

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

MARION, IOWA

JUNE 30, 2009

Table of Contents ---

Officials	1
Independent Auditor’s Report	2-3
Management's Discussion and Analysis	4-7
Basic Financial Statements	
Balance Sheet	8
Statement of Revenue, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to the Financial Statements.....	11-19
Required Supplementary Information	
Schedule of Funding Progress for the Retiree Health Plan.....	20
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	21-22
Schedule of Findings	23-24

Officials

Name	Title	Term Expires
(Before January 1, 2009)		
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	Retired December 31, 2008
Todd R. Steigerwaldt	General Manager	Indefinite, hired October 6, 2008
(After January 1, 2009)		
Gregory O. Hapgood	Chairperson	November 1, 2010
Robert A. Anderson	Trustee	November 1, 2014
Mary Ann McComas	Trustee	November 1, 2012
Todd R. Steigerwaldt	General Manager	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, 2009 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, 2009, 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 2, 2009 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
Page 2

The accompanying Management's Discussion and Analysis and Schedule of Funding Progress for the Retiree Health Plan on Pages 4 through 7 and 20 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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 2, 2009

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, 2009, 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, 2009 by \$12,515,173 (net assets). Of this amount, \$1,854,430 (unrestricted net assets) may be used to meet the Department's ongoing obligations to citizens and creditors.

The Department's net assets increased by \$596,981 for the year ended June 30, 2009.

The Water Department had no debt obligations at July 1, 2009 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 19 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:

	2009	2008
Cash and certificates of deposit.....	\$ 1,935,621	\$ 1,920,252
Other assets.....	429,367	390,275
Capital assets	<u>10,660,743</u>	<u>9,849,738</u>
Total Assets	<u>13,025,731</u>	<u>12,160,265</u>
Current liabilities	395,987	160,339
Noncurrent liabilities	<u>114,571</u>	<u>81,734</u>
Total Liabilities	<u>510,558</u>	<u>242,073</u>
Net Assets		
Invested in capital assets, net of debt.....	10,660,743	9,849,738
Unrestricted.....	<u>1,854,430</u>	<u>2,068,454</u>
Total Net Assets	<u>\$ 12,515,173</u>	<u>\$ 11,918,192</u>

Net assets invested in capital assets are by far the largest portion of the Department’s net assets, 85% at June 30, 2009, 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 \$436,941 for the fiscal year 2009. At both June 30, 2009 and 2008, 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:

	2009	2008
Operating revenue	\$ 2,244,359	\$ 2,102,069
Operating expenses.....	<u>2,142,110</u>	<u>2,274,663</u>
Net Operating Income (Loss).....	102,249	(172,594)
Net nonoperating revenue.....	57,791	85,682
Net capital contributions.....	<u>436,941</u>	<u>501,658</u>
Changes in Net Assets	596,981	414,746
Net Assets - Beginning of Year.....	<u>11,918,192</u>	<u>11,503,446</u>
Net Assets - End of Year	<u>\$ 12,515,173</u>	<u>\$ 11,918,192</u>

Operating revenue is the Department's primary source of revenue and is generated from water sales and other services to customers. For 2009, operating revenue increased \$142,290 from 2008.

Operating expenses totaled \$2,142,110 for 2009, a \$132,553 decrease from 2008 due primarily to large repair and maintenance costs incurred for water tanks in the prior year. These expenses represent the Department's costs to provide water and services to customers. Operating expenses included depreciation expense of \$326,851 and \$299,717 for the years ended June 30, 2009 and 2008, respectively.

Net nonoperating revenue includes interest income and rent from leasing space. Net nonoperating revenue decreased by \$27,891 between 2009 and 2008. The decrease was due mainly to a decrease in interest income.

Capital contributions of \$436,941 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 \$10.7 million and \$9.9 million at June 30, 2009 and 2008, respectively, (net of accumulated depreciation of approximately \$3.1 million and \$2.8 million at June 30, 2009 and 2008, 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:

	2009	2008
Land.....	\$ 325,254	\$ 325,254
Construction in progress.....	272,488	32,850
Building, wells and towers	2,018,976	2,018,976
Distribution system.....	10,754,817	9,864,198
Equipment and vehicles.....	408,963	401,364
Accumulated depreciation	<u>(3,119,755)</u>	<u>(2,792,904)</u>
Total.....	<u>\$ 10,660,743</u>	<u>\$ 9,849,738</u>

The following table reconciles the change in capital assets:

	2009	2008
Beginning balance	\$ 9,849,738	\$ 9,511,354
Additions	898,218	802,043
Retirements - net of depreciation	—	(17,300)
Depreciation	(326,851)	(299,717)
Construction in progress.....	<u>239,638</u>	<u>(146,642)</u>
Ending Balance	<u>\$ 10,660,743</u>	<u>\$ 9,849,738</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, 2009 was 6.3%, which is higher than the previous year and less than the national unemployment rate of 9.7%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2008 (April 1, 2007 to March 31, 2008), retail sales were \$315.6 million for Marion and \$3,113 billion for Linn County. For fiscal year 2007, retail sales were \$344.5 million for Marion and \$3,016 billion for Linn County.

The total value of building permits for fiscal year 2009 was approximately \$45 million, which is down from the fiscal year 2008 amount of \$47.7 million. 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 2009-10 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 General Manager, City Hall, 1225 - 6th Avenue, Marion, Iowa 52302.

Basic Financial Statements

Balance Sheet

At June 30, 2009

Assets

Current Assets

Cash	\$ 1,586,211
Certificates of deposit	263,000
Receivables (net of allowance for uncollectible amounts)	
Trade accounts	159,008
Accrued interest	3,996
Unbilled revenue	170,259
Inventories	76,683
Prepaid insurance	19,421
Total Current Assets	<u>2,278,578</u>

Restricted Assets

Cash	49,410
Certificates of deposit	37,000
Total Restricted Assets	<u>86,410</u>

Capital Assets

Land	325,254
Construction in progress	272,488
Buildings, wells and towers	2,018,976
Distribution system	10,754,817
Equipment and vehicles	408,963
Totals	13,780,498
Less accumulated depreciation	(3,119,755)
Total Capital Assets	<u>10,660,743</u>

Total Assets **\$ 13,025,731**

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 312,384
Self-insured premiums and estimated claims	16,830
Accrued expenses	26,339
Compensated absences	40,434
Total Current Liabilities	<u>395,987</u>

Liabilities Payable From Restricted Assets **86,410**

Noncurrent Liabilities

Net OPEB liability	<u>28,161</u>
Total Liabilities	<u>510,558</u>

Net Assets

Invested in capital assets, net of related debt	10,660,743
Unrestricted	<u>1,854,430</u>
Total Net Assets	<u>12,515,173</u>

Total Liabilities and Net Assets **\$ 13,025,731**

Statement of Revenue, Expenses and Changes in Net Assets

Year Ended June 30, 2009

Operating Revenue

Water sales.....	\$ 2,048,842
Billing and collection fees	88,464
Other sales and services	93,158
Miscellaneous.....	<u>13,895</u>
Total Operating Revenue	<u>2,244,359</u>

Operating Expenses

Salaries and benefits.....	926,621
Contractual services.....	703,294
Commodities.....	180,141
Depreciation	326,851
Other.....	<u>5,203</u>
Total Operating Expenses	<u>2,142,110</u>

Operating Income **102,249**

Nonoperating Revenue

Interest income.....	46,122
Lease and rental fees, net of expense	<u>11,669</u>
Total Nonoperating Revenue.....	<u>57,791</u>

Change in Net Assets Before Contributions..... **160,040**
Capital contributions..... 436,941

Change in Net Assets..... **596,981**

Net Assets - Beginning of Year

	<u>11,918,192</u>
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Net Assets - End of Year..... **\$ 12,515,173**

Statement of Cash Flows

Year Ended June 30, 2009

Cash Flows From Operating Activities

Cash received from customers.....	\$ 2,153,800
Cash collected on behalf of primary government.....	4,358,629
Cash paid to primary government.....	(4,358,629)
Cash paid to employees.....	(891,987)
Cash paid to suppliers.....	(838,313)
Net Cash Provided by Operating Activities.....	<u>423,500</u>

Cash Flows From Noncapital Financing Activities

Lease and rental fees received.....	<u>11,669</u>
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Cash Flows From Capital and Related Financing Activities

Contributed capital.....	436,941
Acquisition of capital assets.....	(912,998)
Net Cash Used in Capital and Related Financing Activities.....	<u>(476,057)</u>

Cash Flows From Investing Activities

Maturities of certificates of deposit.....	250,000
Purchase of certificates of deposit.....	(250,000)
Interest received on savings and certificates of deposit.....	56,257
Net Cash Provided by Investing Activities.....	<u>56,257</u>

Net Increase in Cash..... 15,369

Cash - Beginning of Year..... 1,620,252

Cash - End of Year..... **\$ 1,635,621**

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income.....	\$ 102,249
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation.....	326,851
Increase in trade accounts and unbilled revenue receivable.....	(90,559)
Increase in prepaid insurance.....	(1,333)
Decrease in inventories.....	47,341
Increase in accounts payable.....	4,317
Increase in accrued expenses.....	34,634

Net Cash Provided by Operating Activities..... **\$ 423,500**

Reconciliation of Cash to Specific Assets Included on the Balance Sheet

Cash.....	\$ 1,586,211
Restricted cash.....	49,410
	<u>\$ 1,635,621</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.....	5 - 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 who elect an early separation agreement at retirement may receive the benefits outlined as follows: three and one-half months of salary as well as the equivalent of two years of health insurance coverage paid by the Department.

Operating Revenue - The Department defines operating revenue as revenue derived from the sale of water billing and collection fees and other sales and services provided to customers. 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.....	\$ 2,210,920
Budgeted disbursements	<u>2,726,705</u>
Actual Disbursements Under Budget	<u>\$ (515,785)</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	\$ 1,137,856
Amounts payable - current year	<u>(224,858)</u>
Cash Paid for Acquisition of Capital Assets.....	<u>\$ 912,998</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 12 to 13 months and yields 3% to 3.2%. 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, 2009, \$86,410 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>32,850</u>	<u>239,638</u>	<u>—</u>	<u>272,488</u>
Total Capital Assets Not Being Depreciated.....	<u>358,104</u>	<u>239,638</u>	<u>—</u>	<u>597,742</u>
Capital Assets Being Depreciated				
Buildings, wells and towers	2,018,976	—	—	2,018,976
Distribution system.....	9,864,198	890,619	—	10,754,817
Equipment and vehicles	<u>401,364</u>	<u>7,599</u>	<u>—</u>	<u>408,963</u>
Total Capital Assets Being Depreciated.....	<u>12,284,538</u>	<u>898,218</u>	<u>—</u>	<u>13,182,756</u>
Less Accumulated Depreciation for				
Buildings, wells and towers	755,040	47,666	—	802,706
Distribution system.....	1,862,626	241,007	—	2,103,633
Equipment.....	<u>175,238</u>	<u>38,178</u>	<u>—</u>	<u>213,416</u>
Total Accumulated Depreciation	<u>2,792,904</u>	<u>326,851</u>	<u>—</u>	<u>3,119,755</u>
Net Capital Assets Being Depreciated.....	<u>9,491,634</u>	<u>571,367</u>	<u>—</u>	<u>10,063,001</u>
Net Capital Assets	<u>\$ 9,849,738</u>	<u>\$ 811,005</u>	<u>\$ —</u>	<u>\$ 10,660,743</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 4.1% of their annual salary and the employer is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$46,586, \$39,856 and \$35,368, 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) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions*, during the year ended June 30, 2009.

Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 12 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Notes to the Financial Statements

(7) Other Postemployment Benefits (OPEB)

The following table shows the components of the City's annual OPEB cost for June 30, 2009, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution.....	\$ 28,161
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB Cost	<u>28,161</u>
Contributions made	—
Increase in Net OPEB Obligation.....	<u>28,161</u>
Net OPEB Obligation - Beginning of Year	—
Net OPEB Obligation - End of Year.....	<u>\$ 28,161</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$28,161	0%	\$28,161

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for the period of July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$293,077, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$293,077. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$771,000, and the ratio of the UAAL to the covered payroll was 38%. As of June 30, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to the Financial Statements

(7) Other Postemployment Benefits (OPEB)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the City's funding policy. The projected annual health cost trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement was assumed at the rate of retirement by attained age after becoming eligible to retire and continue health coverage and termination probabilities were assumed at a modest rate for active employees while no turnover was assumed after the benefit start date.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) 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, 2009 was as follows:

Type of Benefit	Amount
Vacation.....	<u>\$ 40,434</u>

This liability has been computed based on rates of pay and rates for payroll taxes and IPERS as of June 30, 2009. Sick leave is payable when used. No amounts of sick leave were accrued at June 30, 2009.

(9) 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, 2009, the Department collected and remitted to the City of Marion \$3,081,800 for sewer and \$1,276,829 for garbage service. Fees paid to the Department by the City of Marion during the year to pay for this service totaled \$88,464, of which \$8,952 was receivable at June 30, 2009.

Notes to the Financial Statements

(10) 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 \$118,732 during the year ended June 30, 2009. At June 30, 2009, the Department's share of estimated claims incurred but unpaid was approximately \$13,600 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, 2009 were \$12,237.

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

(11) 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.

(12) Commitments

Construction

The Department is involved in construction of capital assets and agreements to purchase capital assets. At June 30, 2009, the Department was committed to approximately \$22,000 in construction and purchase agreements.

(13) Subsequent Events

Subsequent to June 30, 2009, the Department entered into an agreement to purchase capital assets. This agreement totaled approximately \$57,000.

In August, 2009, the Department was awarded a State Revolving Fund Planning and Design loan in the amount of \$150,750. The loan is noninterest bearing and due in three years.

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2008	\$—	\$293,077	\$293,077	0%	\$771,000	38%

See Note 7 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

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, 2009, and have issued our report thereon dated December 2, 2009. 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 in Part I of the accompanying Schedule of Findings 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, 2009 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 2, 2009

Schedule of Findings

Part I: Findings Related to the Financial Statements

09-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.

09-IC-2 Financial Statement Preparation

Prior Year Finding and Recommendation - 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 Department 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. The Department should obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

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

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

Auditor's Conclusion - Response accepted.

Schedule of Findings

Part II: Compliance and Other Matters

- 09-C-1 Budget** - Operating cash disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.
- 09-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.
- 09-C-3 Travel Expense** - No disbursements of Department money for travel expenses of spouses of the Department officials or employees were noted.
- 09-C-4 Business Transactions** - No business transactions between the Department's officials or employees and the Department were noted.
- 09-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.
- 09-C-6 Board of Trustee Minutes** - No transactions were found that we believe should have been approved in the Trustee minutes that were not.
- 09-C-7 Deposits and Investments**

Finding - The Department deposited funds in an institution which was not included on the resolution naming depositories and was not in accordance with the Department investment policy.

Auditor's Recommendation - The depository resolution should be updated in accordance with the Code of Iowa and the investment policy should be updated to reflect the needs of the Department.

Department's Response - The resolution was updated July, 2009 and the investment policy was updated and approved by the Trustees in September, 2009.

Auditor's Conclusion - Response accepted.