

**MARION WATER DEPARTMENT
A COMPONENT UNIT OF THE
CITY OF MARION, IOWA**

MARION, IOWA

JUNE 30, 2008

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Officials

Name	Title	Term Expires
(Before January 1, 2008)		
Mary Ann McComas	Chairperson	November 1, 2012
Gregory O. Hapgood	Trustee	November 1, 2010
Robert A. Anderson	Trustee	November 1, 2008
David O. Kalkwarf	Administrator	Indefinite
(After January 1, 2008)		
Robert A. Anderson	Chairperson	November 1, 2008
Mary Ann McComas	Trustee	November 1, 2012
Gregory O. Hapgood	Trustee	November 1, 2010
David O. Kalkwarf	Administrator	Indefinite

Independent Auditor's Report

To the Board of Trustees
Marion Water Department
Marion, Iowa

We have audited the accompanying financial statements of the Marion Water Department, a component unit of the City of Marion, Iowa, at June 30, 2008 which collectively comprise the Marion Water Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marion Water Department's management. Our responsibility is to express an opinion 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, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion Water Department at June 30, 2008, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19 2008 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Trustees
Marion Water Department
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The accompanying Management's Discussion and Analysis on Pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

HOGAN - HANSEN

HOGAN - HANSEN
Cedar Rapids, Iowa
December 19, 2008

Management's Discussion and Analysis

As management of the Marion Water Department, we offer readers of the Department's financial statements this narrative and analysis of the financial statements of the Marion Water Department for the fiscal year ended June 30, 2008, in comparison with the prior fiscal year's results. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A). We encourage readers to consider this information in conjunction with the Department's financial statements which follow.

Financial Highlights

The assets of the Marion Water Department exceeded its liabilities at the close of June 30, 2008 by \$11,918,192 (net assets). Of this amount, \$2,068,454 (unrestricted net assets) may be used to meet the Department's ongoing obligations to citizens and creditors.

The Department's net assets increased by \$414,746 for the year ended June 30, 2008.

The Water Department had no debt obligations at July 1, 2008 and did not issue any debt during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Marion Water Department's basic financial statements. The Department is a single-purpose enterprise component unit of the City of Marion, Iowa. The Department provides water to its customers at rates designed to recover the cost of providing the water, including costs associated with installation and maintenance of water pumping, storage and transmission systems. The Department also bills customers for sewer and garbage charges for the City of Marion. The Department remits all sewer and garbage fees collected to the City of Marion and charges the City an administrative fee for performing this service. As a result, the Department prepares financial statements in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Department'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 Department is improving or deteriorating.

The statement of revenue, expenses and changes in net assets presents information showing how the Department's net assets changed during the 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, revenue and expenses are reported in this statement for some transactions that will result in cash flows in the following year.

The statement of cash flows presents information showing major sources and uses of cash by four types of activities. The activities are operating; noncapital financing; capital and related financing; and investing. Also included is a schedule which reconciles income from operations to net cash provided by operating activities.

The basic financial statements can be found on Pages 8 through 10 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Notes are considered to be an integral part of financial statements prepared in accordance with generally accepted accounting principles. The notes to the financial statements can be found on Pages 11 through 17 of this report.

Financial Analysis

This section discusses and analyzes significant differences between this and the prior fiscal year. The following is a summary of the composition of net assets at June 30:

	2008	2007 (Restated - Note 13)
Cash and certificates of deposit	\$ 1,920,252	\$ 1,917,736
Other assets	390,275	326,915
Capital assets	<u>9,849,738</u>	<u>9,511,354</u>
Total Assets	<u>12,160,265</u>	<u>11,756,005</u>
Current liabilities	160,339	172,728
Noncurrent liabilities	<u>81,734</u>	<u>79,831</u>
Total Liabilities	<u>242,073</u>	<u>252,559</u>
Net Assets		
Invested in capital assets, net of debt	9,849,738	9,511,354
Unrestricted	<u>2,068,454</u>	<u>1,992,092</u>
Total Net Assets	<u>\$ 11,918,192</u>	<u>\$ 11,503,446</u>

Net assets invested in capital assets are by far the largest portion of the Department's net assets, 83% at June 30, 2008, and reflect its net investment in capital assets (e.g., land, water plant distribution system and equipment). The Utility uses these capital assets to provide water and services to the citizens; consequently, these assets are not available for future spending.

Unrestricted net assets may be used to meet the Department's ongoing obligations to citizens and creditors. It is the Department's intention to use these assets for future operating purposes and capital asset acquisition and improvements.

Net assets increased mainly due to capital contributions of new subdivisions totaling \$501,658 for the fiscal year 2008. At both June 30, 2008 and 2007, the Department reported positive balances in all categories of net assets.

Governmental activities. Since the Department is a single-purpose enterprise, it has no activities classified as "governmental".

The following is a summary of the changes in net assets for the years ended June 30:

	2008	2007 (Restated - Note 13)
Operating revenue	\$ 2,102,069	\$ 2,120,330
Operating expenses.....	<u>2,274,663</u>	<u>1,755,336</u>
Net Operating Income (Loss).....	(172,594)	364,994
Net nonoperating revenue.....	85,682	82,210
Net capital contributions.....	<u>501,658</u>	<u>366,278</u>
Changes in Net Assets	414,746	813,482
Net Assets - Beginning of Year.....	11,503,446	10,769,795
Prior period adjustment (Note 13).....	<u>—</u>	<u>(79,831)</u>
Net Assets - End of Year	<u>\$ 11,918,192</u>	<u>\$ 11,503,446</u>

Operating revenue is the Department’s primary source of revenue and is generated from water sales and other services to customers. For 2008, operating revenue decreased \$18,261 from 2007.

Operating expenses totaled \$2,274,663 for 2008, a \$519,327 increase from 2007 due primarily to normal increases in employee compensation and benefit costs and large repair and maintenance costs incurred for water tanks. These expenses represent the Department’s costs to provide water and services to customers. Operating expenses included depreciation expense of \$299,717 and \$266,267 for the years ended June 30, 2008 and 2007, respectively.

Net nonoperating revenue includes interest income, loss on the sale of assets and rent from leasing space. Net nonoperating revenue increased by \$3,472 between 2008 and 2007. The increase was due mainly to an increase in interest income.

Capital contributions of \$501,658 were received from contractors due to subdivision development.

Budgetary Highlights

Each year, the City Council adopts a budget using the cash basis of accounting which differs from the accrual basis of accounting used for the accompanying financial statements. The Department’s budget is included in the total business-type activities budget of the City.

Capital Assets and Long-Term Debt

The Department’s investment in capital assets amounted to approximately \$9.9 million and \$9.5 million at June 30, 2008 and 2007, respectively, (net of accumulated depreciation of approximately \$2.8 million and \$2.6 million at June 30, 2008 and 2007, respectively). This investment in capital assets includes land, construction in progress, buildings, wells and towers, distribution system, equipment and vehicles.

The following is a summary of the capital assets, at cost, at June 30:

	2008	2007
Land.....	\$ 325,254	\$ 325,254
Construction in progress.....	32,850	179,492
Building, wells and towers	2,018,976	1,993,226
Distribution system.....	9,864,198	9,178,483
Equipment and vehicles.....	401,364	379,986
Accumulated depreciation	<u>(2,792,904)</u>	<u>(2,545,087)</u>
Total.....	<u>\$ 9,849,738</u>	<u>\$ 9,511,354</u>

The following table reconciles the change in capital assets:

	2008	2007
Beginning balance	\$ 9,511,354	\$ 8,845,868
Additions	802,043	767,059
Retirements - net of depreciation	(17,300)	(14,798)
Depreciation	(299,717)	(266,267)
Construction in progress.....	<u>(146,642)</u>	<u>179,492</u>
Ending Balance	<u>\$ 9,849,738</u>	<u>\$ 9,511,354</u>

Debt Administration

The Marion Water Department had no outstanding debt and no debt issues pending during the fiscal year.

Economic Factors

The unemployment rate for Linn County at June 30, 2008 was 3.9%, which is higher than 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 (April 1, 2006 to March 31, 2007), retail sales were \$344.5 million for Marion 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. Fiscal year 2007 contained \$16.8 million in valuation for a new school and various school additions. The past few years' strength was due to construction of two large retail outlets, a new school, two industrial facilities and several large multi-unit residential projects.

Next Year's Budget and Rates

The Marion Water Board of Trustees has established a FY 2008-09 budget with a 5% adjustment in water rates. The Board of Trustees, under provisions of Section 388 of the Code of Iowa, establishes and approves the budget for the Department. As a component unit of the City of Marion, the Department's budget is filed for record as part of the City of Marion's budget.

Financial Information Contact

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

Basic Financial Statements

Balance Sheet

At June 30, 2008

Assets

Current Assets

Cash	\$ 1,575,518
Certificates of deposit	263,000
Receivables	
Trade accounts	94,731
Accrued interest	9,455
Unbilled revenue	143,977
Inventories	124,024
Prepaid insurance	18,088
Total Current Assets	<u>2,228,793</u>

Restricted Assets

Cash	44,734
Certificates of deposit	37,000
Total Restricted Assets	<u>81,734</u>

Capital Assets

Land	325,254
Construction in progress	32,850
Buildings, wells and towers	2,018,976
Distribution system	9,864,198
Equipment and vehicles	401,364
Totals	<u>12,642,642</u>
Less accumulated depreciation	<u>(2,792,904)</u>
Total Capital Assets	<u>9,849,738</u>

Total Assets **\$ 12,160,265**

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 83,321
Self-insured premiums and estimated claims	16,718
Accrued expenses	20,223
Compensated absences	40,077
Total Current Liabilities	<u>160,339</u>

Liabilities Payable From Restricted Assets **81,734**

Total Liabilities **242,073**

Net Assets

Invested in capital assets, net of related debt	9,849,738
Unrestricted	2,068,454
Total Net Assets	<u>11,918,192</u>

Total Liabilities and Net Assets **\$ 12,160,265**

Statement of Revenue, Expenses and Changes in Net Assets

Year Ended June 30, 2008

Operating Revenue

Water sales.....	\$ 1,917,800
Billing and collection fees	76,561
Other sales and service.....	91,331
Miscellaneous.....	<u>16,377</u>
Total Operating Revenue	<u>2,102,069</u>

Operating Expenses

Salaries and benefits.....	784,390
Contractual services.....	1,015,987
Commodities.....	173,834
Depreciation	299,717
Other.....	<u>735</u>
Total Operating Expenses	<u>2,274,663</u>

Operating Loss **(172,594)**

Nonoperating Revenue

Interest income.....	75,462
Lease and rental fees, net of expense	<u>10,220</u>
Total Nonoperating Revenue.....	<u>85,682</u>

Change in Net Assets Before Contributions..... **(86,912)**

Capital contributions..... 501,658

Change in Net Assets..... **414,746**

Net Assets - Beginning of Year, as previously reported..... 11,583,277

Prior period adjustment (Note 13)

(79,831)

Net Assets - Beginning of Year, as Restated..... **11,503,446**

Net Assets - End of Year..... **\$ 11,918,192**

Statement of Cash Flows

Year Ended June 30, 2008

Cash Flows From Operating Activities

Cash received from customers.....	\$ 2,098,485
Cash collected on behalf of primary government.....	3,734,768
Cash paid to primary government.....	(3,734,768)
Cash paid to employees.....	(778,217)
Cash paid to suppliers.....	<u>(1,275,204)</u>
Net Cash Provided by Operating Activities.....	<u>45,064</u>

Cash Flows From Noncapital Financing Activities

Lease and rental fees received.....	<u>10,220</u>
-------------------------------------	---------------

Cash Flows From Capital and Related Financing Activities

Contributed capital.....	501,658
Acquisition of capital assets.....	<u>(641,697)</u>
Net Cash Used in Capital and Related Financing Activities.....	<u>(140,039)</u>

Cash Flows From Investing Activities

Maturities of certificates of deposit.....	350,000
Purchase of certificates of deposit.....	<u>(350,000)</u>
Interest received on savings and certificates of deposit.....	<u>87,271</u>
Net Cash Provided by Investing Activities.....	<u>87,271</u>

Net Increase in Cash..... **2,516**

Cash - Beginning of Year..... 1,617,736

Cash - End of Year..... **\$ 1,620,252**

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating loss.....	\$ (172,594)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation.....	299,717
Increase in trade accounts and unbilled revenue receivable.....	(3,584)
Decrease in prepaid insurance.....	612
Increase in inventories.....	(63,102)
Decrease in accounts payable.....	(22,158)
Increase in accrued expenses.....	<u>6,173</u>

Net Cash Provided by Operating Activities..... **\$ 45,064**

Reconciliation of Cash to Specific Assets Included on the Balance Sheet

Cash.....	\$ 1,575,518
Restricted cash.....	<u>44,734</u>
	<u>\$ 1,620,252</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Reporting Entity

The Marion Water Department (Department) is a municipal utility that is a political subdivision and component unit of the City of Marion, Iowa, located in Linn County. The Department provides water to customers within the City. The Department is governed by a Board of Trustees appointed by the City of Marion, Iowa, City Council and is managed by an administrator. All activities with which the Board has oversight responsibility are included in the financial statements. These financial statements of the Department are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus and Basis of Accounting

The Department is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when incurred.

The Department applies all applicable GASB pronouncements, as well as the following pronouncements unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Department distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Department's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses.

Trade Accounts Receivable

Utility sales are billed bimonthly. Payment is due within 20 days of billing. After proper notice, unless other arrangements are made by the customer, service may be discontinued to customers with unpaid bills 30 days or more past due. Uncollected accounts are normally written off against water sales after 90 days. Historically, account balances written off have not been material. Department management estimates that all trade accounts receivable as shown on the balance sheet will be collectible.

Unbilled Revenue Receivable

Sales of water used from the time of the last meter reading prior to June 30 that have not been billed and the resulting receivable is not included in trade receivables. The Department estimates unbilled revenue based on the proportion of unbilled days in June to the number of days in the billing period times the amount billed in July. The result is reported as unbilled revenue receivable.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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

Cash and Cash Equivalents - Excess cash balances are invested in certificates of deposit. Investments in certificates of deposit are stated at cost.

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

Inventories - Inventories are valued at cost using the first-in/first-out method and consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets - Restricted assets are customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets consist of property, equipment and vehicles and infrastructure assets (e.g. buildings, wells, towers and distribution system which are immovable and of value only to the Department). 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 Department as assets with initial, individual costs in excess of \$5,000.

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

Asset Class	Estimated Useful Lives
Buildings, wells and towers	10 - 40 Years
Distribution system.....	20 - 50 Years
Equipment and vehicles	5 - 10 Years

Compensated Absences - Department employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. In addition, Department employees with a minimum of 25 years of service and with satisfactory attendance may receive one and one-half months regular pay as severance pay upon retirement. Satisfactory attendance is based upon accumulated unused sick leave of 30 or more days. One eligible employee retired during the current fiscal year.

Operating Revenue - The Department defines operating revenue as revenue derived from the sale of water. Nonoperating revenue is defined as anything other than revenue from the sale of water.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Budgeting - The Department's budget is included as part of the City's budget and is prepared on the cash basis of accounting. Disbursements are for legal budget compliance, combined for all City proprietary activities. Budget amounts for capital outlay, debt service and transfers out are presented on a combined basis only. The Utility's budget and comparison to cash basis activity is as follows:

Business-Type Activity - Water

Actual disbursements.....	\$ 2,203,716
Budgeted disbursements	<u>2,448,200</u>
Actual Disbursements Under Budget	<u>\$ (244,484)</u>

Restricted Resources - The Department first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Unrestricted resources are used once the restricted resources have been depleted.

(2) Cash Flow Statement Supplementary Information

Schedule of Noncash Investing and Financing Activities

Cost of capital asset acquisitions	\$ 638,101
Amounts payable - prior year	<u>3,596</u>
Cash Paid for Acquisition of Capital Assets.....	<u>\$ 641,697</u>

(3) Deposits and Investments

The Department's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Department 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 Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Department's certificates of deposits are stated at cost which approximates fair value. Certificates of deposit are purchased with maturities of 6 to 18 months and yields 3.2% to 5.1%. Certain certificates of deposit are restricted to secure customer deposits.

The Department had no investments meeting the disclosure requirements of GASB Statement No. 3, as amended by Statement No. 40.

Notes to the Financial Statements

(4) Restricted Assets

Restricted assets represent monies set aside to provide security for deposits and advances. At June 30, 2008, \$81,734 of cash was restricted for customer deposits.

(5) Capital Assets

Capital asset activity for the year was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	\$ 325,254	\$ —	\$ —	\$ 325,254
Construction in progress	<u>179,492</u>	<u>7,100</u>	<u>153,742</u>	<u>32,850</u>
Total Capital Assets Not Being Depreciated.....	<u>504,746</u>	<u>7,100</u>	<u>153,742</u>	<u>358,104</u>
Capital Assets Being Depreciated				
Buildings, wells and towers	1,993,226	25,750	—	2,018,976
Distribution system.....	9,178,483	685,715	—	9,864,198
Equipment and vehicles	<u>379,986</u>	<u>90,578</u>	<u>69,200</u>	<u>401,364</u>
Total Capital Assets Being Depreciated.....	<u>11,551,695</u>	<u>802,043</u>	<u>69,200</u>	<u>12,284,538</u>
Less Accumulated Depreciation for				
Buildings, wells and towers	707,625	47,415	—	755,040
Distribution system.....	1,653,021	209,605	—	1,862,626
Equipment.....	<u>184,441</u>	<u>42,697</u>	<u>51,900</u>	<u>175,238</u>
Total Accumulated Depreciation	<u>2,545,087</u>	<u>299,717</u>	<u>51,900</u>	<u>2,792,904</u>
Net Capital Assets Being Depreciated.....	<u>9,006,608</u>	<u>502,326</u>	<u>17,300</u>	<u>9,491,634</u>
Net Capital Assets	<u>\$ 9,511,354</u>	<u>\$ 509,426</u>	<u>\$ 171,042</u>	<u>\$ 9,849,738</u>

Notes to the Financial Statements

(6) Retirement Plan

Plan Description

The Department 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 employer is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$39,856 and \$35,368 and \$34,690, respectively, equal to the required contributions for each year.

Deferred Compensation Plan

The Department offers its employees a deferred compensation plan under Internal Revenue Code Section 457. The plan allows Department employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Department deposits all amounts of compensation deferred under the plan to the fiduciary designated by the employee.

(7) Compensated Absences

Department employees accumulate vacation and sick leave hours for subsequent use or, in the case of the accumulated vacation pay, for payment upon termination, retirement or death. The accumulations are not recognized as disbursements by the Department until used or paid in its cash basis records. The Department's liability for earned compensated absences payable to employees as accrued to the GAAP basis financial statements at June 30, 2008 was as follows:

Type of Benefit	Amount
Vacation.....	<u>\$ 40,077</u>

This liability has been computed based on rates of pay and rates for payroll taxes and IPERS as of June 30, 2008. Sick leave is payable when used. Retiring employees with a minimum of 25 years of service and who have accumulated at least 30 days of sick leave are entitled to one and one-half months regular pay as severance pay. One eligible employee retired; no amounts of sick leave were accrued at June 30, 2008.

Notes to the Financial Statements

(8) Related Party Transactions

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

(9) Local Government Risk Pool

Health Insurance

The Department has chosen to participate in the City of Marion's risk financing program for risks associated with the employee's health insurance plan. The Department self-funds health insurance claims arising from the Department's employees 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 total cost of these benefits is transferred from the Water Fund based upon the number of employees and the type of plan (single or family) chosen by the employee. Amounts charged are approximately \$340 per month single and \$850 per month family which is an amount based on past claim history. The amount transferred will be adjusted over a reasonable period of time so that the Medical Benefits Fund receipts and disbursements are approximately equal. Claims paid totaled \$117,787 during the year ended June 30, 2008. At June 30, 2008, the Department's share of estimated claims incurred but unpaid was approximately \$13,500 based upon an actuarial determination.

Iowa Municipalities Workers' Compensation Association

The Department obtains its workers' compensation coverage through the City of Marion, which is a member in the Iowa Municipal Workers' Compensation Association (IMWCA). 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 Department'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 \$11,205.

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.

Notes to the Financial Statements

(10) Risk Management

The Department 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 fiscal year.

(11) Commitments

Retirement

For retirees with a minimum of 25 years of service, the Department provides single premium health insurance coverage for a period not to exceed three continuous years, then up to \$100 per month toward health insurance coverage until the retiree is eligible for Medicare/Medicaid coverage. At June 30, 2008, there were three employees with over 25 years of service eligible for these benefits upon retirement. The Department's contributions for these benefits are financed on a pay-as-you-go basis and totaled \$2,400 for the year ended June 30, 2008.

Construction

The Department is involved in construction of capital assets and agreements to purchase capital assets. At June 30, 2008, the Department was committed to approximately \$24,000 in construction and purchase agreements.

(12) Subsequent Events

Subsequent to June 30, 2008, the Department entered into several agreements to purchase and perform maintenance on capital assets. These agreements totaled approximately \$142,000.

(13) Prior Period Adjustment

During the year ended June 30, 2008, the 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.

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

To the Board of Trustees
Marion Water Department
Marion, Iowa

We have audited the accompanying financial statements of the Marion Water Department, as of and for the year ended June 30, 2008, 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 Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 Department'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 Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Department'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. However, we believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Department'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 Department. 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 Department's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Department's responses, we did not audit the Department'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 and customers of the Marion Water Department and other parties to whom the Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
December 19, 2008

Schedule of Findings

Part I: Findings Related to the Financial Statements

08-IC-1 Segregation of Duties

Prior Year Finding and Recommendation - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

With a limited number of office employees, segregation of duties is difficult. However, the Department management should review its control procedures to obtain the maximum internal control possible under the circumstances, segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Current Year Finding - We found the same condition existed. We reiterate our prior year recommendation.

Department's and City's Response - The City Council and Board of Trustees are aware of the condition. We will review procedures and make changes when appropriate.

Auditor's Conclusion - Response accepted.

08-IC-2 Financial Statement Preparation - The Department does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles. As is inherent in many organizations of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply generally accepted accounting principles in preparing the financial statements and the related disclosures.

Auditor's Recommendation - The Department should obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

Department's Response - The Department will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Auditor's Conclusion - Response accepted.

Part II: Compliance and Other Matters

08-C-1 Budget - Operating cash disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.

08-C-2 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Schedule of Findings

- 08-C-3 Travel Expense** - No disbursements of Department money for travel expenses of spouses of the Department officials or employees were noted.
- 08-C-4 Business Transactions** - No business transactions between the Department's officials or employees and the Department were noted.
- 08-C-5 Bond Coverage** - Surety bond coverage of Department officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 08-C-6 Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes that were not.
- 08-C-7 Deposits and Investments** - We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.