.	36,190	—	36,190	3,310
Total Current Liabilities .	<u>16,925,349</u>	<u>243,714</u>	<u>17,169,063</u>	<u>160,339</u>
Noncurrent Liabilities				
Due After One Year				
General obligation bonds payable.....	13,000,000	—	13,000,000	—
Notes payable	273,189	—	273,189	—
Compensated absences	1,957,989	—	1,957,989	—
Nonbonded indebtedness.....	205,628	—	205,628	—
Total Noncurrent Liabilities.....	<u>15,436,806</u>	<u>—</u>	<u>15,436,806</u>	<u>—</u>
Liabilities Payable from Restricted Assets.....				
	<u>—</u>	<u>—</u>	<u>—</u>	<u>81,734</u>
Total Liabilities	<u>32,362,155</u>	<u>243,714</u>	<u>32,605,869</u>	<u>242,073</u>
Net Assets				
Invested in capital assets, net of related debt.....	125,113,195	18,630,546	143,743,741	9,849,738
Unrestricted	23,900,932	7,898,565	31,799,497	2,068,454
Total Net Assets	<u>149,014,127</u>	<u>26,529,111</u>	<u>175,543,238</u>	<u>11,918,192</u>
Total Liabilities and Net Assets	<u>\$ 181,376,282</u>	<u>\$ 26,772,825</u>	<u>\$ 208,149,107</u>	<u>\$ 12,160,265</u>

Statement of Activities

As of and for the Year Ended June 30, 2008

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	
Governmental Activities								
Public safety	\$ 7,883,542	\$ 202,270	\$ 183,061	\$ —	\$ (7,498,211)	\$ —	\$ (7,498,211)	\$ —
Public works	5,638,990	24,521	4,300	4,163,184	(1,446,985)	—	(1,446,985)	—
Culture and recreation	3,731,365	375,888	283,248	—	(3,072,229)	—	(3,072,229)	—
Community and economic development	1,375,416	497,939	32,161	914,388	69,072	—	69,072	—
General government.....	1,596,478	31,170	44,833	—	(1,520,475)	—	(1,520,475)	—
Interest.....	528,920	—	—	—	(528,920)	—	(528,920)	—
Total Governmental Activities	20,754,711	1,131,788	547,603	5,077,572	(13,997,748)	—	(13,997,748)	—
Business-Type Activities								
Sewer	2,197,563	2,866,013	—	246,625	—	915,075	915,075	—
Solid waste	1,372,703	1,272,477	—	—	—	(100,226)	(100,226)	—
Total Business-Type Activities	3,570,266	4,138,490	—	246,625	—	814,849	814,849	—
Total Primary Government	\$ 24,324,977	\$ 5,270,278	\$ 547,603	\$ 5,324,197	(13,997,748)	814,849	(13,182,899)	—
Component Unit - Water	\$ 2,274,663	\$ 2,085,692	\$ —	\$ 501,658	—	—	—	312,687
General Receipts								
Property taxes					12,820,700	—	12,820,700	—
Tax increment financing revenue					312,842	—	312,842	—
Other Taxes								
Cable television franchise					354,939	—	354,939	—
Hotel/motel					156,051	—	156,051	—
Road use tax					2,252,998	—	2,252,998	—
Local option sales tax.....					33,041	—	33,041	—
Investment income					1,135,481	325,757	1,461,238	85,682
Assessments					22,848	590	23,438	—
Miscellaneous revenue.....					96,611	—	96,611	16,377
Transfers					45,493	(45,493)	—	—
Total General Receipts and Transfers					17,231,004	280,854	17,511,858	102,059
Change in Net Assets.....					3,233,256	1,095,703	4,328,959	414,746
Net Assets - Beginning of Year					145,780,871	25,433,408	171,214,279	11,583,277
Prior period adjustment (Note 16)					—	—	—	(79,831)
Net Assets - Beginning of Year, as Restated.....					145,780,871	25,433,408	171,214,279	11,503,446
Net Assets - End of Year.....					\$ 149,014,127	\$ 26,529,111	\$ 175,543,238	\$ 11,918,192

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of and for the Year Ended June 30, 2008

	General	Road Use	Employee Benefits	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Assets							
Cash and cash equivalents	\$ 3,463,289	\$ —	\$ 329,607	\$ 113,798	\$ 2,983,305	\$ 1,722,303	\$ 8,612,302
Investments	4,867,425	956,140	—	7,751	9,008,936	1,747,341	16,587,593
Receivables							
Accounts	125,547	—	—	—	—	3,200	128,747
Interest	9,733	—	—	—	30,633	5,492	45,858
Property Taxes							
Delinquent	38,785	—	13,545	8,350	—	—	60,680
Succeeding year	8,650,575	—	3,104,202	2,310,608	—	—	14,065,385
Due from other governments	—	180,357	—	—	262,157	—	442,514
Due from other funds	295,980	—	—	—	—	—	295,980
Inventories	107,847	—	—	—	—	—	107,847
Total Assets	\$ 17,559,181	\$ 1,136,497	\$ 3,447,354	\$ 2,440,507	\$ 12,285,031	\$ 3,478,336	\$ 40,346,906
Liabilities and Fund Balances							
Liabilities							
Current Liabilities							
Due to other funds	\$ —	\$ 271,118	\$ —	\$ —	\$ —	\$ —	\$ 271,118
Accounts payable	165,485	120,208	4,409	—	181,574	2,163	473,839
Accrued expenses	194,259	20,210	—	—	—	—	214,469
Deferred revenue	8,650,575	—	3,104,202	2,310,608	—	—	14,065,385
Total Liabilities	9,010,319	411,536	3,108,611	2,310,608	181,574	2,163	15,024,811
Fund Balances							
Reserved for inventories	107,847	—	—	—	—	—	107,847
Reserved for debt service	—	—	—	129,899	—	—	129,899
Unreserved							
General	8,441,015	—	—	—	—	—	8,441,015
Special revenue	—	724,961	338,743	—	—	1,551,430	2,615,134
Capital projects	—	—	—	—	12,103,457	1,786,713	13,890,170
Perpetual care	—	—	—	—	—	138,030	138,030
Total Fund Balances	8,548,862	724,961	338,743	129,899	12,103,457	3,476,173	25,322,095
Total Liabilities and Fund Balances	\$ 17,559,181	\$ 1,136,497	\$ 3,447,354	\$ 2,440,507	\$ 12,285,031	\$ 3,478,336	\$ 40,346,906

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

At June 30, 2008

Total Fund Balances for Governmental Funds (Page 13).....		\$ 25,322,095
 <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		140,206,384
Notes receivable are not financial resources and, therefore, are not reported as assets in the governmental funds		75,690
Internal service funds, net assets.....		782,305
Prepaid items are not financial resources and, therefore, are not reported as assets in the governmental funds		53,333
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	\$ (1,970,324)	
Bonds payable	(14,790,000)	
Accrued interest	(131,562)	
Notes payable	(303,189)	
Nonbonded indebtedness	<u>(230,605)</u>	<u>(17,425,680)</u>
 Net Assets of Governmental Activities (Page 12)		 <u>\$ 149,014,127</u>

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

Year Ended June 30, 2008

	General Fund	Road Use	Employee Benefits	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenue							
Property taxes	\$ 8,239,803	\$ —	\$ 2,872,009	\$ 1,708,888	\$ —	\$ —	\$ 12,820,700
Tax increment financing	—	—	—	—	—	312,842	312,842
Other taxes	510,991	—	—	—	33,041	—	544,032
Licenses and permits.....	532,826	—	—	—	—	—	532,826
Use of money and property	503,349	—	4,216	25,482	462,798	139,667	1,135,512
Intergovernmental.....	307,903	2,252,998	145,936	—	993,860	52,238	3,752,935
Charges for services.....	360,166	—	—	—	1,131	6,025	367,322
Fines and forfeitures.....	201,407	—	—	—	—	—	201,407
Special assessments.....	—	—	—	22,848	—	—	22,848
Miscellaneous.....	43,249	—	66,632	—	—	65,809	175,690
Total Revenue.....	10,699,694	2,252,998	3,088,793	1,757,218	1,490,830	576,581	19,866,114
Expenditures							
Current							
Public safety.....	7,261,013	—	179,127	—	—	3,799	7,443,939
Public works.....	1,062,433	1,905,996	—	—	—	1,120	2,969,549
Culture and recreation	2,737,308	—	48,374	—	—	69,095	2,854,777
Community and economic development.....	956,978	—	—	—	—	362,315	1,319,293
General government	1,494,061	—	—	—	—	—	1,494,061
Debt Service							
Principal	—	—	—	3,668,677	—	—	3,668,677
Interest	—	—	—	434,634	—	—	434,634
Bond issue costs.....	—	—	—	2,750	—	—	2,750
Capital projects.....	—	500,753	—	—	1,654,386	225,257	2,380,396
Total Expenditures.....	13,511,793	2,406,749	227,501	4,106,061	1,654,386	661,586	22,568,076
Revenue Over (Under) Expenditures.....	(2,812,099)	(153,751)	2,861,292	(2,348,843)	(163,556)	(85,005)	(2,701,962)
Other Financing Sources (Uses)							
Operating transfers in.....	3,594,199	—	—	92,518	—	424,467	4,111,184
Operating transfers out.....	(793,129)	(254,663)	(2,889,449)	—	(103,450)	(25,000)	(4,065,691)
Sale of equipment.....	4,777	—	—	—	—	—	4,777
Bond proceeds	—	—	—	2,250,000	5,000,000	—	7,250,000
Bond issue costs	—	—	—	(5,730)	(20,504)	—	(26,234)
Total Other Financing Sources (Uses).....	2,805,847	(254,663)	(2,889,449)	2,336,788	4,876,046	399,467	7,274,036
Net Change in Fund Balances.....	(6,252)	(408,414)	(28,157)	(12,055)	4,712,490	314,462	4,572,074
Fund Balances - Beginning of Year	8,555,114	1,133,375	366,900	141,954	7,390,967	3,161,711	20,750,021
Fund Balances - End of Year.....	\$ 8,548,862	\$ 724,961	\$ 338,743	\$ 129,899	\$ 12,103,457	\$ 3,476,173	\$ 25,322,095

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, 2008

Changes in Fund Balances - Total Governmental Funds (Page 15)		\$ 4,572,074
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.....		52,833
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.		(72,671)
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 net book value of the capital assets sold.		(65,367)
Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	\$ 2,380,396	
Depreciation expense	<u>(3,968,543)</u>	(1,588,147)
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.....		4,163,184
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	\$ 3,615,000	
Bond proceeds.....	(7,250,000)	
Repayment of note principal	28,677	
Change in accrued interest	<u>(94,286)</u>	(3,700,609)
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.....		(143,687)
In the statement of activities, nonbonded indebtedness is recognized but does not require the use of current financial resources and, therefore, is not reported in governmental funds.		(230,605)
Internal service funds net change		<u>246,251</u>
Change in Net Assets of Governmental Activities (Page 12)		<u>\$ 3,233,256</u>

See accompanying notes to the financial statements.

Statement of Net Assets - Proprietary Funds

At June 30, 2008

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer Rental</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Activities</u> <u>Internal</u> <u>Service</u> <u>Fund</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 668,091	\$ 3,693,956	\$ 4,362,047	\$ 924,841
Investments	345,968	2,870,579	3,216,547	—
Receivables				
Accounts	141,839	77,403	219,242	40,246
Unbilled revenue	224,375	110,341	334,716	—
Interest	—	9,727	9,727	—
Total Current Assets	<u>1,380,273</u>	<u>6,762,006</u>	<u>8,142,279</u>	<u>965,087</u>
Noncurrent Assets				
Capital assets (net of accumulated depreciation)	16,040,158	1,880,720	17,920,878	—
Capital assets not being depreciated	<u>246,778</u>	<u>462,890</u>	<u>709,668</u>	<u>—</u>
Total Noncurrent Assets	<u>16,286,936</u>	<u>2,343,610</u>	<u>18,630,546</u>	<u>—</u>
Total Assets	<u>\$ 17,667,209</u>	<u>\$ 9,105,616</u>	<u>\$ 26,772,825</u>	<u>\$ 965,087</u>
Liabilities				
Current Liabilities				
Due to other funds	\$ —	\$ 17,579	\$ 17,579	\$ —
Accounts payable	113,320	77,543	190,863	—
Compensated absences	13,639	—	13,639	—
Self-insured estimated claims	—	—	—	146,592
Reinsurance premiums payable	—	—	—	36,190
Accrued payroll	7,269	14,364	21,633	—
Total Current Liabilities	<u>134,228</u>	<u>109,486</u>	<u>243,714</u>	<u>182,782</u>
Net Assets				
Invested in capital assets, net of related debt	16,286,936	2,343,610	18,630,546	—
Unrestricted	<u>1,246,045</u>	<u>6,652,520</u>	<u>7,898,565</u>	<u>782,305</u>
Total Net Assets	<u>17,532,981</u>	<u>8,996,130</u>	<u>26,529,111</u>	<u>782,305</u>
Total Liabilities and Net Assets	<u>\$ 17,667,209</u>	<u>\$ 9,105,616</u>	<u>\$ 26,772,825</u>	<u>\$ 965,087</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2008

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Govern- mental Activities Internal Service Fund</u>
	Sewer Rental	Nonmajor	Total	
Operating Revenue				
Charges for services.....	\$ 1,785,438	\$ 2,073,030	\$ 3,858,468	\$ —
Miscellaneous revenue.....	—	280,022	280,022	1,620,016
Total Operating Revenue.....	<u>1,785,438</u>	<u>2,353,052</u>	<u>4,138,490</u>	<u>1,620,016</u>
Operating Expenses				
Personal services	433,648	675,507	1,109,155	—
Services and commodities.....	1,141,123	643,193	1,784,316	1,373,765
Depreciation	479,095	197,700	676,795	—
Total Operating Expenses...	<u>2,053,866</u>	<u>1,516,400</u>	<u>3,570,266</u>	<u>1,373,765</u>
Operating Income (Loss)	<u>(268,428)</u>	<u>836,652</u>	<u>568,224</u>	<u>246,251</u>
Nonoperating Revenue				
Investment income	53,570	272,187	325,757	—
Special assessments.....	392	198	590	—
Total Nonoperating Revenue	<u>53,962</u>	<u>272,385</u>	<u>326,347</u>	<u>—</u>
Income (Loss) Before Contributions and Transfers...	(214,466)	1,109,037	894,571	246,251
Capital contributions	246,625	—	246,625	—
Transfers in.....	—	103,450	103,450	—
Transfers out	(39,424)	(109,519)	(148,943)	—
Changes in Net Assets.....	(7,265)	1,102,968	1,095,703	246,251
Net Assets - Beginning of Year	17,540,246	7,893,162	25,433,408	536,054
Net Assets - End of Year.....	<u>\$ 17,532,981</u>	<u>\$ 8,996,130</u>	<u>\$ 26,529,111</u>	<u>\$ 782,305</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2008

	Business-Type Activities - Enterprise Funds			Governmental
	Sewer Rental	Nonmajor	Total	Activities Internal Service Fund
Cash Flows From Operating Activities				
Receipts from customers	\$ 1,751,544	\$ 2,338,813	\$ 4,090,357	\$ 1,579,770
Payments to employees.....	(430,497)	(668,452)	(1,098,949)	—
Payments to suppliers.....	(1,130,660)	(598,518)	(1,729,178)	(1,468,947)
Net Cash Provided by Operating Activities	190,387	1,071,843	1,262,230	110,823
Cash Flows From Noncapital Financing Activities				
Net operating transfers	(39,424)	(6,069)	(45,493)	—
Cash Flows From Capital and Related Financing Activities				
Special assessments.....	392	198	590	—
Purchase of capital assets	(475,261)	(462,272)	(937,533)	—
Net Cash Used in Capital and Related Financing Activities	(474,869)	(462,074)	(936,943)	—
Cash Flows From Investing Activities				
Interest received.....	53,570	272,187	325,757	—
Payments received on notes receivable	11,199	—	11,199	—
Purchase of government securities.....	(12,974)	(29,774)	(42,748)	—
Sale of government securities.....	—	119,649	119,649	—
Net Cash Provided by Investing Activities	51,795	362,062	413,857	—
Net Increase (Decrease) in Cash and Cash Equivalents	(272,111)	965,762	693,651	110,823
Cash and Cash Equivalents at Beginning of Year	940,202	2,728,194	3,668,396	814,018
Cash and Cash Equivalents at End of Year	\$ 668,091	\$ 3,693,956	\$ 4,362,047	\$ 924,841
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ (268,428)	\$ 836,652	\$ 568,224	\$ 246,251
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities				
Depreciation	479,095	197,700	676,795	—
Change in Assets and Liabilities				
Increase in receivables.....	(34,367)	(17,196)	(51,563)	(40,246)
Decrease in due from other governments	473	2,957	3,430	—
Increase (decrease) in accounts payable.....	10,463	44,675	55,138	(95,182)
Increase in accrued payroll.....	2,881	7,055	9,936	—
Increase in accrued compensated absences	270	—	270	—
Net Cash Provided by Operating Activities	\$ 190,387	\$ 1,071,843	\$ 1,262,230	\$ 110,823

Schedule of Noncash Financing and Investing Activities

\$246,624 of capital assets was received as donations from local contractors.
Transfer of construction in progress from other funds - \$103,450.

See accompanying notes to the financial statements.

Statement of Fiduciary Assets and Liabilities - Trust Funds

At June 30, 2008

	Cemetery Memorial
Assets	
Cash and Investments.....	<u>\$ 8,626</u>
Liabilities	
Due to other funds.....	\$ 7,283
Net Assets	
Held in trust	<u>1,343</u>
Total Liabilities and Net Assets	<u>\$ 8,626</u>

Statement of Changes in Fiduciary Net Assets - Trust Funds

At June 30, 2008

	Cemetery Memorial
Reductions	
Miscellaneous.....	\$ 31
Net Assets - Beginning of Year	<u>1,374</u>
Net Assets - End of Year.....	<u>\$ 1,343</u>

Notes to the Financial Statements

(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

(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

(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

(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, 2008 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

(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, 2006 assessed property valuations, is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2007.

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.

Asset Class	Estimated Useful Lives
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

(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, 2008. 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

(2) Deposits and Investments

Deposits

The City's deposits at June 30, 2008 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, 2008, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$3,355,057 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, 2008 were as follows:

Cash	\$ 13,899,190
Pooled cash investments - Iowa Public Agency Investment Trust	3,355,057
Money market accounts	3,798,940
U.S. Instrumentalities	
Original maturities 6 to 10 years	16,581
Original maturities 10+ years	<u>12,642,188</u>
Total	<u>\$ 33,711,956</u>

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, 2008 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, 2008 totaled \$75,690.

Notes to the Financial Statements

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 61,173,146	\$ 1,655,951	\$ 18,938	\$ 62,810,159
Construction in progress.....	<u>940,872</u>	<u>1,374,237</u>	<u>577,094</u>	<u>1,738,015</u>
Total Capital Assets Not Being Depreciated.....	<u>62,114,018</u>	<u>3,030,188</u>	<u>596,032</u>	<u>64,548,174</u>
Capital Assets Being Depreciated				
Buildings.....	16,707,644	329,113	4,200	17,032,557
Improvements other than buildings	87,927,454	2,939,452	333,584	90,533,322
Equipment	<u>7,540,307</u>	<u>821,921</u>	<u>311,261</u>	<u>8,050,967</u>
Total Capital Assets Being Depreciated.....	<u>112,175,405</u>	<u>4,090,486</u>	<u>649,045</u>	<u>115,616,846</u>
Less Accumulated Depreciation for				
Buildings.....	2,949,442	405,592	2,933	3,352,101
Improvements other than buildings	29,808,491	2,854,300	333,584	32,329,207
Equipment	<u>3,834,776</u>	<u>708,651</u>	<u>266,099</u>	<u>4,277,328</u>
Total Accumulated Depreciation...	<u>36,592,709</u>	<u>3,968,543</u>	<u>602,616</u>	<u>39,958,636</u>
Net Capital Assets Being Depreciated	<u>75,582,696</u>	<u>121,943</u>	<u>46,429</u>	<u>75,658,210</u>
Net Governmental Activities				
Capital Assets.....	<u>\$ 137,696,714</u>	<u>\$ 3,152,131</u>	<u>\$ 642,461</u>	<u>\$ 140,206,384</u>
Business-Type Activities				
Capital Assets Not Being Depreciated				
Construction in progress.....	\$ 259,257	\$ 658,494	\$ 208,083	\$ 709,668
Capital Assets Being Depreciated				
Equipment	2,061,893	183,433	129,450	2,115,876
Distribution system	27,757,367	488,586	72,615	28,173,338
Storm sewer system	<u>878,318</u>	<u>129,168</u>	<u>—</u>	<u>1,007,486</u>
Total Capital Assets Being Depreciated.....	<u>30,697,578</u>	<u>801,187</u>	<u>202,065</u>	<u>31,296,700</u>
Less Accumulated Depreciation for				
Equipment	807,018	232,900	75,334	964,584
Distribution system	12,000,452	431,301	59,291	12,372,462
Storm sewer system	<u>26,182</u>	<u>12,594</u>	<u>—</u>	<u>38,776</u>
Total Accumulated Depreciation...	<u>12,833,652</u>	<u>676,795</u>	<u>134,625</u>	<u>13,375,822</u>
Net Capital Assets Being Depreciated	<u>17,863,926</u>	<u>124,392</u>	<u>67,440</u>	<u>17,920,878</u>
Net Business-Type Activities				
Capital Assets.....	<u>\$ 18,123,183</u>	<u>\$ 782,886</u>	<u>\$ 275,523</u>	<u>\$ 18,630,546</u>

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged by the City as follows for the year ended June 30, 2008:

Governmental Activities		
Public safety.....		\$ 428,261
Public works.....		2,693,431
Culture and recreation.....		678,587
General government		168,264
Total Governmental Activities Depreciation Expense		<u>\$ 3,968,543</u>
Business-Type Activities		
Sewer.....		\$ 479,095
Solid waste.....		185,106
Systems		12,594
Total Business-Type Activities Depreciation Expense.....		<u>\$ 676,795</u>

(5) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2008:

	Balance - Beginning of Year	Additions	Retirements	Balance - End of Year	Amount Due in the Next Year	Range of Interest Rates
Governmental Activities						
General obligation bonds	\$ 11,155,000	\$ 7,250,000	\$ 3,615,000	\$ 14,790,000	\$ 1,790,000	2.200-4.85%
General obligation notes ..	331,866	—	28,677	303,189	30,000	4.375-5.20%
Compensated absences ..	1,826,637	212,935	69,248	1,970,324	12,335	N/A
Totals.....	<u>\$ 13,313,503</u>	<u>\$ 7,462,935</u>	<u>\$ 3,712,925</u>	<u>\$ 17,063,513</u>	<u>\$ 1,832,335</u>	
Business-Type Activities						
Compensated absences	<u>\$ 13,369</u>	<u>\$ 270</u>	<u>\$ —</u>	<u>\$ 13,639</u>	<u>\$ 13,639</u>	

Bonds Payable

Seven issues of unmatured general obligation bonds totaling \$14,790,000 were outstanding at June 30, 2008. General obligation bonds bear interest at rates ranging from 2.2% to 4.75% per annum and mature in varying annual amounts ranging from \$70,000 to \$610,000, with the final maturities due in the year ending June 30, 2018.

Details of the City's general obligation bonds payable at June 30, 2008 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-08
General Obligation Bonds						
Refunding corporate purpose	12-1-01	3.50 - 4.30%	6-1-10	\$180,000 - \$195,000	\$1,355,000	\$ 375,000
Corporate purposes	12-1-01	4.05 - 4.75	6-1-14	230,000 - 280,000	2,700,000	1,510,000
Corporate purposes	12-1-03	2.50 - 3.75	6-1-16	270,000 - 370,000	3,100,000	2,580,000
Corporate purposes	12-1-04	2.20 - 3.65	6-1-15	70,000 - 80,000	700,000	520,000
Corporate purposes	12-1-05	3.30 - 3.80	6-1-17	280,000 - 385,000	3,300,000	2,960,000
Refunding corporate purpose	10-15-07	3.50 - 3.55	6-1-12	405,000 - 485,000	2,250,000	1,845,000
Corporate purpose	12-15-07	3.35 - 3.80	6-1-18	325,000 - 610,000	5,000,000	5,000,000
						<u>\$ 14,790,000</u>

Notes to the Financial Statements

(5) Long-Term Debt

Year Ending June 30,	Principal	Interest	Total
2009.....	\$ 1,790,000	\$ 620,405	\$ 2,410,405
2010.....	1,955,000	475,175	2,430,175
2011.....	1,835,000	405,965	2,240,965
2012.....	1,925,000	341,233	2,266,233
2013.....	1,505,000	271,738	1,776,738
2014-2018	5,780,000	563,674	6,343,674
	<u>\$ 14,790,000</u>	<u>\$ 2,678,190</u>	<u>\$ 17,468,190</u>

General Obligation Notes

Two issues of unmatured general obligation notes totaling \$303,189 were outstanding at June 30, 2008. 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, 2008 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-08
General Obligation Notes						
Geo-Thermal note	7-20-06	5.200%	7-1-16	\$ 369 - \$ 7,740	\$ 60,255	\$ 50,810
Geo-Thermal note	12-28-06	4.375	1-1-17	14,870 - 35,327	285,577	252,379
						<u>\$ 303,189</u>

Year Ending June 30,	Principal	Interest	Total
2009.....	\$ 30,000	\$ 13,067	\$ 43,067
2010.....	31,384	11,683	43,067
2011.....	32,832	10,235	43,067
2012.....	34,347	8,720	43,067
2013.....	35,933	7,134	43,067
2014-2017	138,693	11,432	150,125
	<u>\$ 303,189</u>	<u>\$ 62,271</u>	<u>\$ 365,460</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 3.72%, an estimated liability of \$230,605 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 66 acres of cropland at \$125 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, 2008 is as follows:

Transfer to	Transfer From	Amount
General Fund	Sewer Rental	\$ 10,000
General Fund	Trust and Agency	2,889,449
General Fund	Police Retirement	25,000
General Fund	Storm Water Management	15,000
General Fund	General Fund - Equipment Reserve	654,750
Debt Service Fund	Sewer Rental	18,084
Debt Service Fund	Storm Water Management	74,434
Employee Benefits	Sewer Rental	11,340
Employee Benefits	Solid Waste	20,085
Employee Benefits	General Fund	138,379
Employee Benefits	Road Use	28,663
Road Use Replacement	Road Use	226,000
Storm Water Management	Capital Projects	103,450
		<u>\$ 4,214,634</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.

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, 2008, 2007 and 2006 were \$955,070, \$994,639 and \$993,779, respectively, which met the required minimum contribution for the year.

Notes to the Financial Statements

(8) Retirement System

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 3.9% of their annual salary and the City is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$299,056, \$264,667 and \$256,359, 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 6-30-08
Primary Government	
Sick leave	\$ 741,721
Vacation and personal leave	965,570
Compensatory time	276,672
	<u>\$ 1,983,963</u>
Component Unit	
Sick leave	\$ 40,077
Vacation.....	—
	<u>\$ 40,077</u>

The above liabilities have been computed based on rates of pay as of June 30, 2008.

Notes to the Financial Statements

(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, 2008 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, 2008:

	Primary Government	Discretely Presented Component Unit	Total
Claims paid during the year.....	\$ 1,067,828	\$ 86,545	\$ 1,154,373
Estimated claims incurred but unpaid at June 30, 2008....	146,592	13,408	160,000

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 \$392 per month single or \$981 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, 2008, the Marion Water Department collected and remitted to the City \$2,607,001 for sewer and \$1,127,767 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$76,561, of which \$6,429 was payable at June 30, 2008.

Notes to the Financial Statements

(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, 2008 were \$93,415.

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) Commitments and Contingencies

Primary Government

The City is involved in construction of capital assets, mainly streets and sanitary sewer lines. At June 30, 2008, the City was committed to approximately \$1,800,000 in construction contracts, capital asset purchases and other services.

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.

Notes to the Financial Statements

(15) Subsequent Events

Subsequent to June 30, 2008, the City entered into several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$3,750,000.

Subsequent to June 30, 2008, the City took actions to issue approximately \$2 million of industrial development revenue bonds under provisions of Chapter 419 of the Code of Iowa. (See Note 10)

(16) Prior Period Adjustment

During the year ended June 30, 2008, the Water Department determined that the amount reported as net assets restricted for customer deposits should have been reported as a liability payable from restricted assets. The effect of the restatement was to reduce net assets and increase liabilities by \$79,831 at June 30, 2007. The restatement had no effect on the change in net assets for either of the years ended June 30, 2008 or 2007.

Required Supplementary Information

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, 2008

	Original Budget	Amended Budget	Actual			Over (Under) Budget
			Governmental Fund Types	Proprietary Funds	Total	
Receipts						
Property taxes	\$ 12,680,187	\$ 12,680,187	\$ 12,840,127	\$ —	\$ 12,840,127	\$ 159,940
Tax increment financing	431,679	431,679	312,842	—	312,842	(118,837)
Other city taxes	357,639	357,639	549,575	—	549,575	191,936
Licenses and permits	484,325	484,325	552,810	—	552,810	68,485
Use of money and property	1,271,470	1,271,470	1,213,073	327,543	1,540,616	269,146
Intergovernmental	2,998,889	3,204,889	3,472,118	—	3,472,118	267,229
Charges for services	6,787,518	6,787,518	884,313	5,647,017	6,531,330	(256,188)
Special assessments	20,325	20,325	22,848	198	23,046	2,721
Miscellaneous	2,155,517	2,155,517	1,907,776	19,683	1,927,459	(228,058)
Total Receipts	27,187,549	27,393,549	21,755,482	5,994,441	27,749,923	356,374
Disbursements						
Public safety	7,487,045	7,687,045	7,435,834	—	7,435,834	(251,211)
Public works	2,880,703	3,080,703	2,881,967	—	2,881,967	(198,736)
Culture and recreation ..	2,929,123	3,129,123	2,819,873	—	2,819,873	(309,250)
Community and economic development	1,610,657	1,660,657	1,310,865	—	1,310,865	(349,792)
General government	3,348,364	3,423,364	3,032,207	—	3,032,207	(391,157)
Debt service	1,894,193	4,244,193	4,106,061	—	4,106,061	(138,132)
Capital projects	9,415,080	8,896,080	3,031,617	—	3,031,617	(5,864,463)
Business-type activities	6,208,675	6,208,675	—	5,539,297	5,539,297	(669,378)
Total Disbursements	35,773,840	38,329,840	24,618,424	5,539,297	30,157,721	(8,172,119)
Receipts Over (Under) Disbursements	(8,586,291)	(10,936,291)	(2,862,942)	455,144	(2,407,798)	(8,528,493)
Other Financing Sources (Uses)						
Other financing sources	9,075,217	11,425,217	11,334,950	—	11,334,950	90,267
Other financing uses	(4,075,217)	(4,075,217)	(4,051,675)	(59,509)	(4,111,184)	35,967
Total Other Financing Sources (Uses)	5,000,000	7,350,000	7,283,275	(59,509)	7,223,766	126,234
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses						
Balance - Beginning of Year	27,288,390	27,288,390	22,001,836	7,030,412	29,032,248	
Balance - End of Year	\$ 23,702,099	\$ 23,702,099	\$ 26,422,169	\$ 7,426,047	\$ 33,848,216	

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 \$2,556,000. This budget amendment is reflected in the final budgeted amounts.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2008

	<u>Governmental Fund Types</u>		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue	\$ 21,755,482	\$ (1,889,368)	\$ 19,866,114
Expenditures.....	<u>24,618,424</u>	<u>(2,050,348)</u>	<u>22,568,076</u>
Net	(2,862,942)	160,980	(2,701,962)
Other financing sources (uses).....	7,283,275	(9,239)	7,274,036
Beginning fund balances	<u>22,001,836</u>	<u>(1,251,815)</u>	<u>20,750,021</u>
Ending Fund Balances.....	<u>\$ 26,422,169</u>	<u>\$ (1,100,074)</u>	<u>\$ 25,322,095</u>

	<u>Proprietary Fund Types</u>			
	Cash Basis	Adjustment for Component Unit	Accrual Adjustments	GAAP Basis
Revenue	\$ 5,994,441	\$ (2,196,526)	\$ 666,922	\$ 4,464,837
Expenditures.....	<u>5,539,297</u>	<u>(2,194,010)</u>	<u>224,979</u>	<u>3,570,266</u>
Net	455,144	(2,516)	441,943	894,571
Other financing sources (uses).....	(59,509)	—	260,641	201,132
Beginning fund balances	<u>7,030,412</u>	<u>(1,617,736)</u>	<u>20,020,732</u>	<u>25,433,408</u>
Ending Fund Balances.....	<u>\$ 7,426,047</u>	<u>\$ (1,620,252)</u>	<u>\$ 20,723,316</u>	<u>\$ 26,529,111</u>

Other Supplementary Information

Combining Balance Sheet Schedule - Nonmajor Governmental Funds

Year Ended June 30, 2008

	Special Revenue					Capital Projects		Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Police Retirement	Employee Benefits	Park Development	Maintenance Bond		
Assets									
Cash and cash equivalents	\$ 388,944	\$ 209,582	\$ 78,268	\$ 129,280	\$ 563,511	\$ 96,106	\$ 239,425	\$ 17,187	\$ 1,722,303
Investments	75,347	—	—	666,898	884,253	—	—	120,843	1,747,341
Receivables									
Accounts	—	3,200	—	—	—	—	—	—	3,200
Interest	342	—	—	1,039	4,111	—	—	—	5,492
Total Assets	\$ 464,633	\$ 212,782	\$ 78,268	\$ 797,217	\$ 1,451,875	\$ 96,106	\$ 239,425	\$ 138,030	\$ 3,478,336
Liabilities									
Accounts payable	\$ —	\$ —	\$ 1,470	\$ —	\$ 693	\$ —	\$ —	\$ —	\$ 2,163
Fund Balances									
Unreserved									
Special revenue	464,633	212,782	76,798	797,217	—	—	—	—	1,551,430
Capital projects	—	—	—	—	1,451,182	96,106	239,425	—	1,786,713
Perpetual care.....	—	—	—	—	—	—	—	138,030	138,030
Total Fund Balances	464,633	212,782	76,798	797,217	1,451,182	96,106	239,425	138,030	3,476,173
Total Liabilities and Fund Balances	\$ 464,633	\$ 212,782	\$ 78,268	\$ 797,217	\$ 1,451,875	\$ 96,106	\$ 239,425	\$ 138,030	\$ 3,478,336

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

Year Ended June 30, 2008

	Special Revenue					Capital Projects		Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Police Retirement	Employee Benefits	Park Development	Maintenance Bond		
Revenue									
Tax increment financing	\$ —	\$ 312,842	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 312,842
Use of money and property	7,802	—	1,993	34,765	81,725	3,874	9,508	—	139,667
Intergovernmental.....	20,077	—	32,161	—	—	—	—	—	52,238
Charges for services.....	—	—	—	—	—	—	6,025	—	6,025
Miscellaneous.....	—	—	61,509	—	—	—	—	4,300	65,809
Total Revenue.....	27,879	312,842	95,663	34,765	81,725	3,874	15,533	4,300	576,581
Expenditures									
Current									
Public safety.....	—	—	—	—	3,799	—	—	—	3,799
Public works.....	—	—	—	—	1,120	—	—	—	1,120
Culture and recreation.....	—	—	—	—	64,775	4,320	—	—	69,095
Community and economic development.....	—	319,103	35,138	—	8,074	—	—	—	362,315
Capital projects.....	225,257	—	—	—	—	—	—	—	225,257
Total Expenditures.....	225,257	319,103	35,138	—	77,768	4,320	—	—	661,586
Revenue Over (Under) Expenditures.....	(197,378)	(6,261)	60,525	34,765	3,957	(446)	15,533	4,300	(85,005)
Other Financing Sources (Uses)									
Transfers in.....	226,000	—	—	—	198,467	—	—	—	424,467
Transfers out	—	—	—	(25,000)	—	—	—	—	(25,000)
Total Other Financing Sources (Uses).....	226,000	—	—	(25,000)	198,467	—	—	—	399,467
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	28,622	(6,261)	60,525	9,765	202,424	(446)	15,533	4,300	314,462
Fund Balances - Beginning of Year	436,011	219,043	16,273	787,452	1,248,758	96,552	223,892	133,730	3,161,711
Fund Balances - End of Year.....	\$ 464,633	\$ 212,782	\$ 76,798	\$ 797,217	\$ 1,451,182	\$ 96,106	\$ 239,425	\$ 138,030	\$ 3,476,173

Combining Statement of Net Assets - Nonmajor Enterprise Funds

At June 30, 2008

	Sewer Rental Replacement	Solid Waste	Solid Waste Replace- ment	Storm Water Manage- ment	Total
Assets					
Current Assets					
Cash and cash equivalents ...	\$ 2,321,921	\$ —	\$ 67,329	\$ 1,304,706	\$ 3,693,956
Investments	613,500	1,211,593	402,000	643,486	2,870,579
Receivables					
Accounts	—	77,403	—	—	77,403
Unbilled revenue	—	110,341	—	—	110,341
Interest	2,990	1,827	1,993	2,917	9,727
Total Current Assets	2,938,411	1,401,164	471,322	1,951,109	6,762,006
Noncurrent Assets					
Capital assets (net of accumulated depreciation)	—	912,012	—	968,708	1,880,720
Capital assets not being depreciated	273,115	—	—	189,775	462,890
Total Noncurrent Assets	273,115	912,012	—	1,158,483	2,343,610
Total Assets	\$ 3,211,526	\$ 2,313,176	\$ 471,322	\$ 3,109,592	\$ 9,105,616
Liabilities					
Due to other funds	\$ —	\$ 17,579	\$ —	\$ —	\$ 17,579
Accounts payable	14,085	36,528	—	26,930	77,543
Accrued payroll	—	14,364	—	—	14,364
Total Current Liabilities	14,085	68,471	—	26,930	109,486
Net Assets					
Invested in capital assets, net of related debt	273,115	912,012	—	1,158,483	2,343,610
Unrestricted	2,924,326	1,332,693	471,322	1,924,179	6,652,520
Total Net Assets	3,197,441	2,244,705	471,322	3,082,662	8,996,130
Total Liabilities and Net Assets	\$ 3,211,526	\$ 2,313,176	\$ 471,322	\$ 3,109,592	\$ 9,105,616

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

Year Ended June 30, 2008

	Sewer Rental Replacement	Solid Waste	Solid Waste Replace- ment	Storm Water Manage- ment	Total
Operating Revenue					
Charges for services.....	\$ 525,420	\$ 996,584	\$ 168,424	\$ 382,602	\$ 2,073,030
Miscellaneous revenue.....	172,553	107,469	—	—	280,022
Total Operating Revenue	<u>697,973</u>	<u>1,104,053</u>	<u>168,424</u>	<u>382,602</u>	<u>2,353,052</u>
Operating Expenses					
Personal services	—	675,507	—	—	675,507
Services and commodities.....	78,816	391,688	120,402	52,287	643,193
Depreciation	—	185,106	—	12,594	197,700
Total Operating Expenses	<u>78,816</u>	<u>1,252,301</u>	<u>120,402</u>	<u>64,881</u>	<u>1,516,400</u>
Operating Income (Loss)	<u>619,157</u>	<u>(148,248)</u>	<u>48,022</u>	<u>317,721</u>	<u>836,652</u>
Nonoperating Revenue					
Investment income	112,888	52,177	22,931	84,191	272,187
Special assessments.....	—	198	—	—	198
Total Nonoperating Revenue	<u>112,888</u>	<u>52,375</u>	<u>22,931</u>	<u>84,191</u>	<u>272,385</u>
Income (Loss) Before Contributions and Transfers	<u>732,045</u>	<u>(95,873)</u>	<u>70,953</u>	<u>401,912</u>	<u>1,109,037</u>
Transfers in.....	—	—	—	103,450	103,450
Transfers out	—	(20,085)	—	(89,434)	(109,519)
Change in Net Assets	<u>732,045</u>	<u>(115,958)</u>	<u>70,953</u>	<u>415,928</u>	<u>1,102,968</u>
Net Assets - Beginning of Year	<u>2,465,396</u>	<u>2,360,663</u>	<u>400,369</u>	<u>2,666,734</u>	<u>7,893,162</u>
Net Assets - End of Year	<u>\$ 3,197,441</u>	<u>\$ 2,244,705</u>	<u>\$ 471,322</u>	<u>\$ 3,082,662</u>	<u>\$ 8,996,130</u>

Combining Statement of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2008

	Sewer Rental Replacement	Solid Waste	Solid Waste Replace- ment	Storm Water Manage- ment	Total
Cash Flows From Operating Activities					
Receipts from customers	\$ 698,930	\$ 1,086,531	\$ 169,062	\$ 384,290	\$ 2,338,813
Payments to employees.....	—	(668,452)	—	—	(668,452)
Payments to suppliers.....	(77,823)	(368,331)	(124,664)	(27,700)	(598,518)
Net Cash Provided by Operating Activities.....	621,107	49,748	44,398	356,590	1,071,843
Cash Flows From Noncapital Financing Activities					
Operating transfers.....	—	(20,085)	—	14,016	(6,069)
Cash Flows From Capital and Related Financing Activities					
Special assessments.....	—	198	—	—	198
Purchase of capital assets	(14,083)	(129,317)	—	(318,872)	(462,272)
Net Cash Used in Capital and Related Financing Activities	(14,083)	(129,119)	—	(318,872)	(462,074)
Cash Flows From Investing Activities					
Interest received.....	112,888	52,177	22,931	84,191	272,187
Purchase of government securities.....	—	(29,774)	—	—	(29,774)
Sale of government securities.....	—	—	—	119,649	119,649
Net Cash Provided by Investing Activities.....	112,888	22,403	22,931	203,840	362,062
Net Increase (Decrease) in Cash and Cash Equivalents.....	719,912	(77,053)	67,329	255,574	965,762
Cash and Cash Equivalents at Beginning of Year.....	1,602,009	77,053	—	1,049,132	2,728,194
Cash and Cash Equivalents at End of Year	\$ 2,321,921	\$ —	\$ 67,329	\$ 1,304,706	\$ 3,693,956
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	\$ 619,157	\$ (148,248)	\$ 48,022	\$ 317,721	\$ 836,652
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities					
Depreciation	—	185,106	—	12,594	197,700
(Increase) decrease in receivables	957	(20,479)	638	1,688	(17,196)
Decrease in due from other governments.....	—	2,957	—	—	2,957
Increase (decrease) in accounts payable	993	23,357	(4,262)	24,587	44,675
Increase in accrued payroll	—	7,055	—	—	7,055
Net Cash Provided by Operating Activities.....	\$ 621,107	\$ 49,748	\$ 44,398	\$ 356,590	\$ 1,071,843

Schedule of Noncash Financing and Investing Activities

Transfer of construction in progress from other funds - \$103,450.

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

Years Ended June 30, 2005 Through 2008

	2008	2007	2006	2005
Revenue				
Property taxes	\$ 12,820,700	\$ 12,512,678	\$ 11,826,079	\$ 10,914,028
Tax increment financing and other city taxes.....	856,874	822,768	869,887	694,740
Special assessments.....	22,848	23,716	24,340	59,444
Licenses and permits.....	532,826	528,180	592,713	604,373
Use of money and property	1,135,512	1,198,796	1,089,406	916,855
Intergovernmental.....	3,752,935	2,943,735	3,946,362	3,139,845
Charges for service	367,322	394,383	388,304	357,767
Miscellaneous.....	<u>377,097</u>	<u>287,072</u>	<u>409,139</u>	<u>375,854</u>
Total Revenue	<u>\$ 19,866,114</u>	<u>\$ 18,711,328</u>	<u>\$ 19,146,230</u>	<u>\$ 17,062,906</u>
Expenditures				
Operating				
Public safety.....	\$ 7,443,939	\$ 6,870,973	\$ 6,766,956	\$ 6,246,486
Public works.....	2,969,549	2,563,142	2,597,935	2,375,455
Culture and recreation	2,854,777	2,612,677	2,541,376	2,277,750
Community and economic development.....	1,319,293	1,437,522	1,523,641	1,061,538
General government	1,494,061	1,776,781	1,281,742	1,248,325
Debt service.....	4,106,061	1,853,090	1,902,207	1,970,226
Capital projects.....	<u>2,380,396</u>	<u>4,209,427</u>	<u>6,899,597</u>	<u>4,666,646</u>
Total Expenditures	<u>\$ 22,568,076</u>	<u>\$ 21,323,612</u>	<u>\$ 23,513,454</u>	<u>\$ 19,846,426</u>

Financial Assistance Section

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

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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency 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*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 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

Cedar Rapids, Iowa
December 19, 2008

Schedule of Findings

Year Ended June 30, 2008

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

08-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

- 08-II-A Certified Budget** - Disbursements during the year ended June 30, 2008 did not exceed the amounts in the amended budget.
- 08-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.
- 08-II-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 08-II-D Business Transactions** - No business transactions were noted between the City and City officials or employees.
- 08-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.
- 08-II-F Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 08-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.