

**CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2010**

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Officials

Elected Officials

Before January, 2010

| Name | Title | Term Expires |
|-----------------|------------------------------|-------------------|
| Paul E. Rehn | Mayor | December 31, 2011 |
| Steve Sprague | Council Member - First Ward | December 31, 2011 |
| Joe Spinks | Council Member - Second Ward | December 31, 2009 |
| Kay A. Lammers | Council Member - Third Ward | December 31, 2011 |
| Craig Adamson | Council Member - Fourth Ward | December 31, 2009 |
| Mary Lou Pazour | Council Member - At-Large | December 31, 2009 |
| Nick Glew | Council Member - At-Large | December 31, 2011 |

Beginning January, 2010

| | | |
|----------------|------------------------------|-------------------|
| Paul E. Rehn | Mayor | December 31, 2011 |
| Steve Sprague | Council Member - First Ward | December 31, 2011 |
| Joe Spinks | Council Member - Second Ward | December 31, 2013 |
| Kay A. Lammers | Council Member - Third Ward | December 31, 2011 |
| Louis Stark | Council Member - Fourth Ward | December 31, 2013 |
| Craig Adamson | Council Member - At-Large | December 31, 2013 |
| Nick Glew | Council Member - At-Large | December 31, 2011 |

Appointed Officials

| | | |
|--------------------|---|-------------------------|
| Lon Pluckhahn | City Manager | Indefinite |
| Wesley A. Nelson | Finance Director/City Clerk | Indefinite |
| Donald C. Hoskins | City Attorney | Indefinite |
| Tom Treharne | Director of Planning and Development | Indefinite |
| Harry Daugherty | Chief of Police | Civil Service |
| Daniel Whitlow | City Engineer | Indefinite |
| Terry Jackson | Fire Chief | Civil Service |
| Susan Kling | Library Director | Indefinite |
| Richard Fox | Director of Parks and Recreation | Indefinite |
| Thomas Newbanks | Public Services Director | Retired, April 30, 2010 |
| Ryan Miller | Acting Public Services Director | Indefinite |
| Robert A. Anderson | Marion Municipal Water Department - Trustee | November 1, 2014 |
| Gregory O. Hapgood | Marion Municipal Water Department - Trustee 2009 Chairperson | November 1, 2010 |
| Mary Ann McComas | Marion Municipal Water Department - Trustee 2010 Chairperson | November 1, 2012 |
| Todd Steigerwaldt | Marion Municipal Water Department - General Manager | Indefinite |

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A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the City of Marion, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2011 on our consideration of the City of Marion, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and
Members of the City Council
City of Marion, Iowa
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Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress for the retiree health plan on Pages 4 through 11 and Pages 43 and 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the three years ended June 30, 2006 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements. Other supplementary information included on Pages 46 through 53, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

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Cedar Rapids, Iowa
March 28, 2011

Management's Discussion and Analysis

As management of the City of Marion, Iowa, we offer readers of the City of Marion's financial statements this narrative and analysis of the financial statements of the City of Marion for the fiscal year ended June 30, 2010. This section should be read in conjunction with the financial statements and the accompanying notes that follow. It should also be noted that the information contained here will provide information on both the governmental operations and the business activities of the City.

Financial Highlights

The assets of the City of Marion exceeded its liabilities at the close of June 30, 2010 by \$188.5 million (net assets). Of this amount, \$40.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$10.4 million.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$9.4 million, or 62.9% of the total general fund expenditures. For the purpose of these financial statements, the General fund also includes the Equipment Replacement and the Tax Stabilization Funds.

Total general obligation debt increased by \$6,435,000. There were \$8,405,000 of general obligation notes issued during the year and repayment of bond principal of \$1,970,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report three kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, user charges and state and federal grants finance most of these activities.
- Business-type activities include solid waste management collection and the sanitary sewer system. These activities are financed primarily by user charges.
- The component unit includes the activities of the Marion Water Department. The City is financially accountable for the Water Department and has included it in the financial statements and notes.

Fund Financial Statements

The City has three kinds of funds:

1. Governmental Funds

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

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

The City of Marion maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General fund, Road Use Tax fund, Employee Benefits fund, Debt Service fund and the Capital Projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The basic governmental financial statements can be found on Pages 14-17 of this report.

2. Proprietary Funds

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

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sanitary Sewer operations as this is considered a major fund of the City. Individual fund data for each of the non-major enterprise funds is provided in the form of combining statements elsewhere in this report. The Internal Service fund is shown in the proprietary fund financial statements. The basic proprietary financial statements can be found on Pages 18-20 of this report.

3. Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City of Marion's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on Pages 21-22 of this report.

Government-Wide Financial Statements

As noted earlier, the government-wide financial statements include the Statement of Net Assets. The Statement of Net Assets presents information on all of the City of Marion's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities is also included in the government-wide financial statements. The focus of the Statement of Activities is to show how the government's assets changed during the most recent fiscal year. The Statement of Net Assets and the Statement of Activities can be found on Pages 12-13 of this report.

Statement of Net Assets for the Fiscal Year Ended June 30, 2010 and 2009

A condensed version of the Statement of Net Assets as of June 30, 2010 and 2009 follows:

(in thousands)

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total Government</u> | |
|---|--------------------------------|--------------------------|---------------------------------|-------------------------|--------------------------|--------------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Cash and investments | \$ 35,402 | \$ 23,920 | \$ 8,994 | \$ 8,281 | \$ 44,396 | \$ 32,201 |
| Other assets | 16,853 | 15,394 | 960 | 857 | 17,813 | 16,251 |
| Capital assets | <u>149,223</u> | <u>143,603</u> | <u>18,268</u> | <u>18,344</u> | <u>167,491</u> | <u>161,947</u> |
| Total Assets | <u>201,478</u> | <u>182,917</u> | <u>28,222</u> | <u>27,482</u> | <u>229,700</u> | <u>210,399</u> |
| Current liabilities | 20,347 | 18,007 | 282 | 477 | 20,629 | 18,484 |
| Noncurrent liabilities | <u>20,583</u> | <u>13,841</u> | <u>—</u> | <u>—</u> | <u>20,583</u> | <u>13,841</u> |
| Total Liabilities | <u>40,930</u> | <u>31,848</u> | <u>282</u> | <u>477</u> | <u>41,212</u> | <u>32,325</u> |
| Net Assets | | | | | | |
| Invested in capital assets, net of debt | 129,279 | 130,255 | 18,268 | 18,344 | 147,547 | 148,599 |
| Unrestricted | <u>31,269</u> | <u>20,814</u> | <u>9,672</u> | <u>8,661</u> | <u>40,941</u> | <u>29,475</u> |
| Total Net Assets | <u>\$ 160,548</u> | <u>\$ 151,069</u> | <u>\$ 27,940</u> | <u>\$ 27,005</u> | <u>\$ 188,488</u> | <u>\$ 178,074</u> |

Net assets of governmental activities increased approximately \$9.5 million for the fiscal year 2010. Net assets of business-type activities increased approximately \$0.9 million for the fiscal year 2010. The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$31.3 million at the end of this year for governmental activities and \$9.7 million for business-type activities.

Statement of Activities for the Fiscal Year Ended June 30, 2010 and 2009

A summary version of the Statement of Activities follows:

(in thousands)

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|------------------------------------|--------------------------------|--------------------------|---------------------------------|-------------------------|--------------------------|--------------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Revenue | | | | | | |
| Charges for services | \$ 1,276 | \$ 1,143 | \$ 4,902 | \$ 4,732 | \$ 6,178 | \$ 5,875 |
| Operating grants and contributions | 678 | 893 | — | 169 | 678 | 1,062 |
| Capital grants and contributions | 5,618 | 2,582 | 34 | — | 5,652 | 2,582 |
| General Revenue | | | | | | |
| Property taxes | 14,858 | 14,437 | — | — | 14,858 | 14,437 |
| Other taxes | 4,204 | 589 | — | — | 4,204 | 589 |
| Franchise fees | 327 | 337 | — | — | 327 | 337 |
| Road use taxes | 2,407 | 2,179 | — | — | 2,407 | 2,179 |
| Investment income | 715 | 875 | 123 | 228 | 838 | 1,103 |
| Miscellaneous revenue | 33 | 48 | — | — | 33 | 48 |
| Total Revenue | <u>30,116</u> | <u>23,083</u> | <u>5,059</u> | <u>5,129</u> | <u>35,175</u> | <u>28,212</u> |
| Program Expenses | | | | | | |
| Public safety | 7,958 | 7,825 | — | — | 7,958 | 7,825 |
| Public works | 5,166 | 5,760 | — | — | 5,166 | 5,760 |
| Culture and recreation | 3,426 | 3,788 | — | — | 3,426 | 3,788 |
| Community and economic development | 1,662 | 1,839 | — | — | 1,662 | 1,839 |
| General government | 1,951 | 1,892 | — | — | 1,951 | 1,892 |
| Interest on long-term debt | 685 | 540 | — | — | 685 | 540 |
| Sanitary sewer | — | — | 2,685 | 2,506 | 2,685 | 2,506 |
| Solid waste management | — | — | 1,228 | 1,531 | 1,228 | 1,531 |
| Total Expenses | <u>20,848</u> | <u>21,644</u> | <u>3,913</u> | <u>4,037</u> | <u>24,761</u> | <u>25,681</u> |
| Transfers | <u>411</u> | <u>616</u> | <u>(411)</u> | <u>(616)</u> | <u>—</u> | <u>—</u> |
| Changes in Net Assets | 9,679 | 2,055 | 735 | 476 | 10,414 | 2,531 |
| Beginning net assets, as restated | <u>150,869</u> | <u>149,014</u> | <u>27,205</u> | <u>26,529</u> | <u>178,074</u> | <u>175,543</u> |
| Ending Net Assets | <u>\$ 160,548</u> | <u>\$ 151,069</u> | <u>\$ 27,940</u> | <u>\$ 27,005</u> | <u>\$ 188,488</u> | <u>\$ 178,074</u> |

Governmental Activities

Charges for services make up 4.2% of governmental revenues. Operating and capital grants, primarily for street projects and building improvement projects, make up another 20.9% of governmental revenues. The remaining revenue comes from taxes, primarily property taxes and interest revenue.

Business-Type Activities

As expected, charges for services is the primary revenue source for business-type activities. Sanitary sewer fees and solid waste fees are the primary charges for services that make up 96.9% of total revenues. Investment income accounts for an additional 2.4% of total revenues.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Pages 23-42 of this report.

Budgetary Highlights

The City had one budget amendment during the fiscal year, which is our common practice. The major increases in disbursements were from projects related to those funded with local option sales taxes, bond issue projects and several stimulus projects. Also, there were additional overtime costs, various grant expenses, extra street repair costs and higher storm sewer costs. There was also offsetting revenue increases from the receipt of additional local option sales tax revenue, various additional grant proceeds, additional charges for services and a larger than budgeted bond issue.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2010, the City had invested \$167.5 million (net of depreciation) in capital assets as are reflected in the following table. These investments include land, buildings, improvements, machinery and equipment, roads, bridges and infrastructure.

(in thousands - net of depreciation)

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-----------------------------------|--------------------------------|--------------------------|---------------------------------|-------------------------|--------------------------|--------------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 65,454 | \$ 64,220 | \$ — | \$ — | \$ 65,454 | \$ 64,220 |
| Building and structures | 17,243 | 17,226 | 8 | 8 | 17,251 | 17,234 |
| Improvements other than buildings | 97,056 | 93,236 | — | — | 97,056 | 93,236 |
| Machinery and equipment | 9,819 | 9,130 | 2,313 | 2,189 | 12,132 | 11,319 |
| Distribution system | — | — | 29,804 | 29,460 | 29,804 | 29,460 |
| Construction in progress | 6,581 | 3,230 | 522 | 648 | 7,103 | 3,878 |
| Accumulated depreciation | (46,930) | (43,483) | (14,379) | (13,961) | (61,309) | (57,444) |
| Total | <u>\$ 149,223</u> | <u>\$ 143,559</u> | <u>\$ 18,268</u> | <u>\$ 18,344</u> | <u>\$ 167,491</u> | <u>\$ 161,903</u> |

The following table reconciles the change in capital assets. The amount for governmental activities is \$5.7 million that represents a 3.9% increase. For business-type activities, the amount is \$0.1 million which is a 0.5% decrease. Details of this summary are presented on Pages 31-32 of the notes.

(in thousands)

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--------------------------------------|--------------------------------|--------------------------|---------------------------------|-------------------------|--------------------------|--------------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Beginning balance | \$ 143,559 | \$ 140,206 | \$ 18,344 | \$ 18,631 | \$ 161,903 | \$ 158,837 |
| Additions | 5,274 | 4,560 | 839 | 534 | 6,113 | 5,094 |
| Retirement, net of depreciation | (45) | (66) | (107) | (73) | (152) | (139) |
| Depreciation | (4,152) | (4,042) | (684) | (685) | (4,836) | (4,727) |
| Capital assets not being depreciated | 4,587 | 2,901 | (124) | (63) | 4,463 | 2,838 |
| Ending Balance | <u>\$ 149,223</u> | <u>\$ 143,559</u> | <u>\$ 18,268</u> | <u>\$ 18,344</u> | <u>\$ 167,491</u> | <u>\$ 161,903</u> |

Governmental Activities

Major additions to capital assets consisted primarily of streets, storm sewers and equipment. Primary retirements were the replacement of several police cars and other equipment that were scheduled to be replaced based on an on-going replacement schedule.

Business-Type Activities

Major additions were system improvements and miscellaneous equipment. Annually the solid waste division replaces a garbage truck at a cost of around \$150,000 as a scheduled replacement.

Debt Administration

The amount of general obligation debt outstanding at fiscal year end was \$19.5 million as compared to \$13.0 million the prior fiscal year. This debt is backed by the full faith and credit of the City. Every other year the City issues a general obligation bond issue to fund various street, sewer and other essential corporate purpose projects.

Moody's Investment Services has rated the City's general obligation bonds at Aa2 since December, 2001 but in April, 2010 that was recalibrated by Moody's up to an Aa1. Prior to 2001, the City's bonds were rated at Aa3 which was an upgrade from an A1 that was made in December, 1999.

For more detailed information on the City's debt, please refer to Pages 32-34 of the Notes to the Financial Statements.

Economic Factors

The unemployment rate for Linn County is currently at 6%, which is higher than it was the previous year and less than the National unemployment rate of 9.6%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2009. The most recent available, (April 1, 2008 to March 31, 2009), retail sales for Marion were \$351.8 million and \$3.487 billion for Linn County. For fiscal year 2008, retail sales were \$315.6 million for Marion and \$3.113 billion for Linn County.

The total value of building permits for fiscal year 2010 was approximately \$62.8 million, which is up from the fiscal year 2009 amount of \$45.0 million. This past year has been very strong with the construction of a middle school and athletic facilities for the two local school districts as well as some larger commercial projects.

Next Year's Budget and Rates

The adopted FY 10-11 budget calls for an increase in tax receipts of 5.4% and accomplishes all of the Council's long-standing objectives including maintaining the current level of services, maintaining adequate levels of cash reserves and complying with all of the City's financial policies.

The City anticipates an 8% increase in wastewater treatment payments to the City of Cedar Rapids for FY 10-11. Increased customer accounts will be sufficient to provide the revenue needed to cover that cost increase. Additionally, the higher than projected local option sales tax collections have eliminated the need for a rate increase to cover the first phase of the trunk sewer project. No rate increase is proposed.

The City also expects no change in the solid waste fee for FY 10-11. The increase in 2008, coupled with increased revenues from added customer accounts, is sufficient to meet the needs of the Department.

The total City tax levy rate for FY 10-11 is 13.63603 per taxable valuation compared to 13.86482 for FY 09-10. Net taxable valuation for FY 10-11 is \$1,141.7 million, which was an increase of \$75.5 million from the FY 09-10 level which was \$1,066.2 million.

Financial Information Contact

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

Basic Financial Statements

Statement of Net Assets

At June 30, 2010

| | <u>Primary Government</u> | | | <u>Component Unit Water</u> |
|--|------------------------------------|--------------------------------|------------------------------|-------------------------------------|
| | <u>Governmental Activities</u> | <u>Business Activities</u> | <u>Total</u> | |
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 9,127,445 | \$ 6,370,018 | \$ 15,497,463 | \$ 1,420,471 |
| Investments | 26,274,998 | 2,624,039 | 28,899,037 | 250,000 |
| Receivables | | | | |
| Accounts, net of allowance for uncollectible accounts.... | 141,241 | 295,182 | 436,423 | 140,732 |
| Unbilled revenue | — | 368,003 | 368,003 | 186,441 |
| Interest | 47,335 | 6,714 | 54,049 | — |
| Notes..... | 35,240 | — | 35,240 | — |
| Property Taxes | | | | |
| Delinquent..... | 143,118 | — | 143,118 | — |
| Succeeding year | 15,687,229 | — | 15,687,229 | — |
| Due from other governments..... | 592,988 | 138,998 | 731,986 | — |
| Due from other funds..... | 632 | — | 632 | — |
| Interfund loan..... | — | 49,304 | 49,304 | — |
| Inventories | 98,938 | — | 98,938 | 67,941 |
| Total Current Assets | <u>52,149,164</u> | <u>9,852,258</u> | <u>62,001,422</u> | <u>2,065,585</u> |
| Noncurrent Assets | | | | |
| Notes receivable..... | 13,211 | — | 13,211 | — |
| Interfund loan..... | — | 102,712 | 102,712 | — |
| Bond issue costs | 93,089 | — | 93,089 | — |
| Capital assets (net of accumulated depreciation)..... | 77,186,946 | 17,745,190 | 94,932,136 | 10,876,830 |
| Capital assets not being depreciated | 72,035,859 | 522,336 | 72,558,195 | 553,306 |
| Total Noncurrent Assets | <u>149,329,105</u> | <u>18,370,238</u> | <u>167,699,343</u> | <u>11,430,136</u> |
| Restricted Assets | | | | |
| Cash | — | — | — | 53,016 |
| Certificates of deposit..... | — | — | — | 50,000 |
| Total Restricted Assets | <u>—</u> | <u>—</u> | <u>—</u> | <u>103,016</u> |
| Total Assets | <u>\$ 201,478,269</u> | <u>\$ 28,222,496</u> | <u>\$ 229,700,765</u> | <u>\$ 13,598,737</u> |

See accompanying notes to the financial statements.

| | <u>Primary Government</u> | | | <u>Component</u> |
|--|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | <u>Governmental</u> | <u>Business</u> | <u>Total</u> | <u>Unit</u> |
| | <u>Activities</u> | <u>Activities</u> | | <u>Water</u> |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 1,619,552 | \$ 235,156 | \$ 1,854,708 | \$ 100,037 |
| Accrued payroll..... | 315,316 | 30,438 | 345,754 | 30,693 |
| Accrued interest..... | 55,094 | — | 55,094 | — |
| Due Within One Year | | | | |
| General obligation bonds payable..... | 2,380,000 | — | 2,380,000 | — |
| General obligation notes payable..... | 32,832 | — | 32,832 | — |
| Compensated absences | 306 | 17,194 | 17,500 | 47,681 |
| Nonbonded indebtedness payable..... | 24,982 | — | 24,982 | — |
| Interfund loan payable | 49,304 | — | 49,304 | — |
| Deferred revenue..... | 15,687,229 | — | 15,687,229 | — |
| Self-insured estimated claims..... | 142,432 | — | 142,432 | 12,568 |
| Reinsurance premiums payable | 39,697 | — | 39,697 | 3,503 |
| Total Current Liabilities | <u>20,346,744</u> | <u>282,788</u> | <u>20,629,532</u> | <u>194,482</u> |
| Noncurrent Liabilities | | | | |
| Due After One Year | | | | |
| General obligation bonds payable..... | 17,085,000 | — | 17,085,000 | — |
| General obligation notes payable..... | 208,974 | — | 208,974 | 89,600 |
| Compensated absences | 2,196,531 | — | 2,196,531 | — |
| Net OPEB liability..... | 579,399 | — | 579,399 | 55,713 |
| Premium on bonds payable | 236,998 | — | 236,998 | — |
| Nonbonded indebtedness payable..... | 173,802 | — | 173,802 | — |
| Interfund loan payable | 102,712 | — | 102,712 | — |
| Total Noncurrent Liabilities | <u>20,583,416</u> | <u>—</u> | <u>20,583,416</u> | <u>145,313</u> |
| Liabilities Payable From Restricted Assets | | | | |
| Payable - customer deposits... | — | — | — | <u>103,016</u> |
| Total Liabilities | <u>40,930,160</u> | <u>282,788</u> | <u>41,212,948</u> | <u>442,811</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt..... | 129,279,001 | 18,267,526 | 147,546,527 | 11,340,536 |
| Unrestricted | 31,269,108 | 9,672,182 | 40,941,290 | 1,815,390 |
| Total Net Assets | <u>160,548,109</u> | <u>27,939,708</u> | <u>188,487,817</u> | <u>13,155,926</u> |
| Total Liabilities and Net Assets | <u>\$ 201,478,269</u> | <u>\$ 28,222,496</u> | <u>\$ 229,700,765</u> | <u>\$ 13,598,737</u> |

Statement of Activities

Year Ended June 30, 2010

| Functions/Programs | Expenses | Program Revenue | | | Net Revenue (Expense) and Changes in Net Assets | | | Component Unit |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total | |
| Governmental Activities | | | | | | | | |
| Public safety | \$ 7,958,387 | \$ 209,807 | \$ 205,928 | \$ — | \$ (7,542,652) | \$ — | \$ (7,542,652) | \$ — |
| Public works | 5,165,942 | 17,002 | 3,000 | 2,959,160 | (2,186,780) | — | (2,186,780) | — |
| Culture and recreation | 3,426,268 | 454,887 | 339,033 | — | (2,632,348) | — | (2,632,348) | — |
| Community and economic development | 1,662,325 | 509,524 | 58,952 | 2,658,901 | 1,565,052 | — | 1,565,052 | — |
| General government..... | 1,950,618 | 84,855 | 70,953 | — | (1,794,810) | — | (1,794,810) | — |
| Interest..... | 685,382 | — | — | — | (685,382) | — | (685,382) | — |
| Total Governmental Activities | 20,848,922 | 1,276,075 | 677,866 | 5,618,061 | (13,276,920) | — | (13,276,920) | — |
| Business-Type Activities | | | | | | | | |
| Sewer | 2,685,292 | 3,345,202 | — | — | — | 659,910 | 659,910 | — |
| Solid waste | 1,227,817 | 1,556,300 | — | 34,041 | — | 362,524 | 362,524 | — |
| Total Business-Type Activities | 3,913,109 | 4,901,502 | — | 34,041 | — | 1,022,434 | 1,022,434 | — |
| Total Primary Government | \$ 24,762,031 | \$ 6,177,577 | \$ 677,866 | \$ 5,652,102 | (13,276,920) | 1,022,434 | (12,254,486) | — |
| Component Unit - Water | \$ 2,160,511 | \$ 2,317,164 | \$ — | \$ 438,300 | — | — | — | 594,953 |
| General Receipts | | | | | | | | |
| Property taxes | | | | | 14,857,708 | — | 14,857,708 | — |
| Tax increment financing revenue | | | | | 408,646 | — | 408,646 | — |
| Other Taxes | | | | | | | | |
| Cable television franchise | | | | | 326,934 | — | 326,934 | — |
| Hotel/motel | | | | | 138,099 | — | 138,099 | — |
| Road use tax..... | | | | | 2,406,661 | — | 2,406,661 | — |
| Local option sales tax..... | | | | | 3,657,430 | — | 3,657,430 | — |
| Investment income | | | | | 715,095 | 123,095 | 838,190 | 39,021 |
| Assessments | | | | | 19,323 | — | 19,323 | — |
| Miscellaneous revenue..... | | | | | 14,895 | — | 14,895 | 6,779 |
| Transfers | | | | | 410,885 | (410,885) | — | — |
| Total General Receipts and Transfers | | | | | 22,955,676 | (287,790) | 22,667,886 | 45,800 |
| Change in Net Assets..... | | | | | 9,678,756 | 734,644 | 10,413,400 | 640,753 |
| Net Assets - Beginning of Year, as restated (Note 20)..... | | | | | 150,869,353 | 27,205,064 | 178,074,417 | 12,515,173 |
| Net Assets - End of Year..... | | | | | \$ 160,548,109 | \$ 27,939,708 | \$ 188,487,817 | \$ 13,155,926 |

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2010

| | General | Road Use | Trust and Agency (Employee Benefits) | Debt Service | Capital Projects | Nonmajor Governmental Funds | Total |
|---|----------------------|---------------------|---|---------------------|----------------------|-----------------------------------|----------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 4,521,783 | \$ — | \$ 234,533 | \$ 31,297 | \$ 1,153,669 | \$ 1,922,810 | \$ 7,864,092 |
| Investments | 4,063,421 | 969,519 | — | 7,860 | 19,561,065 | 1,673,133 | 26,274,998 |
| Receivables | | | | | | | |
| Accounts | 120,061 | 6,270 | — | — | — | 3,200 | 129,531 |
| Interest | 8,104 | — | — | — | 34,292 | 4,939 | 47,335 |
| Property Taxes | | | | | | | |
| Current year delinquent, net of allowance for uncollectible accounts | 88,430 | — | 28,910 | 22,179 | — | 3,599 | 143,118 |
| Succeeding year | 9,621,099 | — | 3,488,325 | 2,577,805 | — | — | 15,687,229 |
| Due from other governments | — | 145,583 | — | — | 447,405 | — | 592,988 |
| Due from other funds | 893,042 | — | — | — | — | — | 893,042 |
| Interfund loan | 152,016 | — | — | — | — | — | 152,016 |
| Inventories | 98,938 | — | — | — | — | — | 98,938 |
| Total Assets | \$ 19,566,894 | \$ 1,121,372 | \$ 3,751,768 | \$ 2,639,141 | \$ 21,196,431 | \$ 3,607,681 | \$ 51,883,287 |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities | | | | | | | |
| Current Liabilities | | | | | | | |
| Due to other funds | \$ — | \$ 892,411 | \$ — | \$ — | \$ — | \$ — | \$ 892,411 |
| Interfund loan | — | — | — | 304,032 | — | — | 304,032 |
| Accounts payable | 179,712 | 68,147 | 22,863 | — | 1,142,158 | 128,569 | 1,541,449 |
| Accrued expenses | 286,606 | 28,710 | — | — | — | — | 315,316 |
| Deferred revenue | 9,621,099 | — | 3,488,325 | 2,577,805 | — | — | 15,687,229 |
| Total Liabilities | 10,087,417 | 989,268 | 3,511,188 | 2,881,837 | 1,142,158 | 128,569 | 18,740,437 |
| Fund Balances | | | | | | | |
| Reserved for inventories | 98,938 | — | — | — | — | — | 98,938 |
| Unreserved | | | | | | | |
| General | 9,380,539 | — | — | — | — | — | 9,380,539 |
| Special revenue | — | 132,104 | 240,580 | — | — | 1,340,793 | 1,713,477 |
| Capital projects | — | — | — | — | 20,054,273 | 1,995,034 | 22,049,307 |
| Debt service | — | — | — | (242,696) | — | — | (242,696) |
| Perpetual care | — | — | — | — | — | 143,285 | 143,285 |
| Total Fund Balances | 9,479,477 | 132,104 | 240,580 | (242,696) | 20,054,273 | 3,479,112 | 33,142,850 |
| Total Liabilities and Fund Balances | \$ 19,566,894 | \$ 1,121,372 | \$ 3,751,768 | \$ 2,639,141 | \$ 21,196,431 | \$ 3,607,681 | \$ 51,883,287 |

See accompanying notes to the financial statements.

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

At June 30, 2010

| | | |
|--|----------------|------------------------------|
| Total Fund Balances for Governmental Funds (Page 14)..... | | \$ 33,142,850 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds | | 149,222,805 |
| Notes receivable are not financial resources and, therefore, are not reported as assets in the governmental funds | | 48,451 |
| Internal service fund used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets | | 1,014,832 |
| Prepaid items are not financial resources and, therefore, are not reported as assets in the governmental funds | | 93,089 |
| Long-term liabilities, including bonds/notes payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | | |
| Compensated absences | \$ (2,196,837) | |
| General obligation bonds payable..... | (19,465,000) | |
| General obligation notes payable..... | (241,806) | |
| Accrued interest payable..... | (55,094) | |
| Net OPEB liability | (579,399) | |
| Nonbonded indebtedness payable..... | (198,784) | |
| Premium on bonds payable | (236,998) | |
| | (22,973,918) | (22,973,918) |
| Net Assets of Governmental Activities (Page 13) | | <u>\$ 160,548,109</u> |

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

Year Ended June 30, 2010

| | General Fund | Road Use | Trust and Agency (Employee Benefits) | Debt Service | Capital Projects | Nonmajor Governmental Funds | Total |
|--|---------------------|-------------------|---|---------------------|----------------------|-----------------------------------|----------------------|
| Revenue | | | | | | | |
| Property taxes | \$ 9,131,062 | \$ — | \$ 3,241,834 | \$ 2,484,812 | \$ — | \$ — | \$ 14,857,708 |
| Tax increment financing | — | — | — | — | — | 408,646 | 408,646 |
| Other taxes | 616,598 | — | — | — | 3,505,865 | — | 4,122,463 |
| Licenses and permits..... | 541,439 | — | — | — | — | — | 541,439 |
| Use of money and property | 210,069 | — | 441 | 3,901 | 429,275 | 71,404 | 715,090 |
| Intergovernmental..... | 380,675 | 2,406,661 | 147,173 | — | 2,647,436 | 96,025 | 5,677,970 |
| Charges for services..... | 424,686 | — | — | — | 1,605 | 6,236 | 432,527 |
| Fines and forfeitures..... | 222,044 | — | — | — | — | — | 222,044 |
| Special assessments..... | 17 | — | — | 19,306 | — | — | 19,323 |
| Miscellaneous..... | 39,674 | — | 79,017 | — | 11,465 | 12,870 | 143,026 |
| Total Revenue..... | 11,566,264 | 2,406,661 | 3,468,465 | 2,508,019 | 6,595,646 | 595,181 | 27,140,236 |
| Expenditures | | | | | | | |
| Current | | | | | | | |
| Public safety..... | 7,679,558 | — | 142,335 | — | — | 85,587 | 7,907,480 |
| Public works..... | 1,168,059 | 2,038,031 | — | — | — | — | 3,206,090 |
| Culture and recreation | 3,227,044 | — | 68,218 | — | — | 9,126 | 3,304,388 |
| Community and economic development..... | 1,129,771 | — | — | — | — | 502,094 | 1,631,865 |
| General government | 1,710,232 | — | 73,919 | — | — | — | 1,784,151 |
| Debt Service | | | | | | | |
| Principal | — | — | — | 2,026,384 | — | — | 2,026,384 |
| Interest and other charges | — | — | — | 596,175 | 93,089 | — | 689,264 |
| Capital projects..... | — | 372,482 | — | — | 4,192,179 | 289,095 | 4,853,756 |
| Total Expenditures..... | 14,914,664 | 2,410,513 | 284,472 | 2,622,559 | 4,285,268 | 885,902 | 25,403,378 |
| Revenue Over (Under) Expenditures..... | (3,348,400) | (3,852) | 3,183,993 | (114,540) | 2,310,378 | (290,721) | 1,736,858 |
| Other Financing Sources (Uses) | | | | | | | |
| Operating transfers in..... | 3,581,637 | 397,402 | — | 90,560 | 230,000 | 366,503 | 4,666,102 |
| Operating transfers out..... | (390,000) | (566,442) | (3,263,812) | — | (9,963) | (25,000) | (4,255,217) |
| Sale of equipment..... | 62,859 | — | — | — | — | — | 62,859 |
| Bond proceeds | — | — | — | — | 8,405,000 | — | 8,405,000 |
| Premium on bond issues..... | — | — | — | — | 236,998 | — | 236,998 |
| Total Other Financing Sources (Uses)..... | 3,254,496 | (169,040) | (3,263,812) | 90,560 | 8,862,035 | 341,503 | 9,115,742 |
| Net Change in Fund Balances..... | (93,904) | (172,892) | (79,819) | (23,980) | 11,172,413 | 50,782 | 10,852,600 |
| Fund Balances - Beginning of Year, as restated (Note 20) | 9,573,381 | 304,996 | 320,399 | (218,716) | 8,881,860 | 3,428,330 | 22,290,250 |
| Fund Balances - End of Year..... | \$ 9,479,477 | \$ 132,104 | \$ 240,580 | \$ (242,696) | \$ 20,054,273 | \$ 3,479,112 | \$ 33,142,850 |

See accompanying notes to the financial statements.

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

Year Ended June 30, 2010

Changes in Fund Balances - Total Governmental Funds (Page 16)..... \$ 10,852,600

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

Certain prepaid items are not financial resources and the change in those items causes a difference in the changes in fund balance and the changes in net assets. 71,861

In the statement of activities, notes receivable are recognized but they do not represent current financial resources. Thus, the change in fund balances differs by the change in the notes receivable balance. (9,140)

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale of capital assets increase financial resources. Thus, the change in fund balances differs by the cost of the capital assets sold. (45,013)

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

| | | |
|---------------------------|--------------------|-----------|
| Capital outlay..... | \$ 6,901,737 | |
| Depreciation expense..... | <u>(4,151,750)</u> | 2,749,987 |

Contributed land and infrastructure that does not constitute current financial resources is not reported as revenue in the fund statements but is in the statement of activities. 2,959,160

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

| | | |
|--------------------------------------|------------------|-------------|
| Long-term debt principal repaid..... | \$ 2,001,385 | |
| Long-term debt issued..... | (8,405,000) | |
| Increase in accrued interest..... | (16,700) | |
| Premium on bond issues..... | <u>(236,998)</u> | (6,657,313) |

Expenses reported in the statement of activities, such as compensated absences and the net OPEB liability, do not require the use of current financial resources and, therefore, are not reported in governmental funds..... (435,853)

In the statement of activities, nonbonded indebtedness is recognized but does not require the use of current financial resources and, therefore, is not reported in governmental funds. 26,796

Internal service funds used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities..... 165,671

Change in Net Assets of Governmental Activities (Page 13) \$ 9,678,756

Statement of Net Assets - Proprietary Funds

At June 30, 2010

| | <u>Business-Type Activities - Enterprise Funds</u> | | | <u>Governmental</u> |
|--|--|-----------------------------|-----------------------------|------------------------------|
| | <u>Sewer Rental</u> | <u>Nonmajor</u> | <u>Totals</u> | <u>Internal Service Fund</u> |
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 1,165,230 | \$ 5,204,788 | \$ 6,370,018 | \$ 1,263,354 |
| Investments | 350,809 | 2,273,230 | 2,624,039 | — |
| Receivables | | | | |
| Accounts | 200,369 | 94,813 | 295,182 | 11,709 |
| Unbilled revenue | 255,177 | 112,826 | 368,003 | — |
| Interest | — | 6,714 | 6,714 | — |
| Due from other governments | 1,496 | 137,502 | 138,998 | — |
| Interfund loan | — | 49,304 | 49,304 | — |
| Total Current Assets | <u>1,973,081</u> | <u>7,879,177</u> | <u>9,852,258</u> | <u>1,275,063</u> |
| Noncurrent Assets | | | | |
| Interfund loan | — | 102,712 | 102,712 | — |
| Capital assets (net of accumulated depreciation) | 15,714,137 | 2,031,053 | 17,745,190 | — |
| Capital assets not being depreciated | — | 522,336 | 522,336 | — |
| Total Noncurrent Assets .. | <u>15,714,137</u> | <u>2,656,101</u> | <u>18,370,238</u> | <u>—</u> |
| Total Assets | <u>\$ 17,687,218</u> | <u>\$ 10,535,278</u> | <u>\$ 28,222,496</u> | <u>\$ 1,275,063</u> |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 181,250 | \$ 53,906 | \$ 235,156 | \$ 78,102 |
| Compensated absences | 17,194 | — | 17,194 | — |
| Self-insured estimated claims | — | — | — | 142,432 |
| Reinsurance premiums payable | — | — | — | 39,697 |
| Accrued payroll | 12,725 | 17,713 | 30,438 | — |
| Total Current Liabilities | <u>211,169</u> | <u>71,619</u> | <u>282,788</u> | <u>260,231</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 15,714,137 | 2,553,389 | 18,267,526 | — |
| Unrestricted | 1,761,912 | 7,910,270 | 9,672,182 | 1,014,832 |
| Total Net Assets | <u>17,476,049</u> | <u>10,463,659</u> | <u>27,939,708</u> | <u>1,014,832</u> |
| Total Liabilities and Net Assets | <u>\$ 17,687,218</u> | <u>\$ 10,535,278</u> | <u>\$ 28,222,496</u> | <u>\$ 1,275,063</u> |

See accompanying notes to the financial statements.

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

Year Ended June 30, 2010

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities |
|---|--|-----------------------------|-----------------------------|------------------------------------|
| | Sewer Rental | Nonmajor | Totals | Internal Service Fund |
| Operating Revenue | | | | |
| Charges for services..... | \$ 2,577,658 | \$ 2,086,851 | \$ 4,664,509 | \$ — |
| Miscellaneous revenue..... | — | 236,993 | 236,993 | 1,710,591 |
| Total Operating Revenue.. | <u>2,577,658</u> | <u>2,323,844</u> | <u>4,901,502</u> | <u>1,710,591</u> |
| Operating Expenses | | | | |
| Personal services | 458,369 | 722,112 | 1,180,481 | — |
| Services and commodities..... | 1,712,463 | 336,294 | 2,048,757 | 1,544,920 |
| Depreciation | 457,783 | 226,088 | 683,871 | — |
| Total Operating Expenses | <u>2,628,615</u> | <u>1,284,494</u> | <u>3,913,109</u> | <u>1,544,920</u> |
| Operating Income (Loss) | <u>(50,957)</u> | <u>1,039,350</u> | <u>988,393</u> | <u>165,671</u> |
| Nonoperating Revenue | | | | |
| Investment income | <u>5,566</u> | <u>117,529</u> | <u>123,095</u> | <u>—</u> |
| Income (Loss) Before Transfers and Interfund Loan Activity | <u>(45,391)</u> | <u>1,156,879</u> | <u>1,111,488</u> | <u>165,671</u> |
| Capital assets received from (transferred to) other funds | 98,527 | (64,486) | 34,041 | — |
| Transfers out | <u>(143,685)</u> | <u>(267,200)</u> | <u>(410,885)</u> | <u>—</u> |
| Changes in Net Assets..... | <u>(90,549)</u> | <u>825,193</u> | <u>734,644</u> | <u>165,671</u> |
| Net Assets - Beginning of Year, as restated (Note 20) | <u>17,566,598</u> | <u>9,638,466</u> | <u>27,205,064</u> | <u>849,161</u> |
| Net Assets - End of Year..... | <u>\$ 17,476,049</u> | <u>\$ 10,463,659</u> | <u>\$ 27,939,708</u> | <u>\$ 1,014,832</u> |

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2010

| | <u>Business-Type Activities - Enterprise Funds</u> | | | <u>Governmental</u> |
|---|--|----------------------------|----------------------------|------------------------------|
| | <u>Sewer Rental</u> | <u>Nonmajor</u> | <u>Totals</u> | <u>Internal Service Fund</u> |
| Cash Flows From Operating Activities | | | | |
| Receipts from customers | \$ 2,624,978 | \$ 2,322,846 | \$ 4,947,824 | \$ 1,719,995 |
| Payments to employees..... | (453,130) | (720,752) | (1,173,882) | — |
| Payments to suppliers..... | <u>(1,655,650)</u> | <u>(593,563)</u> | <u>(2,249,213)</u> | <u>(1,472,059)</u> |
| Net Cash Provided by Operating Activities | <u>516,198</u> | <u>1,008,531</u> | <u>1,524,729</u> | <u>247,936</u> |
| Cash Flows From Noncapital Financing Activities | | | | |
| Net transfers..... | <u>(143,685)</u> | <u>(267,200)</u> | <u>(410,885)</u> | — |
| Cash Flows From Capital and Related Financing Activities | | | | |
| Cash received from interfund loan repayment | — | 47,984 | 47,984 | — |
| Purchase of capital assets | <u>(195,345)</u> | <u>(378,093)</u> | <u>(573,438)</u> | — |
| Net Cash Used in Capital and Related Financing Activities | <u>(195,345)</u> | <u>(330,109)</u> | <u>(525,454)</u> | — |
| Cash Flows From Investing Activities | | | | |
| Interest received..... | 5,566 | 119,650 | 125,216 | — |
| Purchase of investments..... | (492) | (1,238) | (1,730) | — |
| Sale of investments..... | — | 481,671 | 481,671 | — |
| Net Cash Provided by Investing Activities | <u>5,074</u> | <u>600,083</u> | <u>605,157</u> | — |
| Net Increase in Cash and Cash Equivalents | 182,242 | 1,011,305 | 1,193,547 | 247,936 |
| Cash and Cash Equivalents at Beginning of Year | <u>982,988</u> | <u>4,193,483</u> | <u>5,176,471</u> | <u>1,015,418</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,165,230</u> | <u>\$ 5,204,788</u> | <u>\$ 6,370,018</u> | <u>\$ 1,263,354</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | | | |
| Operating income (loss) | \$ (50,957) | \$ 1,039,350 | \$ 988,393 | \$ 165,671 |
| Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities | | | | |
| Depreciation | 457,783 | 226,088 | 683,871 | — |
| Change in Assets and Liabilities | | | | |
| (Increase) decrease in receivables | 47,320 | (998) | 46,322 | 9,404 |
| Increase (decrease) in accounts payable..... | 56,813 | (257,269) | (200,456) | 72,861 |
| Increase in accrued payroll..... | 3,935 | 1,360 | 5,295 | — |
| Increase in accrued compensated absences... | <u>1,304</u> | — | <u>1,304</u> | — |
| Net Cash Provided by Operating Activities | <u>\$ 516,198</u> | <u>\$ 1,008,531</u> | <u>\$ 1,524,729</u> | <u>\$ 247,936</u> |

Noncash Investing, Capital and Financing Activities

The Sewer Rental Fund purchased \$293,871 of capital assets, of which \$98,526 was paid from the Sewer Rental Replacement Fund and transferred to the Sewer Rental Fund as a capital contribution, resulting in cash paid for capital assets of \$195,345 for the year ended June 30, 2010.

Statement of Fiduciary Assets and Liabilities - Trust Funds

At June 30, 2010

| | Cemetery Memorial |
|---|------------------------------|
| Assets | |
| Cash and Investments..... | <u>\$ 1,992</u> |
| Liabilities | |
| Due to other funds..... | \$ 631 |
| Net Assets | |
| Held in trust | <u>1,361</u> |
| Total Liabilities and Net Assets | <u>\$ 1,992</u> |

Statement of Changes in Fiduciary Net Assets - Trust Funds

At June 30, 2010

| | Cemetery Memorial |
|---------------------------------------|------------------------------|
| Additions | |
| Investment Earnings | |
| Interest | \$ 5 |
| Net Assets - Beginning of Year | <u>1,356</u> |
| Net Assets - End of Year | <u>\$ 1,361</u> |

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Discretely Presented Component Unit

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

Jointly Governed Organizations

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

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all the nonfiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by property taxes and intergovernmental revenue, are reported separately for business-type activities, which rely to a significant extent on fees and charges for service. Likewise, the City is reported separately from its component unit.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

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

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City had the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenue and other revenue not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

The City had the following major proprietary fund:

Enterprise Fund

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

Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Assets, Liabilities and Fund Equity

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Property taxes receivable are recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City Council to the County Board of Supervisors. Current year property taxes receivable represent taxes collected by the County but not remitted to the City at June 30, 2010 and unpaid taxes. The succeeding year property taxes receivable represent taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the current fiscal year with a 1-1/2% per month penalty for delinquent payments, is based on January 1, 2008 assessed property valuations, is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2009.

Customer Accounts and Unbilled Revenue - Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due From and Due to Other Funds - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2010, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

(1) Summary of Significant Accounting Policies

Capital Assets - Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets and in the proprietary funds statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000.

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

| Asset Class | Estimated Useful Lives |
|---|-------------------------------|
| Buildings..... | 40 - 50 Years |
| Improvements other than buildings | 5 - 50 Years |
| Equipment | 2 - 20 Years |
| Infrastructure | 5 - 80 Years |
| Intangibles..... | 50 Years |

Deferred Revenue - Although certain revenue is measurable, it is not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property taxes receivable and other receivables not collected within 60 days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property taxes receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use and Sewer Rental Funds.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Net Assets

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

Budgets and Budgetary Accounting

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

Estimates and Assumptions

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

(2) Deposits and Investments

Deposits

The City's deposits at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

Investments

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Notes to the Financial Statements

(2) Deposits and Investments

On June 30, 2010, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$7,903,928 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The City's cash and investments at June 30, 2010 were as follows:

| | |
|---|-----------------------------|
| Cash | \$ 15,497,463 |
| Pooled cash investments - Iowa Public Agency Investment Trust | 7,889,608 |
| Money market accounts | 8,072,006 |
| U.S. Instrumentalities | |
| Original maturities 5 years or less | 242,000 |
| Original maturities 6 to 10 years | 15,668 |
| Original maturities 10+ years | <u>12,679,755</u> |
| Total | <u>\$ 44,396,500</u> |

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit Risk

The City's U.S. Instrumentalities investments at June 30, 2010 are rated Aaa or better by Moody's Investors service. The investment in the Iowa Public Agency Investment Trust is unrated.

(3) Notes Receivable

The City has established a revolving loan program using funds from the repayment of loans previously made to local businesses through grants received from the Iowa Department of Economic Development using Community Development Block Grant funds. These loans bear interest at 3% and have monthly payments maturing through September, 2011. The outstanding balances of these loans at June 30, 2010 totaled \$48,451.

Notes to the Financial Statements

(4) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance - End of Year |
|--|---------------------------------|---------------------|-------------------|--------------------------|
| Governmental Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land..... | \$ 64,219,721 | \$ 1,234,547 | \$ 1 | \$ 65,454,267 |
| Construction in progress..... | <u>3,229,211</u> | <u>3,391,683</u> | <u>39,302</u> | <u>6,581,592</u> |
| Total Capital Assets Not Being Depreciated..... | <u>67,448,932</u> | <u>4,626,230</u> | <u>39,303</u> | <u>72,035,859</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings..... | 17,226,077 | 17,192 | — | 17,243,269 |
| Improvements other than buildings | 93,236,307 | 4,184,329 | 365,089 | 97,055,547 |
| Equipment..... | <u>9,130,268</u> | <u>1,072,448</u> | <u>384,208</u> | <u>9,818,508</u> |
| Total Capital Assets Being Depreciated..... | <u>119,592,652</u> | <u>5,273,969</u> | <u>749,297</u> | <u>124,117,324</u> |
| Less Accumulated Depreciation for | | | | |
| Buildings..... | 3,757,761 | 408,905 | — | 4,166,666 |
| Improvements other than buildings | 34,845,224 | 2,873,030 | 364,739 | 37,353,515 |
| Equipment..... | <u>4,879,929</u> | <u>869,815</u> | <u>339,547</u> | <u>5,410,197</u> |
| Total Accumulated Depreciation... | <u>43,482,914</u> | <u>4,151,750</u> | <u>704,286</u> | <u>46,930,378</u> |
| Net Capital Assets Being Depreciated | <u>76,109,738</u> | <u>1,122,219</u> | <u>45,011</u> | <u>77,186,946</u> |
| Net Governmental Activities | | | | |
| Capital Assets..... | <u>\$ 143,558,670</u> | <u>\$ 5,748,449</u> | <u>\$ 84,314</u> | <u>\$ 149,222,805</u> |
| Business-Type Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Construction in progress..... | \$ 647,174 | \$ 428,610 | \$ 553,448 | \$ 522,336 |
| Capital Assets Being Depreciated | | | | |
| Buildings..... | 8,300 | — | — | 8,300 |
| Equipment..... | 2,189,322 | 267,125 | 143,940 | 2,312,507 |
| Distribution system..... | 28,452,221 | 292,737 | 227,990 | 28,516,968 |
| Storm sewer system..... | <u>1,007,486</u> | <u>279,078</u> | <u>—</u> | <u>1,286,564</u> |
| Total Capital Assets Being Depreciated..... | <u>31,657,329</u> | <u>838,940</u> | <u>371,930</u> | <u>32,124,339</u> |
| Less Accumulated Depreciation for | | | | |
| Buildings..... | 28 | 332 | — | 360 |
| Equipment..... | 1,102,032 | 243,506 | 80,966 | 1,264,572 |
| Distribution system..... | 12,807,153 | 423,951 | 184,339 | 13,046,765 |
| Storm sewer system..... | <u>51,370</u> | <u>16,082</u> | <u>—</u> | <u>67,452</u> |
| Total Accumulated Depreciation... | <u>13,960,583</u> | <u>683,871</u> | <u>265,305</u> | <u>14,379,149</u> |
| Net Capital Assets Being Depreciated | <u>17,696,746</u> | <u>155,069</u> | <u>106,625</u> | <u>17,745,190</u> |
| Net Business-Type Activities | | | | |
| Capital Assets..... | <u>\$ 18,343,920</u> | <u>\$ 583,679</u> | <u>\$ 660,073</u> | <u>\$ 18,267,526</u> |

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged by the City as follows for the year ended June 30, 2010:

| | |
|--|----------------------------|
| Governmental Activities | |
| Public safety | \$ 477,463 |
| Public works | 2,749,844 |
| Culture and recreation..... | 701,087 |
| General government | <u>223,356</u> |
| Total Governmental Activities Depreciation Expense | <u>\$ 4,151,750</u> |
| Business-Type Activities | |
| Sewer | \$ 457,784 |
| Solid waste..... | 210,005 |
| Storm water management..... | <u>16,082</u> |
| Total Business-Type Activities Depreciation Expense | <u>\$ 683,871</u> |

(5) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2010:

| | Balance - Beginning of Year | Additions | Retirements | Balance - End of Year | Amount Due in the Next Year | Range of Interest Rates |
|---------------------------------|-----------------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------------|-------------------------------|
| Governmental Activities | | | | | | |
| General obligation bonds | \$ 13,030,000 | \$ 8,405,000 | \$ 1,970,000 | \$ 19,465,000 | \$ 2,380,000 | 1.600 - 4.00% |
| General obligation notes .. | 273,190 | — | 31,384 | 241,806 | 32,832 | 4.375 - 5.20 |
| Nonbonded indebtedness | 225,580 | — | 26,796 | 198,784 | 24,982 | 3.23 |
| Interfund loan | 400,000 | — | 95,968 | 304,032 | 98,608 | 2.75 |
| Compensated absences .. | 2,047,519 | 245,624 | 96,306 | 2,196,837 | 306 | N/A |
| Net OPEB liability..... | <u>292,864</u> | <u>286,535</u> | <u>—</u> | <u>579,399</u> | <u>—</u> | N/A |
| Totals..... | <u>\$ 16,269,153</u> | <u>\$ 8,937,159</u> | <u>\$ 2,220,454</u> | <u>\$ 22,985,858</u> | <u>\$ 2,536,728</u> | |
| Business-Type Activities | | | | | | |
| Compensated absences .. | <u>\$ 15,890</u> | <u>\$ 1,304</u> | <u>\$ —</u> | <u>\$ 17,194</u> | <u>\$ 17,194</u> | N/A |

Bonds Payable

Eight issues of unmatured general obligation bonds totaling \$19,465,000 were outstanding at June 30, 2010. General obligation bonds bear interest at rates ranging from 1.6% to 4% and mature in varying annual amounts ranging from \$70,000 to \$610,000, with the final maturities due in the year ending June 30, 2025.

Notes to the Financial Statements

(5) Long-Term Debt

Details of the City's general obligation bonds payable at June 30, 2010 are as follows:

| | Date of Issue | Interest Rates | Final Due Date | Annual Payments | Amount Originally Issued | Outstanding 6-30-10 |
|---------------------------------|------------------|-------------------|-------------------|-----------------------|--------------------------------|------------------------|
| General Obligation Bonds | | | | | | |
| Corporate purposes | 12-1-03 | 3.15 - 3.70% | 6-1-16 | \$295,000 - \$370,000 | \$3,100,000 | \$ 2,040,000 |
| Corporate purposes | 12-1-04 | 3.20 - 3.65 | 6-1-15 | 70,000 - 80,000 | 700,000 | 380,000 |
| Corporate purposes | 12-1-05 | 3.50 - 3.80 | 6-1-17 | 300,000 - 385,000 | 3,300,000 | 2,390,000 |
| Refunding corporate purpose | 10-15-07 | 3.50 - 3.55 | 6-1-12 | 470,000 - 485,000 | 2,250,000 | 955,000 |
| Corporate purpose | 12-15-07 | 3.40 - 3.80 | 6-1-18 | 455,000 - 610,000 | 5,000,000 | 4,235,000 |
| Refunding corporate purpose | 4-30-09 | 1.60 - 2.70 | 6-1-14 | 260,000 - 275,000 | 1,310,000 | 1,060,000 |
| Corporate purpose | 12-15-09 | 2.00 - 3.13 | 6-1-20 | 190,000 - 245,000 | 2,120,000 | 2,120,000 |
| Corporate purpose | 12-15-09 | 3.00 - 4.00 | 6-1-25 | 340,000 - 535,000 | 6,285,000 | 6,285,000 |
| | | | | | | <u>\$ 19,465,000</u> |

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|----------------------|---------------------|----------------------|
| 2011..... | \$ 2,380,000 | \$ 650,217 | \$ 3,030,217 |
| 2012..... | 2,470,000 | 578,103 | 3,048,103 |
| 2013..... | 2,050,000 | 500,634 | 2,550,634 |
| 2014..... | 2,120,000 | 436,416 | 2,556,416 |
| 2015..... | 1,910,000 | 368,152 | 2,278,152 |
| 2016-2020 | 6,060,000 | 987,566 | 7,047,566 |
| 2021-2025 | 2,475,000 | 302,725 | 2,777,725 |
| | <u>\$ 19,465,000</u> | <u>\$ 3,823,813</u> | <u>\$ 23,288,813</u> |

General Obligation Notes

Two issues of unmatured general obligation notes totaling \$241,806 were outstanding at June 30, 2010. General obligation notes bear interest at rates ranging from 4.375% to 5.2% and mature in monthly amounts ranging from \$645 to \$2,944, with the final maturities due in the year ending June 30, 2017.

Details of the City's general obligation notes payable at June 30, 2010 are as follows:

| | Date of Issue | Interest Rates | Final Due Date | Annual Payments | Amount Originally Issued | Outstanding 6-30-10 |
|---------------------------------|------------------|-------------------|----------------------|--------------------|--------------------------------|------------------------|
| General Obligation Notes | | | | | | |
| Geo-Thermal note | 7-20-06 | 5.200% | 7-1-16 | \$ 369 - \$ 7,508 | \$ 60,255 | \$ 40,089 |
| Geo-Thermal note | 12-28-06 | 4.375 | 1-1-17 | 20,258 - 33,638 | 285,577 | 201,717 |
| | | | | | | <u>\$ 241,806</u> |

Notes to the Financial Statements

(5) Long-Term Debt

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|--------------------------|-------------------------|--------------------------|
| 2011..... | \$ 32,832 | \$ 10,235 | \$ 43,067 |
| 2012..... | 34,347 | 8,720 | 43,067 |
| 2013..... | 35,933 | 7,134 | 43,067 |
| 2014..... | 37,593 | 5,474 | 43,067 |
| 2015..... | 39,329 | 3,738 | 43,067 |
| 2016-2019 | <u>61,772</u> | <u>2,219</u> | <u>63,991</u> |
| | <u>\$ 241,806</u> | <u>\$ 37,520</u> | <u>\$ 279,326</u> |

Interfund Loan Agreements

In September, 2008, the City approved an interfund loan from the General and the Enterprise - Storm Water Management Funds at a 2.75% annual interest rate as follows:

| Lending Fund | Borrowing Fund | Original Loan | Outstanding 6-30-10 |
|-------------------------------------|------------------|---------------|---------------------|
| General | Capital Projects | \$200,000 | \$152,016 |
| Enterprise - Storm Water Management | Capital Projects | 200,000 | 152,016 |

These loans were to partially fund the purchase and installation of a fiber optics communication system. The loans are eligible for, and the City plans to repay these loans with, the use of the debt service levy through the year ending June 30, 2013.

(6) Summary of Nonbonded Indebtedness

During the year ended June 30, 2001, the City entered into an agreement with a donor to pay an annuity of \$25,000 each year for as long as the donor lives in exchange for a gift of 180 acres of land to be used for park purposes. Using an estimated life span based on annuity tables and discounted at the City's estimated incremental borrowing rate of 3.23%, an estimated liability of \$198,784 was calculated. This annuity liability is revalued annually based upon changes in life expectancy and discount rates.

Since the development of this land for park purposes is not expected to be fully completed for many years, the agreement with the donors allows the City to lease this land or any part of it for farming purposes pending full development. The City has entered into a three-year agreement to lease 66 acres of cropland at \$150 per acre per year, subject to proportionate reduction as land is developed.

Notes to the Financial Statements

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

| Transfer to | Transfer From | Amount |
|---|--------------------------------------|----------------------------|
| General Fund | Special Revenue | |
| | Road Use | \$ 397,402 |
| | Trust and Agency (Employee Benefits) | 2,866,410 |
| | Nonmajor Governmental Funds | 25,000 |
| | Proprietary | |
| | Sewer Rental | 115,813 |
| | Nonmajor Proprietary Funds | <u>177,012</u> |
| | | <u>3,581,637</u> |
| Road Use Tax | Special Revenue | |
| | Trust and Agency Employee Benefits | <u>397,402</u> |
| Trust and Agency (Employee Benefits) | General Fund | 110,000 |
| | Special Revenue | |
| | Road Use | 25,000 |
| | Proprietary | |
| | Sewer Rental | 10,000 |
| | Nonmajor Proprietary Funds | <u>17,500</u> |
| | | <u>162,500</u> |
| Nonmajor Special Revenue | Special Revenue | |
| | Road Use | <u>144,040</u> |
| Debt Service | Proprietary | |
| | Sewer Rental | 17,872 |
| | Nonmajor Proprietary Funds | <u>72,688</u> |
| | | <u>90,560</u> |
| Capital Projects | General Fund | <u>230,000</u> |
| Nonmajor Capital Projects | General Fund | <u>50,000</u> |
| | Capital Projects | <u>9,963</u> |
| | | <u>\$ 4,666,102</u> |

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

Notes to the Financial Statements

(8) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2010 is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|-------------------|-------------------|
| General | Special Revenue | |
| | Road Use | \$ 892,411 |
| | Fiduciary | |
| | Cemetery Memorial | <u>631</u> |
| | | <u>\$ 893,042</u> |

These balances result from interfund loans to cover expenses in the fund. Repayments will be made from future revenue.

(9) Retirement System

The City offers City employees the following retirement plans:

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.4% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, may not be less than 17% of earnable compensation. Contribution rates are established by State statute. The City's contributions to the Plan for the years ended June 30, 2010, 2009 and 2008 were \$702,481, \$742,377 and \$955,070, respectively, which met the required minimum contribution for the year.

Iowa Public Employees Retirement System

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

Most plan members are required to contribute 4.3% of their annual covered salary and the City is required to contribute 6.65% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$358,230, \$319,179 and \$299,056, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(10) Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 151 active and 12 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.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

| | |
|--|--------------------------|
| Annual required contribution..... | \$ 292,864 |
| Interest on net OPEB obligation | 7,322 |
| Adjustment to annual required contribution | <u>(13,651)</u> |
| Annual OPEB Cost | 286,535 |
| Contributions made | <u>—</u> |
| Increase in Net OPEB Obligation..... | 286,535 |
| Net OPEB Obligation - Beginning of Year | <u>292,864</u> |
| Net OPEB Obligation - End of Year..... | <u>\$ 579,399</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, 2010.

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, 2010 are summarized as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------|------------------|--|---------------------|
| June 30, 2010 | \$286,535 | 0% | \$579,399 |

Notes to the Financial Statements

(10) Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$2,614,066 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,614,066. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,543,000 and the ratio of the UAAL to covered payroll was 27.4%. As of June 30, 2010, 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 assumption about future employment, mortality and the health care 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 the Financial Statements, presents 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.

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 include a 2.5% discount rate based on the City's funding policy. The projected annual medical 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.

(11) Compensated Absences

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Employees covered under the International Association of Firefighters contract are also eligible for compensation at normal retirement of accumulated sick leave in excess of 90 days, to a maximum payment of 60 days. Employees covered under the Marion Policeman's Protective Association contract are eligible for compensation at normal retirement of 50% of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Water Department employees and all other nonunion City employees, sick leave can be accumulated but is payable only when used. Retiring employees of the Marion Water Department who have accumulated 30 or more days

Notes to the Financial Statements

(11) Compensated Absences

of unused sick leave are entitled to one and one-half months of regular pay as severance pay. City employees may also accumulate compensatory hours for overtime worked to be used subsequently or paid out upon termination, retirement or death. The City's approximate maximum liability for earned compensated absences payable to employees, including related tax and fringe amounts, is as follows:

| Type of Benefit | Amount 6-30-10 |
|-----------------------------------|----------------------------|
| Primary Government | |
| Sick leave | \$ 743,198 |
| Vacation and personal leave | 1,118,809 |
| Compensatory time | <u>352,024</u> |
| | <u>\$ 2,214,031</u> |
| Component Unit | |
| Sick leave | \$ — |
| Vacation..... | <u>47,681</u> |
| | <u>\$ 47,681</u> |

The above liabilities have been computed based on rates of pay as of June 30, 2010.

(12) Conduit Debt

The City has issued \$35,412,000 of industrial development revenue and health care facility revenue bonds under provisions of Chapter 419 of the Code of Iowa.

The amounts of these bonds which were still outstanding at June 30, 2010 are not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(13) Employee Health Care Plan

The City self-funds for health insurance claims to a stop-loss insured amount of \$30,000 per participant and a 125% aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The following is a summary of claims paid during the year and an estimate of the claims incurred, but not reported at June 30, 2010:

| | Primary Government | Discretely Presented Component Unit | Total |
|---|-------------------------------|--|--------------|
| Claims paid during the year..... | \$1,167,953 | \$78,470 | \$1,246,423 |
| Estimated claims incurred but unpaid at June 30, 2010.... | 142,432 | 12,568 | 155,000 |

Notes to the Financial Statements

(13) Employee Health Care Plan

The City has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The risk financing is accounted for as an internal service fund where assets are set aside for claim settlements. The cost of these benefits is charged to each department and fund based upon the number of employees whose salary is charged to the department and fund and the type of plan (single or family) chosen by the employee. Amounts charged are \$391 per month single or \$978 per month family which is an actuarially determined amount with a reasonable provision for future unexpected claims. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

(14) Related Party Transactions

The Marion Water Department bills and collects for sewer and garbage services provided for the City of Marion to its residents. During the year ended June 30, 2010, the Marion Water Department collected and remitted to the City \$3,322,582 for sewer and \$1,297,281 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$84,940, of which \$7,242 was payable at June 30, 2010.

(15) Local Government Risk Pool

Iowa Municipalities Workers' Compensation Association

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

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

The City's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. Premiums paid to the Association for the year ended June 30, 2010 were \$103,082.

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

(16) Commitments and Contingencies

Primary Government

The City is involved in construction of capital assets, mainly streets and sanitary sewer lines. At June 30, 2010, the City was committed to approximately \$8.7 million in construction contracts, capital asset purchases and other services.

Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

Component Unit

The Water Department provides single premium health insurance coverage for a period not to exceed three continuous years for retirees with a minimum of 25 years of service.

(17) Construction Commitments and Subsequent Events

At June 30, 2010, the City had entered into several construction contracts totaling approximately \$8.7 million for various street projects and the Marion Enterprise Center project.

Subsequent to June 30, 2010, the City entered into several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$2,200,000.

(18) Deficit Balances

At June 30, 2010, the Debt Service Fund had a deficit fund balance of \$242,696. This deficit balance is a result of an interfund loan made in the prior year. The deficit will be eliminated through debt service levy collections.

(19) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 51, *Accounting for Financial Reporting for Intangible Assets*, was implemented during the year ended June 30, 2010. City management undertook a review of capital asset records for governmental activities in order to report intangible assets acquired prior to July 1, 2009 and determined that the effect of implementing the new accounting standard was not material to the governmental activities of the government-wide financial statements. Therefore, no adjustment was made.

Notes to the Financial Statements

(20) Prior Period Restatement

During the year ended June 30, 2010, management determined that the interfund loans discussed in Note 5 had been reported as interfund transfers during the year ended June 30, 2009. As discussed in Note 5, the loans are eligible to be repaid through the debt service levy, therefore, interfund payable in the Debt Service Fund was increased by \$400,000 and interfund receivable was increased by \$200,000 in each of the General and Enterprise - Storm Water Management Funds. The correction in accounting for these interfund loans had the following effect on beginning fund balances at July 1, 2009:

Government-Wide Financial Statements - Statement of Activities:

| | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|------------------------------|
| Net Assets - Beginning of Year, as previously reported..... | \$ 151,069,353 | \$ 27,005,064 | \$ 178,074,417 |
| Interfund loan activity..... | <u>(200,000)</u> | <u>200,000</u> | <u>—</u> |
| Net Assets - Beginning of Year, as Restated..... | <u>\$ 150,869,353</u> | <u>\$ 27,205,064</u> | <u>\$ 178,074,417</u> |

Fund Financial Statements - Statement of Revenue, Expenditures and Changes in Fund Balances:

| | <u>Governmental</u> | | <u>Enterprise</u> |
|--|----------------------------|----------------------------|-----------------------------------|
| | General | Debt Service | Storm Water Management |
| Net Assets - Beginning of Year, as previously reported..... | \$ 9,373,381 | \$ 181,284 | \$ 3,113,157 |
| Interfund loan activity..... | <u>200,000</u> | <u>(400,000)</u> | <u>200,000</u> |
| Net Assets - Beginning of Year, as Restated..... | <u>\$ 9,573,381</u> | <u>\$ (218,716)</u> | <u>\$ 3,313,157</u> |

Required Supplementary Information

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

Year Ended June 30, 2010

| | Actual | | | Original Budget | Amended Budget | Over (Under) Budget |
|--|-------------------------|---------------------|----------------------|----------------------|----------------------|------------------------|
| | Governmental Fund Types | Proprietary Funds | Total | | | |
| Receipts | | | | | | |
| Property taxes | \$ 14,902,997 | \$ — | \$ 14,902,997 | \$ 14,603,942 | \$ 14,603,942 | \$ 299,055 |
| Tax increment financing ... | 442,120 | — | 442,120 | 400,636 | 400,636 | 41,484 |
| Other city taxes | 3,678,191 | — | 3,678,191 | 371,386 | 3,471,386 | 206,805 |
| Licenses and permits | 577,640 | — | 577,640 | 548,025 | 548,025 | 29,615 |
| Use of money and property | 780,545 | 103,864 | 884,409 | 571,000 | 571,000 | 313,409 |
| Intergovernmental | 5,618,424 | 135,000 | 5,753,424 | 4,269,630 | 4,758,230 | 995,194 |
| Charges for services | 1,035,651 | 6,949,568 | 7,985,219 | 9,192,634 | 9,206,134 | (1,220,915) |
| Special assessments | 19,306 | — | 19,306 | 20,325 | 20,325 | (1,019) |
| Miscellaneous | 1,967,395 | 4,167 | 1,971,562 | 2,384,944 | 2,384,944 | (413,382) |
| Total Receipts | 29,022,269 | 7,192,599 | 36,214,868 | 32,362,522 | 35,964,622 | 250,246 |
| Disbursements | | | | | | |
| Public safety | 7,876,580 | — | 7,876,580 | 7,821,042 | 8,121,042 | (244,462) |
| Public works | 3,640,548 | — | 3,640,548 | 3,278,828 | 3,728,828 | (88,280) |
| Culture and recreation | 3,258,783 | — | 3,258,783 | 3,337,612 | 3,512,612 | (253,829) |
| Community and economic development | 1,654,878 | — | 1,654,878 | 1,628,987 | 1,853,987 | (199,109) |
| General government | 3,303,325 | — | 3,303,325 | 3,503,853 | 3,678,853 | (375,528) |
| Debt service | 2,611,558 | — | 2,611,558 | 2,501,842 | 2,626,842 | (15,284) |
| Capital projects | 4,012,387 | — | 4,012,387 | 8,734,588 | 15,384,588 | (11,372,201) |
| Business-type activities | — | 6,406,763 | 6,406,763 | 8,031,867 | 8,056,867 | (1,650,104) |
| Total Disbursements .. | 26,358,059 | 6,406,763 | 32,764,822 | 38,838,619 | 46,963,619 | (14,198,797) |
| Receipts Over (Under) Disbursements | 2,664,210 | 785,836 | 3,450,046 | (6,476,097) | (10,998,997) | (14,449,043) |
| Other Financing Sources (Uses) | | | | | | |
| Other financing sources ... | 14,037,531 | — | 14,037,531 | 10,664,397 | 14,224,397 | 186,866 |
| Other financing uses | (5,239,489) | (203,185) | (5,442,674) | (5,629,297) | (5,629,297) | (186,623) |
| Total Other Financing Sources (Uses) | 8,798,042 | (203,185) | 8,594,857 | 5,035,100 | 8,595,100 | 243 |
| Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses .. | | | | | | |
| Balance - Beginning of Year | 24,131,811 | 8,266,661 | 32,398,472 | 31,546,079 | 34,089,658 | 1,691,186 |
| Balance - End of Year | \$ 35,594,063 | \$ 8,849,312 | \$ 44,443,375 | \$ 30,105,082 | \$ 31,685,761 | \$ (12,757,614) |

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, permanent funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment increased budgeted disbursements by \$8,125,000. This budget amendment is reflected in the final budgeted amounts.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2010

| | <u>Governmental Fund Types</u> | | |
|--|--------------------------------|------------------------------|-----------------------------|
| | Cash Basis | Accrual Adjustments | GAAP Basis |
| Revenue | \$ 29,022,269 | \$ (1,882,033) | \$ 27,140,236 |
| Expenditures..... | <u>26,358,059</u> | <u>(954,681)</u> | <u>25,403,378</u> |
| Net | 2,664,210 | (927,352) | 1,736,858 |
| Other financing sources (uses)..... | 8,798,042 | 317,700 | 9,115,742 |
| Beginning fund balances, as restated | <u>24,131,811</u> | <u>(1,841,561)</u> | <u>22,290,250</u> |
| Ending Fund Balances..... | <u>\$ 35,594,063</u> | <u>\$ (2,451,213)</u> | <u>\$ 33,142,850</u> |

| | <u>Proprietary Fund Types</u> | | | |
|---|-------------------------------|-------------------------------------|-----------------------------|-----------------------------|
| | Cash Basis | Adjustment for Component Unit | Accrual Adjustments | GAAP Basis |
| Revenue | \$ 7,192,599 | \$ (2,383,821) | \$ 249,860 | \$ 5,058,638 |
| Expenditures..... | <u>6,406,763</u> | <u>(2,545,955)</u> | <u>52,301</u> | <u>3,913,109</u> |
| Net | 785,836 | 162,134 | 197,559 | 1,145,529 |
| Other financing sources (uses)..... | (203,185) | — | (207,700) | (410,885) |
| Beginning fund balances, as restated | <u>8,266,661</u> | <u>(1,635,621)</u> | <u>20,574,024</u> | <u>27,205,064</u> |
| Ending Fund Balances..... | <u>\$ 8,849,312</u> | <u>\$ (1,473,487)</u> | <u>\$ 20,563,883</u> | <u>\$ 27,939,708</u> |

Schedule of Funding Progress for the Retiree Health Plan ---

| Year Ended June 30, | 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] |
|---------------------|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 2009 | 7-1-08 | \$ — | \$ 2,614,066 | \$ 2,614,066 | 0% | \$ 9,119,000 | 28.7% |
| 2010 | 7-1-08 | — | 2,614,066 | 2,614,066 | 0 | 9,543,000 | 27.4 |

See Note 10 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.

Other Supplementary Information

Combining Balance Sheet Schedule - Nonmajor Governmental Funds

Year Ended June 30, 2010

| | Special Revenue | | | | | Capital Projects | | | Permanent | Total Nonmajor Governmental Funds |
|--|-------------------------|-------------------------------|--|----------------------------------|----------------------|--------------------------|---------------------|----------------------------|-------------------------------|--|
| | Road Use Replacement | Tax Increment Financing | Community Develop- ment Block Grant | Police and Fire Retirement | Employee Benefits | Park Develop- ment | Maintenance Bond | Subdivision Development | Cemetery Perpetual Care | |
| Assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 437,095 | \$ 102,496 | \$ 96,370 | \$ 153,035 | \$ 698,487 | \$ 148,567 | \$ 255,345 | \$ 9,963 | \$ 21,452 | \$ 1,922,810 |
| Investments | 37,112 | — | — | 629,935 | 884,253 | — | — | — | 121,833 | 1,673,133 |
| Receivables | | | | | | | | | | |
| Accounts | — | 3,200 | — | — | — | — | — | — | — | 3,200 |
| Interest | 163 | — | — | 789 | 3,987 | — | — | — | — | 4,939 |
| Property Taxes | | | | | | | | | | |
| Current year delinquent..... | — | 3,599 | — | — | — | — | — | — | — | 3,599 |
| Total Assets | \$ 474,370 | \$ 109,295 | \$ 96,370 | \$ 783,759 | \$ 1,586,727 | \$ 148,567 | \$ 255,345 | \$ 9,963 | \$ 143,285 | \$ 3,607,681 |
| Liabilities | | | | | | | | | | |
| Accounts payable | \$ 118,000 | \$ 1,605 | \$ 3,396 | \$ — | \$ 5,568 | \$ — | \$ — | \$ — | \$ — | \$ 128,569 |
| Fund Balances | | | | | | | | | | |
| Unreserved | | | | | | | | | | |
| Special revenue | 356,370 | 107,690 | 92,974 | 783,759 | — | — | — | — | — | 1,340,793 |
| Capital projects | — | — | — | — | 1,581,159 | 148,567 | 255,345 | 9,963 | — | 1,995,034 |
| Perpetual care..... | — | — | — | — | — | — | — | — | 143,285 | 143,285 |
| Total Fund Balances | 356,370 | 107,690 | 92,974 | 783,759 | 1,581,159 | 148,567 | 255,345 | 9,963 | 143,285 | 3,479,112 |
| Total Liabilities and Fund Balances | \$ 474,370 | \$ 109,295 | \$ 96,370 | \$ 783,759 | \$ 1,586,727 | \$ 148,567 | \$ 255,345 | \$ 9,963 | \$ 143,285 | \$ 3,607,681 |

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

Year Ended June 30, 2010

| | Special Revenue | | | | | Capital Projects | | | Permanent | Total Nonmajor Governmental Funds |
|--|----------------------|-------------------------|-----------------------------------|----------------------------|---------------------|-------------------|-------------------|-------------------------|-------------------------|-----------------------------------|
| | Road Use Replacement | Tax Increment Financing | Community Development Block Grant | Police and Fire Retirement | Employee Benefits | Park Development | Maintenance Bond | Subdivision Development | Cemetery Perpetual Care | |
| Revenue | | | | | | | | | | |
| Tax increment financing | \$ — | \$ 408,646 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 408,646 |
| Use of money and property | 4,408 | — | 419 | 13,022 | 51,981 | 441 | 1,133 | — | — | 71,404 |
| Intergovernmental..... | — | 37,073 | 58,952 | — | — | — | — | — | — | 96,025 |
| Charges for services..... | — | — | — | — | — | — | 6,236 | — | — | 6,236 |
| Miscellaneous..... | — | — | 9,870 | — | — | — | — | — | 3,000 | 12,870 |
| Total Revenue..... | 4,408 | 445,719 | 69,241 | 13,022 | 51,981 | 441 | 7,369 | — | 3,000 | 595,181 |
| Expenditures | | | | | | | | | | |
| Current | | | | | | | | | | |
| Public safety..... | — | — | — | — | 85,587 | — | — | — | — | 85,587 |
| Culture and recreation..... | — | — | — | — | 9,126 | — | — | — | — | 9,126 |
| Community and economic development..... | — | 458,929 | 24,965 | — | 18,200 | — | — | — | — | 502,094 |
| Capital projects..... | 289,095 | — | — | — | — | — | — | — | — | 289,095 |
| Total Expenditures..... | 289,095 | 458,929 | 24,965 | — | 112,913 | — | — | — | — | 885,902 |
| Revenue Over (Under) Expenditures..... | (284,687) | (13,210) | 44,276 | 13,022 | (60,932) | 441 | 7,369 | — | 3,000 | (290,721) |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Transfers in..... | 144,040 | — | — | — | 162,500 | 50,000 | — | 9,963 | — | 366,503 |
| Transfers out | — | — | — | (25,000) | — | — | — | — | — | (25,000) |
| Total Other Financing Sources (Uses)..... | 144,040 | — | — | (25,000) | 162,500 | 50,000 | — | 9,963 | — | 341,503 |
| Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses..... | (140,647) | (13,210) | 44,276 | (11,978) | 101,568 | 50,441 | 7,369 | 9,963 | 3,000 | 50,782 |
| Fund Balances - Beginning of Year | 497,017 | 120,900 | 48,698 | 795,737 | 1,479,591 | 98,126 | 247,976 | — | 140,285 | 3,428,330 |
| Fund Balances - End of Year..... | \$ 356,370 | \$ 107,690 | \$ 92,974 | \$ 783,759 | \$ 1,581,159 | \$ 148,567 | \$ 255,345 | \$ 9,963 | \$ 143,285 | \$ 3,479,112 |

Combining Schedule of Net Assets - Nonmajor Enterprise Funds

At June 30, 2010

| | Sewer Rental Replace- ment | Solid Waste | Solid Waste Replace- ment | Storm Water Manage- ment | Total |
|--|-------------------------------------|----------------------------|------------------------------------|-----------------------------------|-----------------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents..... | \$ 3,112,695 | \$ 161,280 | \$ 200,511 | \$ 1,730,302 | \$ 5,204,788 |
| Investments..... | 511,107 | 1,225,013 | 402,000 | 135,110 | 2,273,230 |
| Receivables | | | | | |
| Accounts..... | — | 94,813 | — | — | 94,813 |
| Unbilled revenue..... | — | 112,826 | — | — | 112,826 |
| Interest..... | 2,445 | 1,772 | 1,933 | 564 | 6,714 |
| Due from other governments..... | 144 | 137,216 | 142 | — | 137,502 |
| Interfund loan..... | — | — | — | 49,304 | 49,304 |
| Total Current Assets..... | <u>3,626,391</u> | <u>1,732,920</u> | <u>604,586</u> | <u>1,915,280</u> | <u>7,879,177</u> |
| Noncurrent Assets | | | | | |
| Interfund loan..... | — | — | — | 102,712 | 102,712 |
| Capital assets (net of accumulated depreciation)..... | — | 811,942 | — | 1,219,111 | 2,031,053 |
| Capital assets not being depreciated..... | 275,094 | — | — | 247,242 | 522,336 |
| Total Noncurrent Assets..... | <u>275,094</u> | <u>811,942</u> | <u>—</u> | <u>1,569,065</u> | <u>2,656,101</u> |
| Total Assets..... | <u>\$ 3,901,485</u> | <u>\$ 2,544,862</u> | <u>\$ 604,586</u> | <u>\$ 3,484,345</u> | <u>\$ 10,535,278</u> |
| Liabilities and Net Assets | | | | | |
| Current Liabilities | | | | | |
| Accounts payable..... | \$ 807 | \$ 35,370 | \$ — | \$ 17,729 | \$ 53,906 |
| Accrued payroll..... | — | 17,713 | — | — | 17,713 |
| Total Current Liabilities..... | <u>807</u> | <u>53,083</u> | <u>—</u> | <u>17,729</u> | <u>71,619</u> |
| Net Assets | | | | | |
| Invested in capital assets, net of related debt..... | 275,094 | 811,942 | — | 1,466,353 | 2,553,389 |
| Unrestricted..... | 3,625,584 | 1,679,837 | 604,586 | 2,000,263 | 7,910,270 |
| Total Net Assets..... | <u>3,900,678</u> | <u>2,491,779</u> | <u>604,586</u> | <u>3,466,616</u> | <u>10,463,659</u> |
| Total Liabilities and Net Assets..... | <u>\$ 3,901,485</u> | <u>\$ 2,544,862</u> | <u>\$ 604,586</u> | <u>\$ 3,484,345</u> | <u>\$ 10,535,278</u> |

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

Year Ended June 30, 2010

| | Sewer Rental Replace- ment | Solid Waste | Solid Waste Replace- ment | Storm Water Manage- ment | Total |
|---|-------------------------------------|----------------------------|------------------------------------|-----------------------------------|-----------------------------|
| Operating Revenue | | | | | |
| Charges for services | \$ 372,319 | \$ 1,124,208 | \$ 195,099 | \$ 395,225 | \$ 2,086,851 |
| Miscellaneous revenue | <u>—</u> | <u>236,993</u> | <u>—</u> | <u>—</u> | <u>236,993</u> |
| Total Operating Revenue..... | <u>372,319</u> | <u>1,361,201</u> | <u>195,099</u> | <u>395,225</u> | <u>2,323,844</u> |
| Operating Expenses | | | | | |
| Personal services..... | — | 722,112 | — | — | 722,112 |
| Services and commodities | — | 293,859 | 1,840 | 40,595 | 336,294 |
| Depreciation | — | <u>210,006</u> | <u>—</u> | <u>16,082</u> | <u>226,088</u> |
| Total Operating Expenses..... | <u>—</u> | <u>1,225,977</u> | <u>1,840</u> | <u>56,677</u> | <u>1,284,494</u> |
| Operating Income..... | <u>372,319</u> | <u>135,224</u> | <u>193,259</u> | <u>338,548</u> | <u>1,039,350</u> |
| Nonoperating Revenue | | | | | |
| Investment income | <u>46,544</u> | <u>23,951</u> | <u>24,423</u> | <u>22,611</u> | <u>117,529</u> |
| Income Before Contributions, Transfers and Interfund Loan Activity | 418,863 | 159,175 | 217,682 | 361,159 | 1,156,879 |
| Capital assets received from (transferred to) other funds..... | (98,527) | 34,041 | — | — | (64,486) |
| Transfers out..... | <u>—</u> | <u>(59,500)</u> | <u>—</u> | <u>(207,700)</u> | <u>(267,200)</u> |
| Change in Net Assets | 320,336 | 133,716 | 217,682 | 153,459 | 825,193 |
| Net Assets - Beginning of Year, as Restated (Note 20) | <u>3,580,342</u> | <u>2,358,063</u> | <u>386,904</u> | <u>3,313,157</u> | <u>9,638,466</u> |
| Net Assets - End of Year | <u>\$ 3,900,678</u> | <u>\$ 2,491,779</u> | <u>\$ 604,586</u> | <u>\$ 3,466,616</u> | <u>\$ 10,463,659</u> |

Combining Schedule of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2010

| | Sewer Rental Replace- ment | Solid Waste | Solid Waste Replace- ment | Storm Water Manage- ment | Total |
|---|-------------------------------------|--------------------------|------------------------------------|-----------------------------------|----------------------------|
| Cash Flows From Operating Activities | | | | | |
| Receipts from customers | \$ 372,175 | \$ 1,360,489 | \$ 194,957 | \$ 395,225 | \$ 2,322,846 |
| Payments to employees..... | — | (720,752) | — | — | (720,752) |
| Payments to suppliers..... | (92,655) | (316,345) | (151,840) | (32,723) | (593,563) |
| Net Cash Provided by Operating Activities | <u>279,520</u> | <u>323,392</u> | <u>43,117</u> | <u>362,502</u> | <u>1,008,531</u> |
| Cash Flows From Noncapital Financing Activities | | | | | |
| Operating transfers..... | — | (59,500) | — | (207,700) | (267,200) |
| Cash Flows From Capital and Related Financing Activities | | | | | |
| Cash received from interfund loan repayment | — | — | — | 47,984 | 47,984 |
| Purchase of capital assets | (21,056) | (125,325) | — | (231,712) | (378,093) |
| Net Cash Used in Capital and Related Financing Activities | <u>(21,056)</u> | <u>(125,325)</u> | <u>—</u> | <u>(183,728)</u> | <u>(330,109)</u> |
| Cash Flows From Investing Activities | | | | | |
| Interest received..... | 46,998 | 23,951 | 24,423 | 24,278 | 119,650 |
| Purchase of government securities..... | — | (1,238) | — | — | (1,238) |
| Sale of government securities..... | 102,395 | — | — | 379,276 | 481,671 |
| Net Cash Provided by Investing Activities | <u>149,393</u> | <u>22,713</u> | <u>24,423</u> | <u>403,554</u> | <u>600,083</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents..... | 407,857 | 161,280 | 67,540 | 374,628 | 1,011,305 |
| Cash and Cash Equivalents at Beginning of Year | 2,704,838 | — | 132,971 | 1,355,674 | 4,193,483 |
| Cash and Cash Equivalents at End of Year | <u>\$ 3,112,695</u> | <u>\$ 161,280</u> | <u>\$ 200,511</u> | <u>\$ 1,730,302</u> | <u>\$ 5,204,788</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | | | | |
| Operating income | \$ 372,319 | \$ 135,224 | \$ 193,259 | \$ 338,548 | \$ 1,039,350 |
| Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities | | | | | |
| Depreciation | — | 210,006 | — | 16,082 | 226,088 |
| (Increase) decrease in receivables | (144) | (712) | (142) | — | (998) |
| Increase (decrease) in accounts payable | (92,655) | (22,486) | (150,000) | 7,872 | (257,269) |
| Increase in accrued payroll..... | — | 1,360 | — | — | 1,360 |
| Net Cash Provided by Operating Activities | <u>\$ 279,520</u> | <u>\$ 323,392</u> | <u>\$ 43,117</u> | <u>\$ 362,502</u> | <u>\$ 1,008,531</u> |

Noncash Investing, Capital and Financing Activities

The Storm Rental Replacement Fund purchased \$98,526 of capital assets and transferred those assets to the Sewer Rental Fund.

The Solid Waste Fund increased capital assets by \$159,366 of which \$34,041 was paid by the Road Use Tax Fund and transferred to the Solid Waste Fund as a capital contribution, resulting in cash paid for capital assets of \$125,325 for the year ended June 30, 2010.

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

Years Ended June 30, 2004 Through 2010

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Revenue | | | | | | | |
| Property taxes | \$ 14,857,708 | \$ 14,436,527 | \$ 12,820,700 | \$ 12,512,678 | \$ 11,826,079 | \$ 10,914,028 | \$ 10,241,000 |
| Tax increment financing and other city taxes | 4,531,109 | 925,485 | 856,874 | 822,768 | 869,887 | 694,740 | 342,128 |
| Special assessments..... | 19,323 | 21,446 | 22,848 | 23,716 | 24,340 | 59,444 | 12,795 |
| Licenses and permits..... | 541,439 | 542,547 | 532,826 | 528,180 | 592,713 | 604,373 | 545,391 |
| Use of money and property | 715,090 | 874,905 | 1,135,512 | 1,198,796 | 1,089,406 | 916,855 | 657,703 |
| Intergovernmental..... | 5,677,970 | 3,693,796 | 3,752,935 | 2,943,735 | 3,946,362 | 3,139,845 | 3,423,035 |
| Charges for service | 432,527 | 408,310 | 367,322 | 394,383 | 388,304 | 357,767 | 384,108 |
| Miscellaneous..... | <u>365,070</u> | <u>318,639</u> | <u>377,097</u> | <u>287,072</u> | <u>409,139</u> | <u>375,854</u> | <u>306,974</u> |
| Total Revenue | <u>\$ 27,140,236</u> | <u>\$ 21,221,655</u> | <u>\$ 19,866,114</u> | <u>\$ 18,711,328</u> | <u>\$ 19,146,230</u> | <u>\$ 17,062,906</u> | <u>\$ 15,913,134</u> |
| Expenditures | | | | | | | |
| Operating | | | | | | | |
| Public safety..... | \$ 7,907,480 | \$ 7,225,455 | \$ 7,443,939 | \$ 6,870,973 | \$ 6,766,956 | \$ 6,246,486 | \$ 5,655,995 |
| Public works..... | 3,206,090 | 2,988,781 | 2,969,549 | 2,563,142 | 2,597,935 | 2,375,455 | 2,189,523 |
| Culture and recreation | 3,304,388 | 3,025,885 | 2,854,777 | 2,612,677 | 2,541,376 | 2,277,750 | 2,235,656 |
| Community and economic development..... | 1,631,865 | 1,784,298 | 1,319,293 | 1,437,522 | 1,523,641 | 1,061,538 | 1,090,282 |
| General government | 1,784,151 | 1,660,215 | 1,494,061 | 1,776,781 | 1,281,742 | 1,248,325 | 1,245,788 |
| Debt service..... | 2,715,648 | 3,761,247 | 4,106,061 | 1,853,090 | 1,902,207 | 1,970,226 | 1,769,025 |
| Capital projects..... | <u>4,853,756</u> | <u>5,540,965</u> | <u>2,380,396</u> | <u>4,209,427</u> | <u>6,899,597</u> | <u>4,666,646</u> | <u>2,118,065</u> |
| Total Expenditures | <u>\$ 25,403,378</u> | <u>\$ 25,986,846</u> | <u>\$ 22,568,076</u> | <u>\$ 21,323,612</u> | <u>\$ 23,513,454</u> | <u>\$ 19,846,426</u> | <u>\$ 16,304,334</u> |

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Catalog of Federal Domestic Assistance Number | Pass-Through Grantor's Number | Federal Program/Cluster Expenditures |
|---|---|-------------------------------|--------------------------------------|
| U.S. Department of Housing and Urban Development | | | |
| Indirect | | | |
| Pass-Through Iowa Department of Economic Development | | | |
| Community Development Block Grants - State's Program and Non-Entitlement Grants in Hawaii | 14.228 | 08-HSG-033 | \$ 21,864 |
| Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants | 14.251 | | <u>68,600</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>90,464</u> |
| U.S. Department of Justice | | | |
| Direct | | | |
| Law Enforcement Assistance - Narcotics and Dangerous Drugs Training | 16.004 | | 18,111 |
| Indirect | | | |
| Pass-Through California Emergency Management Agency | | | |
| ARRA - Edward Byrne Memorial Justice Assistance Grant | 16.804 | 2009-F5012-IA-SB | <u>74,845</u> |
| Total U.S. Department of Justice | | | <u>92,956</u> |
| U.S. Department of Transportation | | | |
| Indirect | | | |
| Pass-Through Iowa Department of Transportation | | | |
| Highway Planning and Construction | 20.205 | STP-U-4775(617)-70-57 | 1,330,099 |
| ARRA - Highway Planning and Construction | 20.205 | Various | <u>1,197,778</u> |
| | | | <u>2,527,877</u> |
| Pass-Through Iowa Department of Public Safety | | | |
| State and Community Highway Safety | 20.600 | Various | <u>14,853</u> |
| Total U.S. Department of Transportation | | | <u>2,542,730</u> |
| U.S. Environmental Protection Agency | | | |
| Direct | | | |
| Brownfields Assessment and Cleanup Cooperative Agreements..... | 66.818 | Various | <u>265,397</u> |
| U.S. Department of Education | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | 84.397 | S397A090016A | <u>31,398</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 3,022,945</u> |

Schedule of Expenditures of Federal Awards ---

Year Ended June 30, 2010

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Marion, Iowa, and is presented using accounting principles generally accepted in the United States of America for local governmental units as prescribed in the statements issued by the Government Accounting Standards Board and other recognized authoritative sources. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Program expenditures include only amounts subject to reimbursement from the grantor agency or program income; thus, they are net of local matching.

Note 2. Subrecipients

There were no amounts provided to subrecipients from the City's federal award programs.

Financial Assistance Section

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Certified Public Accountants and Consultants

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Marion, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City of Marion, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marion, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Marion, Iowa's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying schedule of findings and questioned costs as item 10-II-IC-1 to be a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



HOGAN - HANSEN

Cedar Rapids, Iowa
March 28, 2011

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Certified Public Accountants and Consultants

Independent Auditor's Report on Compliance With Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Marion, Iowa, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Marion, Iowa's major federal program is identified in Part I of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Marion, Iowa's management. Our responsibility is to express an opinion on the City of Marion, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marion, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Marion, Iowa's compliance with those requirements.

In our opinion, the City of Marion, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Marion, Iowa, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Marion, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance significant deficiencies or material weaknesses have been identified. We consider the deficiency in internal control over compliance described in Part III of the accompanying schedule of findings and questioned costs reported as item 10-III-IC-1 to be a material weakness.

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

This report is intended solely for the information and use of the management and City Council of the City of Marion, Iowa, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
March 28, 2011

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

Part I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness identified? yes no
Significant deficiency identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness identified? yes no
Significant deficiency identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes no

Identification of major program:

CFDA Numbers

20.205

Name of Federal Program or Cluster

Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

Part II: Findings Related to the Financial Statements:

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

10-II-IC-1 Segregation of Duties

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

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

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

All programs displayed on the schedule of expenditures of federal awards.

10-III-IC-1 Segregation of Duties Over Federal Revenue and Expenditures

Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See Finding 10-II-IC-1 for additional information.

Part IV: Findings Related to Statutory Reporting

10-IV-A Certified Budget - Disbursements during the year ended June 30, 2010 did not exceed the amounts in the amended budget.

10-IV-B Questionable Disbursements - We noted no expenditures which did not appear to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

10-IV-C Travel Expense - No disbursements of the City of Marion money for travel expenses of spouses of City officials or employees were noted.

10-IV-D Business Transactions - No business transactions were noted between the City and City officials or employees.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2010

- 10-IV-E Bond Coverage** - Surety bond coverage of the City of Marion officials and employees is in accordance with statutory provisions and was reviewed and updated during the year. We recommend that the amount of coverage continue to be reviewed annually to insure that the coverage is adequate for current operations.
- 10-IV-F Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not. Council minutes were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.
- 10-IV-G Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.