

**CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2011**

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Officials

Elected Officials

Name	Title	Term Expires
Paul E. Rehn	Mayor	December 31, 2011
Steve Sprague	Council Member - First Ward	December 31, 2011
Joe Spinks	Council Member - Second Ward	December 31, 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	Retired April 1, 2011
Doug Raber	Library Director	Effective April 1, 2011
Richard Fox	Director of Parks and Recreation	Indefinite
Ryan Miller	Public Services Director	Indefinite
Robert A. Anderson	Marion Municipal Water Department - Trustee 2011 Chairperson	November 1, 2014
Gregory O. Hapgood	Marion Municipal Water Department - Trustee	November 1, 2016
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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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, 2011, 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, 2011, 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 15, 2012 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 10 and Pages 42 and 44 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 four years ended June 30, 2010 (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 45 through 55, 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.

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Cedar Rapids, Iowa
March 15, 2012

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, 2011. 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, 2011 by \$178 million (net assets). Of this amount, \$6.1 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 \$17.4 million.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$6.9 million, or 45.5% of the total general fund expenditures. For the purpose of these financial statements, the General fund also includes the Equipment Replacement and the Tax Stabilization Funds.

Total general obligation debt decreased by \$2,380,000. There were no general obligation notes issued during the year.

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 account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year end that are available for spending. Governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Tax Increment Financing, Community Development and the Employee Benefit Fund, (3) the Debt Service Fund and (4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

2. Proprietary Funds

Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the statement of net assets and the statement of activities. The major difference between the proprietary funds and the business-type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Sewer Rental and Sewer Rental Replacement Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenue, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

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 20-21 of this report.

Government-Wide Financial Analysis

The analysis that follows focuses on the changes in the net assets for governmental and business-type activities.

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	2011	2010	2011	2010	2011	2010
Cash and pooled investments	\$ 33,373	\$ 35,402	\$ 9,117	\$ 8,994	\$ 42,490	\$ 44,396
Other assets	17,776	16,853	841	960	18,617	17,813
Capital assets	<u>166,103</u>	<u>149,223</u>	<u>17,790</u>	<u>18,268</u>	<u>183,893</u>	<u>167,491</u>
Total Assets	<u>217,252</u>	<u>201,478</u>	<u>27,748</u>	<u>28,222</u>	<u>245,000</u>	<u>229,700</u>
Current liabilities	20,767	20,347	832	282	21,599	20,629
Noncurrent liabilities	<u>18,461</u>	<u>20,583</u>	—	—	<u>18,461</u>	<u>20,583</u>
Total Liabilities	<u>39,228</u>	<u>40,930</u>	<u>832</u>	<u>282</u>	<u>40,060</u>	<u>41,212</u>
Net Assets						
Invested in capital assets, net of debt	148,596	129,279	17,790	18,268	166,386	147,547
Other nonspendable	266	—	—	—	266	—
Restricted	18,930	—	—	—	18,930	—
Committed	1,044	—	—	—	1,044	—
Assigned	3,055	—	—	—	3,055	—
Unrestricted	<u>6,133</u>	<u>31,269</u>	<u>9,126</u>	<u>9,672</u>	<u>15,259</u>	<u>40,941</u>
Total Net Assets	<u>\$ 178,024</u>	<u>\$ 160,548</u>	<u>\$ 26,916</u>	<u>\$ 27,940</u>	<u>\$ 204,940</u>	<u>\$ 188,488</u>

Net assets of governmental activities increased approximately \$17.4 million for the fiscal year 2011. Net assets of business-type activities decreased approximately \$1 million for the fiscal year 2011. 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 \$6.1 million at the end of this year for governmental activities and \$9.1 million for business-type activities.

A summary version of the Statement of Activities follows:

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010
Revenue						
Charges for services	\$ 1,414	\$ 1,276	\$ 5,003	\$ 4,902	\$ 6,417	\$ 6,178
Operating grants and contributions	597	678	—	—	597	678
Capital grants and contributions	12,219	5,618	599	34	12,818	5,652
General Revenue						
Property taxes	15,639	14,858	—	—	15,639	14,858
Other taxes	4,909	4,204	—	—	4,909	4,204
Franchise fees	329	327	—	—	329	327
Road use taxes	2,743	2,407	—	—	2,743	2,407
Investment income	711	715	102	123	813	838
Miscellaneous revenue	70	33	61	—	131	33
Total Revenue	<u>38,631</u>	<u>30,116</u>	<u>5,765</u>	<u>5,059</u>	<u>44,396</u>	<u>35,175</u>
Program Expenses						
Public safety	7,635	7,958	—	—	7,635	7,958
Public works	6,605	5,166	—	—	6,605	5,166
Culture and recreation	3,398	3,426	—	—	3,398	3,426
Community and economic development	1,608	1,662	—	—	1,608	1,662
General government	1,904	1,951	—	—	1,904	1,951
Interest on long-term debt	762	685	—	—	762	685
Sanitary sewer	—	—	2,948	2,685	2,948	2,685
Solid waste management	—	—	1,550	1,228	1,550	1,228
Total Expenses	<u>21,912</u>	<u>20,848</u>	<u>4,498</u>	<u>3,913</u>	<u>26,410</u>	<u>24,761</u>
Transfers	<u>726</u>	<u>411</u>	<u>(726)</u>	<u>(411)</u>	<u>—</u>	<u>—</u>
Changes in Net Assets	17,445	9,679	541	735	17,986	10,414
Beginning net assets, as restated	<u>160,579</u>	<u>150,869</u>	<u>26,375</u>	<u>27,205</u>	<u>186,954</u>	<u>178,074</u>
Ending Net Assets	<u>\$ 178,024</u>	<u>\$ 160,548</u>	<u>\$ 26,916</u>	<u>\$ 27,940</u>	<u>\$ 204,940</u>	<u>\$ 188,488</u>

Governmental Activities

Charges for services make up 3.7% of governmental revenue. Operating and capital grants, primarily for street projects and building improvement projects, make up another 33.2% of governmental revenue. 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 86.8% of total revenue. Investment income accounts for an additional 2% of total revenue.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Marion completed the year, its governmental funds reported a combined fund balance of \$30,340,266, which is less than the \$31,561,691 total fund balance at June 30, 2010. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a modest increase in fund balance of \$570,199 from the prior year to \$10,833,435. Revenue increased 4.9% over the prior year to \$12,196,644 and expenditures increased 1.5% to \$15,134,463.

The Road Use Fund is used to account for the maintenance of the City's infrastructure. This fund ended fiscal year 2011 with a balance of \$486,141 compared to the prior year ending balance of \$132,104. Revenue increased \$336,329 or 14% over the prior period.

The Trust and Agency Employee Benefits Fund is required by the Code of Iowa to account for property taxes levied for employee benefits. This fund showed a small increase of \$20,100 from the prior year to \$260,680.

The Debt Service Fund ended fiscal year 2011 with a (\$26,830) deficit balance compared to the prior year ending balance of (\$242,696). Property tax revenue increased \$135,733 while bond principal and interest payments increased \$487,685 in fiscal year 2011.

The Capital Projects Fund ended fiscal year 2011 with a \$17,658,196 balance compared to the prior year ending balance of \$20,054,273. The decrease is due to current year projects.

Proprietary Fund Highlights

The Sewer Rental Fund accounts for the operation and maintenance of the City's sanitary sewer system. This fund ended fiscal year 2011 with a net asset balance of \$16,600,011 compared to the prior year ending net asset balance of \$16,519,934.

The Sewer Rental Replacement Fund accounts for future operation and maintenance of the City's sanitary sewer system. This fund ended fiscal year 2011 with a net asset balance of \$4,037,844 compared to the prior year ending net asset balance of \$3,641,721.

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 and additional charges for services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, intangibles, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$166,103,453 (net of accumulated depreciation/amortization) at June 30, 2011. Capital assets for business-type activities totaled \$17,789,886 (net of accumulated depreciation/amortization) at June 30, 2011. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included construction of infrastructure.

For business-type activities, major additions included a sewer jet truck, refuse trucks and sewer infrastructure.

Construction in progress at June 30, 2011 for governmental activities consists primarily of street projects and the Thomas Park maintenance building.

Long-Term Debt

At June 30, 2011, the City had \$17,293,974 of outstanding general obligation bonds and notes for governmental activities. No debt was issued during the year ended June 30, 2011.

The City continues to carry a general obligation bond rating of Aa1 assigned by national rating agencies to the City's debt since 2010. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$57 million. Additional information about the City's long-term debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

The unemployment rate for Linn County is currently at 6%, which is where it was the previous year and less than the national unemployment rate of 9%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2010, the most recent available (April 1, 2009 to March 31, 2010), retail sales for Marion were \$333.3 million and \$3.204 billion for Linn County. For fiscal year 2009, retail sales were \$351.8 million for Marion and \$3.487 billion for Linn County.

The total value of building permits for fiscal year 2011 was approximately \$37.7 million, which is down from the fiscal year 2010 amount of \$62.8 million. In fiscal year 2010 there was the construction of a middle school and athletic facilities for the two local school districts as well as some larger commercial projects. We did not have those types of big projects in fiscal year 2011.

NEXT YEAR'S BUDGET AND RATES

The adopted fiscal year 2011-2012 budget calls for an increase in tax receipts of 3.6% 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 a 7% increase in wastewater treatment payments to the City of Cedar Rapids for fiscal year 2011-2012. 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 fiscal year 2011-2012. The increase in 2008, coupled with increased revenue from added customer accounts, is sufficient to meet the needs of the Department.

The total City tax levy rate for fiscal year 2011-2012 is 13.50980 per taxable valuation compared to 13.63603 for fiscal year 2010-2011. Net taxable valuation for fiscal year 2011-2012 is \$1,193.7 million, which was an increase of \$52 million from the fiscal year 2010-2011 level which was \$1,141.7 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, 2011

	Primary Government			Component
	Governmental Activities	Business Activities	Total	Unit Water
Assets				
Current Assets				
Cash and pooled investments.....	\$ 9,847,546	\$ 6,736,908	\$ 16,584,454	\$ 2,030,504
Investments.....	23,525,599	2,380,585	25,906,184	—
Receivables				
Accounts, net of allowance for uncollectible accounts.....	125,892	285,709	411,601	153,828
Unbilled revenue.....	—	446,519	446,519	325,491
Interest.....	47,042	5,669	52,711	1,498
Notes.....	45,769	—	45,769	—
Interfund loan.....	—	50,659	50,659	—
Property Taxes				
Delinquent.....	108,729	—	108,729	—
Succeeding year.....	15,997,625	—	15,997,625	—
Due from other governments.....	1,327,384	—	1,327,384	—
Due from other funds.....	631	—	631	—
Inventories.....	119,930	—	119,930	181,854
Prepaid items.....	—	—	—	33,250
Total Current Assets	<u>51,146,147</u>	<u>9,906,049</u>	<u>61,052,196</u>	<u>2,726,425</u>
Noncurrent Assets				
Notes receivable.....	2,682	—	2,682	—
Interfund loan.....	—	52,053	52,053	—
Capital assets (net of accumulated depreciation).....	81,590,552	17,342,496	98,933,048	11,534,029
Capital assets not being depreciated.....	84,512,901	447,390	84,960,291	2,940,845
Total Noncurrent Assets	<u>166,106,135</u>	<u>17,841,939</u>	<u>183,948,074</u>	<u>14,474,874</u>
Restricted Assets				
Cash.....	—	—	—	105,365
Loan proceeds restricted for capital project	—	—	—	1,498,649
Total Restricted Assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,604,014</u>
Total Assets	<u>\$ 217,252,282</u>	<u>\$ 27,747,988</u>	<u>\$ 245,000,270</u>	<u>\$ 18,805,313</u>

See accompanying notes to the financial statements.

	Primary Government			Component
	Governmental Activities	Business Activities	Total	Unit Water
Liabilities				
Current Liabilities				
Accounts payable.....	\$ 1,592,729	\$ 759,658	\$ 2,352,387	\$ 554,811
Salary and benefits payable.....	353,873	53,419	407,292	33,525
Accrued interest payable	27,724	—	27,724	5,610
Long-Term Liabilities				
Portion Due or Payable Within One Year				
General obligation bonds payable	2,470,000	—	2,470,000	—
General obligation notes payable	34,347	—	34,347	—
SRF loan payable	—	—	—	127,000
Compensated absences	2,668	19,061	21,729	45,650
Nonbonded indebtedness payable	24,982	—	24,982	—
Interfund loan payable	50,659	—	50,659	—
Deferred revenue	15,997,625	—	15,997,625	—
Self-insured estimated claims	170,739	—	170,739	20,244
Reinsurance premiums payable	41,817	—	41,817	—
Total Current Liabilities	<u>20,767,163</u>	<u>832,138</u>	<u>21,599,301</u>	<u>786,840</u>
Noncurrent Liabilities				
Long-Term Liabilities				
Portion Due or Payable After One Year				
General obligation bonds payable	14,615,000	—	14,615,000	—
General obligation notes payable	174,627	—	174,627	—
SRF loan payable	—	—	—	3,373,000
Compensated absences	2,441,086	—	2,441,086	—
Net OPEB liability	791,350	—	791,350	86,900
Premium on bonds payable	213,298	—	213,298	—
Nonbonded indebtedness payable	173,802	—	173,802	—
Interfund loan payable	52,053	—	52,053	—
Total Noncurrent Liabilities.....	<u>18,461,216</u>	<u>—</u>	<u>18,461,216</u>	<u>3,459,900</u>
Liabilities Payable From Restricted Assets				
Payable - customer deposits.....	—	—	—	<u>105,365</u>
Total Liabilities	<u>39,228,379</u>	<u>832,138</u>	<u>40,060,517</u>	<u>4,352,105</u>
Net Assets				
Nonspendable				
Invested in capital assets, net of related debt.....	148,596,181	17,789,886	166,386,067	12,473,523
Other.....	266,320	—	266,320	—
Restricted				
Streets	852,755	—	852,755	—
Grants.....	260,680	—	260,680	—
Capital projects.....	17,816,721	—	17,816,721	—
Committed.....	1,043,524	—	1,043,524	—
Assigned	3,054,523	—	3,054,523	—
Unrestricted.....	6,133,199	9,125,964	15,259,163	1,979,685
Total Net Assets	<u>178,023,903</u>	<u>26,915,850</u>	<u>204,939,753</u>	<u>14,453,208</u>
Total Liabilities and Net Assets.....	<u>\$ 217,252,282</u>	<u>\$ 27,747,988</u>	<u>\$ 245,000,270</u>	<u>\$ 18,805,313</u>

Statement of Activities

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Change 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	\$ 7,635,167	\$ 294,895	\$ 82,623	\$ —	\$ (7,257,649)	\$ —	\$ (7,257,649)	\$ —
Public works	6,604,677	15,611	3,105	7,640,451	1,054,490	—	1,054,490	—
Culture and recreation	3,398,624	455,888	385,339	—	(2,557,397)	—	(2,557,397)	—
Community and economic development	1,608,370	611,457	68,634	4,578,909	3,650,630	—	3,650,630	—
General government.....	1,903,820	36,341	57,348	—	(1,810,131)	—	(1,810,131)	—
Interest.....	761,831	—	—	—	(761,831)	—	(761,831)	—
Total Governmental Activities	21,912,489	1,414,192	597,049	12,219,360	(7,681,888)	—	(7,681,888)	—
Business-Type Activities								
Sewer	2,947,560	3,528,846	—	598,921	—	1,180,207	1,180,207	—
Solid waste	1,550,459	1,474,008	—	—	—	(76,451)	(76,451)	—
Total Business-Type Activities	4,498,019	5,002,854	—	598,921	—	1,103,756	1,103,756	—
Total Primary Government	\$ 26,410,508	\$ 6,417,046	\$ 597,049	\$ 12,818,281	(7,681,888)	1,103,756	(6,578,132)	—
Component Unit - Water	\$ 2,298,635	\$ 3,052,902	\$ —	\$ 474,736	—	—	—	1,229,003
General Receipts								
Property taxes					15,638,561	—	15,638,561	—
Tax increment financing revenue					672,314	—	672,314	—
Other Taxes								
Cable television franchise					329,008	—	329,008	—
Hotel/motel					164,748	—	164,748	—
Road use tax.....					2,742,990	—	2,742,990	—
Local option sales tax.....					4,072,230	—	4,072,230	—
Investment income					710,849	102,070	812,919	37,244
Assessments					18,069	196	18,265	—
Miscellaneous revenue.....					51,967	—	51,967	31,035
Gain on sale of capital assets.....					—	61,000	61,000	—
Transfers					725,737	(725,737)	—	—
Total General Receipts and Transfers					25,126,473	(562,471)	24,564,002	68,279
Change in Net Assets.....					17,444,585	541,285	17,985,870	1,297,282
Net Assets - Beginning of Year, as Restated					160,579,318	26,374,565	186,953,883	13,155,926
Net Assets - End of Year.....					\$ 178,023,903	\$ 26,915,850	\$ 204,939,753	\$ 14,453,208

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2011

	General Fund	Road Use	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Assets							
Cash and pooled investments	\$ 6,025,997	\$ 195,683	\$ 189,896	\$ 153,333	\$ 375,665	\$ 1,005,713	\$ 7,946,287
Investments	4,937,020	119,919	—	7,864	17,443,561	132,982	22,641,346
Receivables							
Accounts	113,464	1,625	—	—	—	3,200	118,289
Interest	7,387	—	—	—	35,578	47	43,012
Property Taxes							
Delinquent	65,456	—	21,546	17,397	—	4,330	108,729
Succeeding year	10,074,103	—	3,120,967	2,802,555	—	—	15,997,625
Due from other governments	—	270,180	55,310	—	1,001,894	—	1,327,384
Due from other funds	631	—	—	—	—	—	631
Interfund loan	102,712	—	—	—	—	—	102,712
Inventories	119,930	—	—	—	—	—	119,930
Total Assets	\$ 21,446,700	\$ 587,407	\$ 3,387,719	\$ 2,981,149	\$ 18,856,698	\$ 1,146,272	\$ 48,405,945
Liabilities and Fund Balances							
Liabilities							
Current Liabilities							
Accounts payable	\$ 216,324	\$ 70,231	\$ 6,072	\$ —	\$ 1,198,502	\$ 17,628	\$ 1,508,757
Accrued expenses	322,838	31,035	—	—	—	—	353,873
Interfund loan	—	—	—	205,424	—	—	205,424
Deferred revenue	10,074,103	—	3,120,967	2,802,555	—	—	15,997,625
Total Liabilities	10,613,265	101,266	3,127,039	3,007,979	1,198,502	17,628	18,065,679
Fund Balances							
Nonspendable							
Inventories	119,930	—	—	—	—	—	119,930
Cemetery perpetual care	—	—	—	—	—	146,390	146,390
Restricted for							
Streets	—	486,141	—	—	—	366,614	852,755
Grants	—	—	260,680	—	—	—	260,680
Capital projects	—	—	—	—	17,658,196	158,525	17,816,721
Other purpose	—	—	—	—	—	184,286	184,286
Committed to							
Pension	770,695	—	—	—	—	—	770,695
Capital projects	—	—	—	—	—	272,829	272,829
Assigned for							
Equipment reserve	2,660,838	—	—	—	—	—	2,660,838
Tax credit reimbursement	318,685	—	—	—	—	—	318,685
Census reserve	75,000	—	—	—	—	—	75,000
Unassigned	6,888,287	—	—	(26,830)	—	—	6,861,457
Total Fund Balances	10,833,435	486,141	260,680	(26,830)	17,658,196	1,128,644	30,340,266
Total Liabilities and Fund Balances	\$ 21,446,700	\$ 587,407	\$ 3,387,719	\$ 2,981,149	\$ 18,856,698	\$ 1,146,272	\$ 48,405,945

See accompanying notes to the financial statements.

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

At June 30, 2011

Total Fund Balances for Governmental Funds (Page 13).....		\$ 30,340,266
 <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		166,103,453
Notes receivable are not financial resources and, therefore, are not reported as assets in the governmental funds		48,451
Internal service funds, net assets.....		2,500,617
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	\$ (2,443,754)	
Bonds payable	(17,085,000)	
Accrued interest	(27,724)	
NET OPEB liability	(791,350)	
Nonbonded indebtedness	(198,784)	
Notes payable	(208,974)	
Premium on bonds payable	(213,298)	
	(20,968,884)	(20,968,884)
Net Assets of Governmental Activities (Page 12)		<u>\$ 178,023,903</u>

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

Year Ended June 30, 2011

	General Fund	Road Use	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenue							
Property taxes	\$ 9,772,139	\$ —	\$ 3,245,877	\$ 2,620,545	\$ —	\$ —	\$ 15,638,561
Tax increment financing	—	—	—	—	—	672,314	672,314
Other taxes	493,756	—	—	—	4,072,230	—	4,565,986
Licenses and permits.....	573,802	—	—	—	—	—	573,802
Use of money and property	188,569	—	394	3,432	461,219	4,945	658,559
Intergovernmental.....	368,501	2,742,990	192,221	—	4,578,909	68,634	7,951,255
Charges for services.....	770,953	—	20,536	—	255	16,339	808,083
Special assessments.....	15	—	—	18,054	—	—	18,069
Miscellaneous.....	23,790	—	—	—	26,976	—	53,871
Total Revenue.....	12,191,525	2,742,990	3,459,028	2,642,031	9,139,589	765,337	30,940,500
Expenditures							
Current							
Public safety.....	7,887,528	—	102,141	—	—	—	7,989,669
Public works.....	1,194,818	1,982,793	—	—	—	—	3,177,611
Culture and recreation	3,279,290	—	96,281	—	—	—	3,375,571
Community and economic development.....	1,052,402	—	—	—	—	514,120	1,566,522
General government	1,720,425	—	—	—	—	—	1,720,425
Debt Service							
Principal	—	—	—	2,437,832	—	—	2,437,832
Interest and other charges	—	—	—	672,412	—	—	672,412
Capital projects.....	—	240,943	—	—	11,435,666	186,388	11,862,997
Total Expenditures.....	15,134,463	2,223,736	198,422	3,110,244	11,435,666	700,508	32,803,039
Revenue Over (Under) Expenditures.....	(2,942,938)	519,254	3,260,606	(468,213)	(2,296,077)	64,829	(1,862,539)
Other Financing Sources (Uses)							
Operating transfers in.....	3,572,232	383,784	—	684,079	250,000	193,140	5,083,235
Operating transfers out.....	(64,214)	(549,001)	(3,240,506)	—	(350,000)	(243,519)	(4,447,240)
Sale of equipment.....	5,119	—	—	—	—	—	5,119
Total Other Financing Sources (Uses).....	3,513,137	(165,217)	(3,240,506)	684,079	(100,000)	(50,379)	641,114
Net Change in Fund Balances.....	570,199	354,037	20,100	215,866	(2,396,077)	14,450	(1,221,425)
Fund Balances - Beginning of Year, as Restated (Note 19).....	10,263,236	132,104	240,580	(242,696)	20,054,273	1,114,194	31,561,691
Fund Balances - End of Year.....	\$ 10,833,435	\$ 486,141	\$ 260,680	\$ (26,830)	\$ 17,658,196	\$ 1,128,644	\$ 30,340,266

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, 2011

Changes in Fund Balances - Total Governmental Funds (Page 15) \$ (1,221,425)

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

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. (38,717)

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	\$ 13,676,706	
Depreciation expense	<u>(4,429,001)</u>	9,247,705

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..... 7,640,451

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

Repayment of bond principal	\$ 2,380,000	
Repayment of note principal	32,832	
Change in accrued interest	27,370	
Bond issue costs	(93,089)	
Premium on bond issues.....	<u>23,700</u>	2,370,813

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. (458,868)

Internal service funds net change.. (95,374)

Change in Net Assets of Governmental Activities (Page 12) \$ 17,444,585

Statement of Net Assets - Proprietary Funds

At June 30, 2011

	Business-Type Activities - Enterprise Funds				Governmental
	Sewer Rental	Sewer Rental Replacement	Nonmajor	Totals	Internal Service Fund
Assets					
Current Assets					
Cash and pooled investments....	\$ 886,429	\$ 3,615,125	\$ 2,235,354	\$ 6,736,908	\$ 1,901,259
Investments	351,039	398,835	1,630,711	2,380,585	884,253
Receivables					
Accounts	193,527	—	92,182	285,709	7,603
Unbilled revenue.....	312,738	—	133,781	446,519	—
Interest.....	—	1,923	3,746	5,669	4,030
Interfund loan.....	—	—	50,659	50,659	—
Total Current Assets	<u>1,743,733</u>	<u>4,015,883</u>	<u>4,146,433</u>	<u>9,906,049</u>	<u>2,797,145</u>
Noncurrent Assets					
Interfund loan	—	—	52,053	52,053	—
Capital assets (net of accumulated depreciation)	15,249,751	—	2,092,745	17,342,496	—
Capital assets not being depreciated.....	—	177,593	269,797	447,390	—
Total Noncurrent Assets	<u>15,249,751</u>	<u>177,593</u>	<u>2,414,595</u>	<u>17,841,939</u>	<u>—</u>
Total Assets	<u>\$ 16,993,484</u>	<u>\$ 4,193,476</u>	<u>\$ 6,561,028</u>	<u>\$ 27,747,988</u>	<u>\$ 2,797,145</u>
Liabilities					
Current Liabilities					
Accounts payable.....	\$ 329,497	\$ 155,632	\$ 274,529	\$ 759,658	\$ 83,972
Compensated absences	19,061	—	—	19,061	—
Self-insured estimated claims	—	—	—	—	170,739
Reinsurance premiums payable	—	—	—	—	41,817
Accrued payroll	44,915	—	8,504	53,419	—
Total Current Liabilities.....	<u>393,473</u>	<u>155,632</u>	<u>283,033</u>	<u>832,138</u>	<u>296,528</u>
Net Assets					
Invested in capital assets, net of related debt.....	15,249,751	177,593	2,362,542	17,789,886	—
Unrestricted.....	1,350,260	3,860,251	3,915,453	9,125,964	2,500,617
Total Net Assets	<u>16,600,011</u>	<u>4,037,844</u>	<u>6,277,995</u>	<u>26,915,850</u>	<u>2,500,617</u>
Total Liabilities and Net Assets	<u>\$ 16,993,484</u>	<u>\$ 4,193,476</u>	<u>\$ 6,561,028</u>	<u>\$ 27,747,988</u>	<u>\$ 2,797,145</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Totals</u>	<u>Governmental Activities</u>
	<u>Sewer Rental</u>	<u>Sewer Rental Replacement</u>	<u>Nonmajor</u>		<u>Internal Service Fund</u>
Operating Revenue					
Charges for services	\$ 2,729,379	\$ 372,198	\$ 1,901,277	\$ 5,002,854	\$ —
Special assessments	79	—	117	196	1,732,332
Total Operating Revenue	<u>2,729,458</u>	<u>372,198</u>	<u>1,901,394</u>	<u>5,003,050</u>	<u>1,732,332</u>
Operating Expenses					
Personal services	506,691	—	753,498	1,260,189	—
Services and commodities	1,942,923	—	631,184	2,574,107	1,969,738
Depreciation	428,613	—	235,110	663,723	—
Total Operating Expenses ...	<u>2,878,227</u>	<u>—</u>	<u>1,619,792</u>	<u>4,498,019</u>	<u>1,969,738</u>
Operating Income (Loss).....	(148,769)	372,198	281,602	505,031	(237,406)
Nonoperating Revenue					
Investment income	<u>5,159</u>	<u>40,062</u>	<u>56,849</u>	<u>102,070</u>	<u>52,290</u>
Income Before Transfers.....	(143,610)	412,260	338,451	607,101	(185,116)
Capital assets received	615,058	(16,137)	—	598,921	—
Gain on sale of equipment	61,000	—	—	61,000	—
Transfers in	—	—	294,608	294,608	89,742
Transfers out	<u>(452,371)</u>	<u>—</u>	<u>(567,974)</u>	<u>(1,020,345)</u>	<u>—</u>
Changes in Net Assets	80,077	396,123	65,085	541,285	(95,374)
Net Assets - Beginning of Year, as Restated (Note 20)	<u>16,519,934</u>	<u>3,641,721</u>	<u>6,212,910</u>	<u>26,374,565</u>	<u>2,595,991</u>
Net Assets - End of Year	<u>\$ 16,600,011</u>	<u>\$ 4,037,844</u>	<u>\$ 6,277,995</u>	<u>\$ 26,915,850</u>	<u>\$ 2,500,617</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Sewer Rental	Sewer Rental Replace- ment	Nonmajor	Totals	Internal Service Fund
Cash Flows From Operating Activities					
Receipts from customers.....	\$ 2,680,235	\$ 372,342	\$ 1,885,407	\$ 4,937,984	\$ 1,736,438
Payments to employees.....	(472,635)	—	(762,707)	(1,235,342)	—
Payments to suppliers.....	(1,794,676)	154,825	(409,754)	(2,049,605)	(1,939,009)
Net Cash Provided by Operating Activities.....	412,924	527,167	712,946	1,653,037	(202,571)
Cash Flows From Noncapital Financing Activities					
Net transfers.....	(452,371)	—	(273,366)	(725,737)	89,742
Cash Flows From Capital and Related Financing Activities					
Cash received from interfund loan repayment.....	—	—	49,304	49,304	—
Disposal of capital assets.....	61,000	—	24,071	85,071	—
Purchase of capital assets.....	(305,283)	(177,593)	(558,499)	(1,041,375)	—
Net Cash Used in Capital and Related Financing Activities.....	(244,283)	(177,593)	(485,124)	(907,000)	—
Cash Flows From Investing Activities					
Interest received.....	5,159	40,584	57,393	103,136	52,247
Purchase of investments.....	(230)	—	(3,698)	(3,928)	—
Sale of investments.....	—	112,272	135,110	247,382	—
Net Cash Provided by Investing Activities.....	4,929	152,856	188,805	346,590	52,247
Net Increase in Cash and Cash Equivalents.....	(278,801)	502,430	143,261	366,890	(60,582)
Cash and Cash Equivalents at Beginning of Year.....	1,165,230	3,112,695	2,092,093	6,370,018	2,846,094
Cash and Cash Equivalents at End of Year.....	\$ 886,429	\$ 3,615,125	\$ 2,235,354	\$ 6,736,908	\$ 2,785,512
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss).....	\$ (148,769)	\$ 372,198	\$ 281,602	\$ 505,031	\$ (237,406)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities					
Depreciation.....	428,613	—	235,110	663,723	—
Change in Assets and Liabilities					
(Increase) decrease in receivables.....	(49,223)	144	(15,987)	(65,066)	4,106
Increase in accounts payable.....	148,247	154,825	221,430	524,502	30,729
Increase (decrease) in accrued payroll	32,190	—	(9,209)	22,981	—
Increase in accrued compensated absences.....	1,866	—	—	1,866	—
Net Cash Provided by Operating Activities	\$ 412,924	\$ 527,167	\$ 712,946	\$ 1,653,037	\$ (202,571)

See accompanying notes to the financial statements.

Statement of Fiduciary Assets and Liabilities - Trust Funds

At June 30, 2011

	Cemetery Memorial
Assets	
Cash and Investments.....	<u>\$ 1,997</u>
Liabilities	
Due to other funds.....	\$ 631
Net Assets	
Held in trust	<u>1,366</u>
Total Liabilities and Net Assets	<u>\$ 1,997</u>

Statement of Changes in Fiduciary Net Assets - Trust Funds

At June 30, 2011

	Cemetery Memorial
Additions	
Investment Earnings	
Interest	\$ 5
Net Assets - Beginning of Year	<u>1,361</u>
Net Assets - End of Year	<u>\$ 1,366</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.

The financial statements of the City of Marion have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

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 that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility of the participating governments. 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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 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.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

The Debt Service Fund is used to account for property tax and other revenue to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund accounts for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City had the following major proprietary funds:

Enterprise Fund

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

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

Measurement Focus and Basis of Accounting

The government-wide financial and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the 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 satisfied.

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, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenue.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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 funds' principal ongoing operations. The principal operating revenue of the City's enterprise funds is user fees and charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

Assets, Liabilities and Fund Equity

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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, 2011 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, 2009 assessed property valuations, is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2010.

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, 2011, 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, 2011. 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, fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in other spendable classifications.

(2) Cash and Pooled Investments

The City's deposits at June 30, 2011 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.

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

On June 30, 2011, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$4,908,122 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The City's cash and investments at June 30, 2011 were as follows:

Cash	\$ 16,582,457
Pooled cash investments - Iowa Public Agency Investment Trust	4,908,122
Money market accounts	8,168,992
U.S. Instrumentalities	
Original maturities 5 years or less	244,000
Original maturities 6 to 10 years	12,321
Original maturities 10+ years	12,574,746
Total	<u>\$ 42,490,638</u>

Notes to the Financial Statements

(2) Cash and Pooled Investments

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, 2011 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, 2011 totaled \$48,451.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 65,454,267	\$ 4,382,228	\$ —	\$ 69,836,495
Construction in progress (as restated, see Note 20).....	<u>6,612,801</u>	<u>11,642,602</u>	<u>3,578,997</u>	<u>14,676,406</u>
Total Capital Assets Not Being Depreciated.....	<u>72,067,068</u>	<u>16,024,830</u>	<u>3,578,997</u>	<u>84,512,901</u>
Capital Assets Being Depreciated				
Buildings.....	17,243,269	148,521	—	17,391,790
Improvements other than buildings	97,055,547	7,744,376	384,555	104,415,368
Equipment	<u>9,818,508</u>	<u>978,427</u>	<u>201,541</u>	<u>10,595,394</u>
Total Capital Assets Being Depreciated.....	<u>124,117,324</u>	<u>8,871,324</u>	<u>586,096</u>	<u>132,402,552</u>
Less Accumulated Depreciation for				
Buildings.....	4,166,666	412,922	—	4,579,588
Improvements other than buildings	37,353,515	3,084,918	360,297	40,078,136
Equipment	<u>5,410,197</u>	<u>931,161</u>	<u>187,082</u>	<u>6,154,276</u>
Total Accumulated Depreciation...	<u>46,930,378</u>	<u>4,429,001</u>	<u>547,379</u>	<u>50,812,000</u>
Net Capital Assets Being Depreciated	<u>77,186,946</u>	<u>4,442,323</u>	<u>38,717</u>	<u>81,590,552</u>
Net Governmental Activities				
Capital Assets.....	<u>\$ 149,254,014</u>	<u>\$ 20,467,153</u>	<u>\$ 3,617,714</u>	<u>\$ 166,103,453</u>

Notes to the Financial Statements

(4) Capital Assets

	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Construction in progress (as restated, see Note 20).....	\$ 48,308	\$ 417,414	\$ 18,332	\$ 447,390
Capital Assets Being Depreciated				
Buildings	8,300	—	—	8,300
Equipment	2,312,507	623,963	264,798	2,671,672
Distribution system (as restated, see Note 20).....	27,509,483	615,058	—	28,124,541
Storm sewer system	1,286,564	2,195	—	1,288,759
Total Capital Assets Being Depreciated.....	<u>31,116,854</u>	<u>1,241,216</u>	<u>264,798</u>	<u>32,093,272</u>
Less Accumulated Depreciation for				
Buildings	360	332	—	692
Equipment	1,264,572	258,225	240,726	1,282,071
Distribution system (as restated, (see Note 20)	12,995,395	389,096	—	13,384,491
Storm sewer system	67,452	16,070	—	83,522
Total Accumulated Depreciation...	<u>14,327,779</u>	<u>663,723</u>	<u>240,726</u>	<u>14,750,776</u>
Net Capital Assets Being Depreciated	<u>16,789,075</u>	<u>577,493</u>	<u>24,072</u>	<u>17,342,496</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 16,837,383</u>	<u>\$ 994,907</u>	<u>\$ 42,404</u>	<u>\$ 17,789,886</u>

Depreciation expense was charged by the City as follows for the year ended June 30, 2011:

Governmental Activities	
Public safety.....	\$ 586,452
Public works	2,878,417
Culture and recreation.....	731,205
General government	232,927
Total Governmental Activities Depreciation Expense	<u>\$ 4,429,001</u>
Business-Type Activities	
Sewer rental	\$ 428,613
Solid waste.....	219,041
Storm water management.....	16,069
Total Business-Type Activities Depreciation Expense	<u>\$ 663,723</u>

Notes to the Financial Statements

(5) Long-Term Debt Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2011:

	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	\$ 19,465,000	\$ —	\$ 2,380,000	\$ 17,085,000	\$ 2,470,000	2.000 - 4.00%
General obligation notes ..	241,806	—	32,832	208,974	34,347	4.375 - 5.20
Nonbonded indebtedness	198,784	25,000	25,000	198,784	24,982	3.23
Interfund loan	304,032	—	98,608	205,424	101,318	2.75
Compensated absences ..	2,196,837	350,997	104,080	2,443,754	2,668	N/A
Net OPEB liability	579,399	211,951	—	791,350	—	N/A
Totals.....	<u>\$ 22,985,858</u>	<u>\$ 587,948</u>	<u>\$ 2,640,520</u>	<u>\$ 20,933,286</u>	<u>\$ 2,633,315</u>	

Business-Type Activities

Compensated absences ..	<u>\$ 17,194</u>	<u>\$ 1,867</u>	<u>\$ —</u>	<u>\$ 19,061</u>	<u>\$ 19,061</u>
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Bonds Payable

Eight issues of unmatured general obligation bonds totaling \$17,085,000 were outstanding at June 30, 2011. General obligation bonds bear interest at rates ranging from 2% to 4% and mature in varying annual amounts ranging from \$75,000 to \$610,000, with the final maturities due in the year ending June 30, 2025.

Details of the City's general obligation bonds payable at June 30, 2011 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-11
General Obligation Bonds						
Corporate purposes	12-1-03	3.35 - 3.70%	6-1-16	\$295,000 - \$370,000	\$3,100,000	\$ 1,745,000
Corporate purposes	12-1-04	3.35 - 3.65	6-1-15	70,000 - 80,000	700,000	310,000
Corporate purposes	12-1-05	3.55 - 3.80	6-1-17	300,000 - 385,000	3,300,000	2,090,000
Refunding corporate purpose	10-15-07	3.55	6-1-12	470,000 - 485,000	2,250,000	485,000
Corporate purpose	12-15-07	3.45 - 3.80	6-1-18	455,000 - 610,000	5,000,000	3,780,000
Refunding corporate purpose	4-30-09	2.00 - 2.70	6-1-14	260,000 - 275,000	1,310,000	800,000
Corporate purpose	12-15-09	2.00 - 3.13	6-1-20	190,000 - 245,000	2,120,000	1,930,000
Corporate purpose	12-15-09	3.00 - 4.00	6-1-25	340,000 - 535,000	6,285,000	5,945,000
						<u>\$ 17,085,000</u>

Year Ending June 30,	Principal	Interest	Total
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.....	1,890,000	303,714	2,193,714
2017-2021	4,625,000	780,577	5,405,577
2022-2026	2,020,000	206,000	2,226,000
	<u>\$ 17,085,000</u>	<u>\$ 3,173,596</u>	<u>\$ 20,258,596</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

General Obligation Notes

Two issues of unmatured general obligation notes totaling \$208,974 were outstanding at June 30, 2011. 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, 2011 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-11
General Obligation Notes						
Geo-Thermal note	7-20-06	5.200%	7-1-16	\$ 369 - \$ 7,508	\$ 60,255	\$ 34,297
Geo-Thermal note	12-28-06	4.375	1-1-17	20,258 - 33,638	285,577	174,677
						<u>\$ 208,974</u>

Year Ending June 30,	Principal	Interest	Total
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.....	41,146	1,921	43,067
2017.....	20,626	297	20,923
	<u>\$ 208,974</u>	<u>\$ 27,284</u>	<u>\$ 236,258</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 6-30-11
General	Capital Projects	\$200,000	\$ 102,712
Enterprise - Storm Water Management	Capital Projects	200,000	102,712

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, 2011 is as follows:

Transfer to	Transfer From	Amount
General Fund	Special Revenue	
	Road Use	\$ 376,078
	Trust and Agency (Employee Benefits)	2,856,722
	Proprietary	
	Sewer Rental	173,159
	Nonmajor Proprietary Funds	<u>166,273</u>
		<u>3,572,232</u>
Road Use Tax	Special Revenue	
	Trust and Agency Employee Benefits	<u>383,784</u>
Trust and Agency (Employee Benefits)	General Fund	29,214
	Special Revenue	
	Road Use	28,883
	Proprietary	
	Sewer Rental	11,340
	Nonmajor Proprietary Funds	<u>20,305</u>
		<u>89,742</u>
Nonmajor Special Revenue	Special Revenue	
	Road Use	158,140
	Nonmajor Capital Projects	<u>35,000</u>
		<u>193,140</u>
Debt Service	Proprietary	
	Sewer Rental	17,872
	Nonmajor Proprietary Funds	72,688
	Capital Projects	350,000
	Tax Increment Financing	<u>243,519</u>
		<u>684,079</u>
Capital Projects	General Fund	<u>250,000</u>
Nonmajor Proprietary Fund	Nonmajor Proprietary Fund	<u>294,608</u>
		<u>\$ 5,467,585</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, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General	Fiduciary Cemetery Memorial	<u>\$ 631</u>

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

(9) Pension and Retirement Benefits

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 19.9% of earnable compensation. Contribution rates are established by State statute. The City's contributions to the Plan for the years ended June 30, 2011, 2010 and 2009 were \$862,844, \$702,481 and \$742,377, 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 4.5% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$391,774, \$358,230 and \$319,179, 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 157 active and 18 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, 2011, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution.....	\$ 314,317
Interest on net OPEB obligation	12,400
Adjustment to annual required contribution	<u>(83,399)</u>
Annual OPEB Cost	243,318
Contributions made	<u>(31,367)</u>
Increase in Net OPEB Obligation.....	211,951
Net OPEB Obligation - Beginning of Year	<u>579,399</u>
Net OPEB Obligation - End of Year.....	<u>\$ 791,350</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, 2011.

For the year ended June 30, 2011, the City contributed \$31,367 to the medical plan.

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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 292,864	0%	\$ 292,864
2010	286,535	0	579,399
2011	211,951	0	791,350

Notes to the Financial Statements

(10) Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$2,820,489 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,820,489. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,915,000 and the ratio of the UAAL to covered payroll was 28.5%. As of June 30, 2011, 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, 2010 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 6-30-11
Primary Government	
Sick leave	\$ 1,065,079
Vacation and personal leave	1,026,459
Compensatory time	<u>352,216</u>
	<u>\$ 2,443,754</u>
Component Unit	
Sick leave	\$ —
Vacation.....	<u>45,650</u>
	<u>\$ 45,650</u>

The above liabilities have been computed based on rates of pay as of June 30, 2011.

(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, 2011 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, 2011:

	Primary Government	Discretely Presented Component Unit	Total
Claims paid during the year.....	\$ 1,424,177	\$ 106,280	\$ 1,530,457
Estimated claims incurred but unpaid at June 30, 2011....	170,739	16,261	187,000

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 \$396 per month single or \$990 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, 2011, the Marion Water Department collected and remitted to the City \$3,403,804 for sewer and \$1,334,491 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$88,002, of which \$7,226 was payable at June 30, 2011.

(15) Risk Management

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, 2011 were \$105,619.

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, 2011, 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, 2011, the City had entered into several construction contracts totaling approximately \$3.1 million for various street projects and the Marion Enterprise Center project.

Subsequent to June 30, 2011, the City entered into several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$10.6 million.

The City has approved \$9.3 million in general obligation urban renewal street improvement bonds, \$4.6 million in general obligation corporate purpose bonds and an internal loan agreement for ESCO development incentive of \$200,000. The City has also entered into a lease-purchase agreement in an amount not to exceed \$12 million for general obligation urban renewal for a new police station.

Management has evaluated subsequent events through March 15, 2012, the date which the financial statements were available to be issued.

(18) Deficit Balances

At June 30, 2011, the Debt Service Fund had a deficit fund balance of \$26,830. 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.

Notes to the Financial Statements

(19) Accounting Change/Restatement

Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	General	Internal Service Fund	Police and Fire Retirement	Employee Benefit
Balances - June 30, 2010, as previously reported.....	\$ 9,479,477	\$ 1,014,832	\$ 783,759	\$ 1,581,159
Change in fund type classification per implementation of GASB Statement No. 54	783,759	1,581,159	(783,759)	(1,581,159)
Balances - July 1, 2010, as Restated	<u>\$ 10,263,236</u>	<u>\$ 2,595,991</u>	<u>\$ —</u>	<u>\$ —</u>

(20) Prior Period Restatement

During the year ended June 30, 2011, management determined that fund balances were incorrect due to capital assets and accounts receivable being overstated as of June 30, 2010. The Sewer Rental capital assets were overstated by \$956,114, the Sewer Rental Replacement capital assets were overstated by \$258,957 and the Storm Water Management Fund's capital assets were overstated by \$215,071. Additionally, the Sewer Disposal Fund accounts receivable was overstated by \$135,000. The correction in accounting for these items had the following effect on beginning fund balances at July 1, 2010.

	Sewer Rental	Sewer Rental Replacement	Storm Water Management	Sewer Disposal
Balances - June 30, 2010, as previously reported.....	\$ 17,476,049	\$ 3,900,678	\$ 3,466,616	\$ 2,491,779
Restatement for capital assets	(956,115)	(258,957)	(215,071)	—
Restatement for accounts receivable ..	—	—	—	(135,000)
Balances - July 1, 2010, as Restated	<u>\$ 16,519,934</u>	<u>\$ 3,641,721</u>	<u>\$ 3,251,545</u>	<u>\$ 2,356,779</u>

The above changes in capital assets also had the following effect on business-type activities capital assets and depreciation as noted below:

	Capital Assets Being Depreciated - Distribution System	Capital Assets Not Being Depreciated	Accumulated Depreciation for Distribution System
Balances - June 30, 2010, as previously reported.....	\$ 28,516,968	\$ 522,336	\$ 13,046,765
Restatement for capital asset.....	(1,007,485)	(474,028)	(51,370)
Balances - July 1, 2010, as Restated	<u>\$ 27,509,483</u>	<u>\$ 48,308</u>	<u>\$ 12,995,395</u>

Notes to the Financial Statements

(20) Prior Period Restatement

During the year ended June 30, 2011, management also determined that the governmental activities net assets and capital assets not being depreciated were understated by \$31,209. The correction for this item had the following effect on beginning fund balances at July 1, 2010.

	Governmental Activities Net Assets	Capital Assets Not Being Depreciated - Construction in Progress
Balances - June 30, 2010, as previously reported	\$ 160,548,109	\$ 6,581,592
Restatement for capital asset	31,209	31,209
Balances - July 1, 2010, as Restated	<u>\$ 160,579,318</u>	<u>\$ 6,612,801</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, 2011

	Actual			Original Budget	Amended Budget	Over (Under) Budget
	Governmental Fund Types	Enterprise Funds	Total			
Receipts						
Property taxes	\$ 15,673,680	\$ —	\$ 15,673,680	\$ 15,430,980	\$ 15,430,980	\$ 242,700
TIF collections	671,582	—	671,582	620,221	620,221	51,361
Other city taxes	4,268,291	—	4,268,291	4,347,917	4,347,917	(79,626)
Licenses and permits	587,371	—	587,371	548,425	548,425	38,946
Use of money and property	704,129	96,487	800,616	726,100	726,100	74,516
Intergovernmental	7,550,481	—	7,550,481	9,494,011	9,594,011	(2,043,530)
Charges for services	1,196,292	7,588,147	8,784,439	9,001,324	9,001,324	(216,885)
Special assessments	18,054	—	18,054	20,325	20,325	(2,271)
Miscellaneous	2,013,098	—	2,013,098	2,373,326	2,373,326	(360,228)
Total Receipts	32,682,978	7,684,634	40,367,612	42,562,629	42,662,629	(2,295,017)
Disbursements						
Public safety	8,061,001	—	8,061,001	8,198,496	8,498,496	(437,495)
Public works	3,569,597	—	3,569,597	3,316,685	3,591,685	(22,088)
Culture and recreation	3,431,117	—	3,431,117	3,549,078	3,799,078	(367,961)
Community and economic development	1,562,630	—	1,562,630	1,621,012	1,621,012	(58,382)
General government	3,524,182	—	3,524,182	3,587,629	3,637,629	(113,447)
Debt service	3,101,885	—	3,101,885	3,102,284	3,103,284	(1,399)
Capital projects	11,837,490	—	11,837,490	15,184,322	18,434,322	(6,596,832)
Business-type activities	—	8,715,338	8,715,338	8,765,674	10,365,674	(1,650,336)
Total Disbursements ..	35,087,902	8,715,338	43,803,240	47,325,180	53,051,180	(9,247,940)
Receipts Over (Under) Disbursements	(2,404,924)	(1,030,704)	(3,435,628)	(4,762,551)	(10,388,551)	6,952,923
Other Financing Sources, Net						
	532,676	1,355,033	1,887,709	—	2,100,000	(212,291)
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses						
	(1,872,248)	324,329	(1,547,919)	(4,762,551)	(8,288,551)	6,740,632
Balance - Beginning of Year, as Restated	37,270,234	8,864,327	46,134,561	32,648,661	46,134,561	—
Balance - End of Year	\$ 35,397,986	\$ 9,188,656	\$ 44,586,642	\$ 27,886,110	\$ 37,846,010	\$ 6,740,632

The budgetary comparison is presented as required supplementary information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund.

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 and business-type. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, permanent funds and enterprise 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 \$5,726,000. This budget amendment is reflected in the final budgeted amounts.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2011

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue	\$ 32,682,978	\$ (1,737,359)	\$ 30,945,619
Expenditures.....	<u>35,087,902</u>	<u>(2,284,863)</u>	<u>32,803,039</u>
Net	(2,404,924)	547,504	(1,857,420)
Other financing sources (uses).....	532,676	103,319	635,995
Beginning fund balances, as restated	<u>37,270,234</u>	<u>(5,708,543)</u>	<u>31,561,691</u>
Ending Fund Balances.....	<u>\$ 35,397,986</u>	<u>\$ (5,057,720)</u>	<u>\$ 30,340,266</u>

	Proprietary Fund Types			
	Cash Basis	Adjustment for Component Unit	Accrual Adjustments	GAAP Basis
Revenue	\$ 7,684,634	\$ (3,086,014)	\$ 1,166,421	\$ 5,765,041
Expenditures.....	<u>8,715,338</u>	<u>(4,611,315)</u>	<u>393,996</u>	<u>4,498,019</u>
Net.....	(1,030,704)	1,525,301	772,425	1,267,022
Other financing sources (uses).....	1,355,033	(1,887,709)	(193,061)	(725,737)
Beginning fund balances, as restated	<u>8,864,327</u>	<u>(1,473,487)</u>	<u>18,983,725</u>	<u>26,374,565</u>
Ending Fund Balances.....	<u>\$ 9,188,656</u>	<u>\$ (1,835,895)</u>	<u>\$ 19,563,089</u>	<u>\$ 26,915,850</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
2011	7-1-10	—	2,820,489	2,820,489	0	9,915,000	28.5

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, 2011

	Special Revenue			Capital Projects			Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Park Development	Maintenance Bond	Subdivision Development		
Assets								
Cash and pooled investments	\$ 355,761	\$ 137,286	\$ 56,172	\$ 149,022	\$ 272,829	\$ 10,429	\$ 24,214	\$ 1,005,713
Investments	10,806	—	—	—	—	—	122,176	132,982
Receivables								
Accounts	—	3,200	—	—	—	—	—	3,200
Interest	47	—	—	—	—	—	—	47
Property Taxes								
Delinquent	—	4,330	—	—	—	—	—	4,330
Total Assets	<u>\$ 366,614</u>	<u>\$ 144,816</u>	<u>\$ 56,172</u>	<u>\$ 149,022</u>	<u>\$ 272,829</u>	<u>\$ 10,429</u>	<u>\$ 146,390</u>	<u>\$ 1,146,272</u>
Liabilities								
Accounts payable	\$ —	\$ 15,697	\$ 1,005	\$ 926	\$ —	\$ —	\$ —	\$ 17,628
Fund Balances								
Nonspendable								
Cemetery perpetual care.....	—	—	—	—	—	—	146,390	146,390
Restricted for								
Streets.....	366,614	—	—	—	—	—	—	366,614
Capital projects	—	—	—	148,096	272,829	10,429	—	431,354
Other purposes	—	129,119	55,167	—	—	—	—	184,286
Total Fund Balances	<u>366,614</u>	<u>129,119</u>	<u>55,167</u>	<u>148,096</u>	<u>272,829</u>	<u>10,429</u>	<u>146,390</u>	<u>1,128,644</u>
Total Liabilities and Fund Balances	<u>\$ 366,614</u>	<u>\$ 144,816</u>	<u>\$ 56,172</u>	<u>\$ 149,022</u>	<u>\$ 272,829</u>	<u>\$ 10,429</u>	<u>\$ 146,390</u>	<u>\$ 1,146,272</u>

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

Year Ended June 30, 2011

	Special Revenue			Capital Projects			Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Park Development	Maintenance Bond	Subdivision Development		
Revenue								
Tax increment financing	\$ —	\$ 672,314	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 672,314
Use of money and property	2,357	—	313	664	1,145	466	—	4,945
Intergovernmental.....	—	—	68,634	—	—	—	—	68,634
Charges for services.....	—	—	—	—	16,339	—	—	16,339
Miscellaneous.....	—	—	—	—	—	—	3,105	3,105
Total Revenue.....	<u>2,357</u>	<u>672,314</u>	<u>68,947</u>	<u>664</u>	<u>17,484</u>	<u>466</u>	<u>3,105</u>	<u>765,337</u>
Expenditures								
Operating								
Community and economic development.....	—	407,366	106,754	—	—	—	—	514,120
Capital projects.....	<u>150,253</u>	<u>—</u>	<u>—</u>	<u>36,135</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>186,388</u>
Total Expenditures.....	<u>150,253</u>	<u>407,366</u>	<u>106,754</u>	<u>36,135</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>700,508</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures.....	<u>(147,896)</u>	<u>264,948</u>	<u>(37,807)</u>	<u>(35,471)</u>	<u>17,484</u>	<u>466</u>	<u>3,105</u>	<u>64,829</u>
Other Financing Sources (Uses)								
Operating transfers in.....	158,140	—	—	35,000	—	—	—	193,140
Operating transfers out.....	<u>—</u>	<u>(243,519)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(243,519)</u>
Total Other Financing Sources (Uses).....	<u>158,140</u>	<u>(243,519)</u>	<u>—</u>	<u>35,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(50,379)</u>
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	10,244	21,429	(37,807)	(471)	17,484	466	3,105	14,450
Fund Balances - Beginning of Year.....	<u>356,370</u>	<u>107,690</u>	<u>92,974</u>	<u>148,567</u>	<u>255,345</u>	<u>9,963</u>	<u>143,285</u>	<u>1,114,194</u>
Fund Balances - End of Year.....	<u>\$ 366,614</u>	<u>\$ 129,119</u>	<u>\$ 55,167</u>	<u>\$ 148,096</u>	<u>\$ 272,829</u>	<u>\$ 10,429</u>	<u>\$ 146,390</u>	<u>\$ 1,128,644</u>

Combining Schedule of Net Assets - Nonmajor Enterprise Funds

At June 30, 2011

	Solid Waste	Solid Waste Replacement	Storm Water Management	Total
Assets				
Current Assets				
Cash and pooled investments	\$ 79,149	\$ 130,646	\$ 2,025,559	\$ 2,235,354
Investments	1,228,711	402,000	—	1,630,711
Receivables				
Accounts	92,182	—	—	92,182
Unbilled revenue	133,781	—	—	133,781
Interest	1,792	1,954	—	3,746
Interfund loan	—	—	50,659	50,659
Total Current Assets	<u>1,535,615</u>	<u>534,600</u>	<u>2,076,218</u>	<u>4,146,433</u>
Noncurrent Assets				
Interfund loan.....	—	—	52,053	52,053
Capital assets (net of accumulated depreciation)	887,509	—	1,205,236	2,092,745
Capital assets not being depreciated ..	—	—	269,797	269,797
Total Noncurrent Assets	<u>887,509</u>	<u>—</u>	<u>1,527,086</u>	<u>2,414,595</u>
Total Assets	<u>\$ 2,423,124</u>	<u>\$ 534,600</u>	<u>\$ 3,603,304</u>	<u>\$ 6,561,028</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 93,711	\$ —	\$ 180,818	\$ 274,529
Accrued payroll.....	8,504	—	—	8,504
Total Liabilities	<u>102,215</u>	<u>—</u>	<u>180,818</u>	<u>283,033</u>
Net Assets				
Invested in capital assets, net of related debt	887,509	—	1,475,033	2,362,542
Unrestricted	1,433,400	534,600	1,947,453	3,915,453
Total Net Assets	<u>2,320,909</u>	<u>534,600</u>	<u>3,422,486</u>	<u>6,277,995</u>
Total Liabilities and Net Assets	<u>\$ 2,423,124</u>	<u>\$ 534,600</u>	<u>\$ 3,603,304</u>	<u>\$ 6,561,028</u>

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

Year Ended June 30, 2011

	Solid Waste	Solid Waste Replacement	Storm Water Management	Total
Operating Revenue				
Charges for services.....	\$ 1,273,844	\$ 200,164	\$ 427,269	\$ 1,901,277
Special assessments.....	<u>117</u>	<u>—</u>	<u>—</u>	<u>117</u>
Total Operating Revenue.....	<u>1,273,961</u>	<u>200,164</u>	<u>427,269</u>	<u>1,901,394</u>
Operating Expenses				
Personal services	753,498	—	—	753,498
Services and commodities.....	577,920	—	53,264	631,184
Depreciation	<u>219,041</u>	<u>—</u>	<u>16,069</u>	<u>235,110</u>
Total Operating Expenses	<u>1,550,459</u>	<u>—</u>	<u>69,333</u>	<u>1,619,792</u>
Operating Income (Loss)	(276,498)	200,164	357,936	281,602
Nonoperating Revenue				
Investment income	<u>26,325</u>	<u>24,458</u>	<u>6,066</u>	<u>56,849</u>
Income (Loss) Before Transfers	(250,173)	224,622	364,002	338,451
Transfers in.....	294,608	—	—	294,608
Transfers out	<u>(80,305)</u>	<u>(294,608)</u>	<u>(193,061)</u>	<u>(567,974)</u>
Change in Net Assets.....	(35,870)	(69,986)	170,941	65,085
Net Assets - Beginning of Year, as Restated (Note 20).....	<u>2,356,779</u>	<u>604,586</u>	<u>3,251,545</u>	<u>6,212,910</u>
Net Assets - End of Year.....	<u>\$ 2,320,909</u>	<u>\$ 534,600</u>	<u>\$ 3,422,486</u>	<u>\$ 6,277,995</u>

Combining Schedule of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2011

	Solid Waste	Solid Waste Replacement	Storm Water Management	Total
Cash Flows From Operating Activities				
Receipts from customers.....	\$ 1,257,853	\$ 200,285	\$ 427,269	\$ 1,885,407
Payments to employees	(762,707)	—	—	(762,707)
Payments to suppliers	<u>(519,579)</u>	<u>—</u>	<u>109,825</u>	<u>(409,754)</u>
Net Cash Provided by Operating Activities	<u>(24,433)</u>	<u>200,285</u>	<u>537,094</u>	<u>712,946</u>
Cash Flows From Noncapital Financing Activities				
Operating transfers, net	<u>214,303</u>	<u>(294,608)</u>	<u>(193,061)</u>	<u>(273,366)</u>
Cash Flows From Capital and Related Financing Activities				
Cash received from interfund loan repayment	—	—	49,304	49,304
Purchase of capital assets	(318,679)	—	(239,820)	(558,499)
Disposal of capital assets	<u>24,071</u>	<u>—</u>	<u>—</u>	<u>24,071</u>
Net Cash Used in Capital and Related Financing Activities	<u>(294,608)</u>	<u>—</u>	<u>(190,516)</u>	<u>(485,124)</u>
Cash Flows From Investing Activities				
Interest received	26,305	24,458	6,630	57,393
Purchase of government securities	(3,698)	—	—	(3,698)
Sale of government securities	<u>—</u>	<u>—</u>	<u>135,110</u>	<u>135,110</u>
Net Cash Provided by Investing Activities.....	<u>22,607</u>	<u>24,458</u>	<u>141,740</u>	<u>188,805</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	<u>(82,131)</u>	<u>(69,865)</u>	<u>295,257</u>	<u>143,261</u>
Cash and Cash Equivalents at Beginning of Year	<u>161,280</u>	<u>200,511</u>	<u>1,730,302</u>	<u>2,092,093</u>
Cash and Cash Equivalents at End of Year	<u>\$ 79,149</u>	<u>\$ 130,646</u>	<u>\$ 2,025,559</u>	<u>\$ 2,235,354</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income.....	\$ (276,498)	\$ 200,164	\$ 357,936	\$ 281,602
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities				
Depreciation.....	219,041	—	16,069	235,110
(Increase) decrease in receivables	(16,108)	121	—	(15,987)
Increase (decrease) in accounts payable	58,341	—	163,089	221,430
Decrease in accrued payroll	<u>(9,209)</u>	<u>—</u>	<u>—</u>	<u>(9,209)</u>
Net Cash Provided by Operating Activities	<u>\$ (24,433)</u>	<u>\$ 200,285</u>	<u>\$ 537,094</u>	<u>\$ 712,946</u>

Combining Schedule of Net Assets - Nonmajor Internal Service Funds ————

At June 30, 2011

	Employee Benefit	Health Insurance	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 691,358	\$ 1,209,901	\$ 1,901,259
Investments	884,253	—	884,253
Receivables			
Accounts	—	7,603	7,603
Interest	4,030	—	4,030
Total Current Assets	<u>1,579,641</u>	<u>1,217,504</u>	<u>2,797,145</u>
Total Assets	<u>\$ 1,579,641</u>	<u>\$ 1,217,504</u>	<u>\$ 2,797,145</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 3,150	\$ 80,822	\$ 83,972
Self-insurance estimated claims	—	170,739	170,739
Reinsurance premiums payable	—	41,817	41,817
Total Current Liabilities	<u>3,150</u>	<u>293,378</u>	<u>296,528</u>
Net Assets			
Unrestricted	<u>1,576,491</u>	<u>924,126</u>	<u>2,500,617</u>
Total Liabilities and Net Assets	<u>\$ 1,579,641</u>	<u>\$ 1,217,504</u>	<u>\$ 2,797,145</u>

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

Year Ended June 30, 2011

	Employee Benefit	Health Insurance	Total
Operating Revenue			
Miscellaneous revenue.....	\$ —	\$ 1,732,332	\$ 1,732,332
Operating Expenses			
Services and commodities.....	<u>146,700</u>	<u>1,823,038</u>	<u>1,969,738</u>
Operating Income (Loss)	(146,700)	(90,706)	(237,406)
Nonoperating Revenue			
Investment income	<u>52,290</u>	<u>—</u>	<u>52,290</u>
Income (Loss) Before Transfers	(94,410)	(90,706)	(185,116)
Transfers in.....	<u>89,742</u>	<u>—</u>	<u>89,742</u>
Change in Net Assets	(4,668)	(90,706)	(95,374)
Net Assets - Beginning of Year, as Restated (Note 20)	<u>1,581,159</u>	<u>1,014,832</u>	<u>2,595,991</u>
Net Assets - End of Year	<u>\$ 1,576,491</u>	<u>\$ 924,126</u>	<u>\$ 2,500,617</u>

Combining Schedule of Cash Flows - Nonmajor Internal Service Funds ▬

Year Ended June 30, 2011

	Employee Benefit	Health Insurance	Total
Cash Flows From Operating Activities			
Receipts from customers.....	\$ —	\$ 1,736,438	\$ 1,736,438
Payments to suppliers	<u>(149,118)</u>	<u>(1,789,891)</u>	<u>(1,939,009)</u>
Net Cash Provided by Operating Activities	<u>(149,118)</u>	<u>(53,453)</u>	<u>(202,571)</u>
Cash Flows From Noncapital Financing Activities			
Operating transfers.....	<u>89,742</u>	<u>—</u>	<u>89,742</u>
Cash Flows From Investing Activities			
Interest received.....	<u>52,247</u>	<u>—</u>	<u>52,247</u>
Net Decrease in Cash and Cash Equivalents ...	(7,129)	(53,453)	(60,582)
Cash and Cash Equivalents at Beginning of Year	<u>1,582,740</u>	<u>1,263,354</u>	<u>2,846,094</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,575,611</u>	<u>\$ 1,209,901</u>	<u>\$ 2,785,512</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income.....	\$ (146,700)	\$ (90,706)	\$ (237,406)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities			
Decrease in receivables.....	—	4,106	4,106
Increase (decrease) in accounts payable ...	<u>(2,418)</u>	<u>33,147</u>	<u>30,729</u>
Net Cash Provided by Operating Activities	<u>\$ (149,118)</u>	<u>\$ (53,453)</u>	<u>\$ (202,571)</u>

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

Years Ended June 30, 2004 Through 2011

	2011	2010	2009	2008	2007	2006	2005	2004
Revenue								
Property taxes	\$ 15,638,561	\$ 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	5,238,300	4,531,109	925,485	856,874	822,768	869,887	694,740	342,128
Special assessments.....	18,069	19,323	21,446	22,848	23,716	24,340	59,444	12,795
Licenses and permits.....	573,802	541,439	542,547	532,826	528,180	592,713	604,373	545,391
Use of money and property	658,559	715,090	874,905	1,135,512	1,198,796	1,089,406	916,855	657,703
Intergovernmental.....	7,951,255	5,677,970	3,693,796	3,752,935	2,943,735	3,946,362	3,139,845	3,423,035
Charges for service	808,083	432,527	408,310	367,322	394,383	388,304	357,767	384,108
Miscellaneous.....	53,871	365,070	318,639	377,097	287,072	409,139	375,854	306,974
Total Revenue	\$ 30,940,500	\$ 27,140,236	\$ 21,221,655	\$ 19,866,114	\$ 18,711,328	\$ 19,146,230	\$ 17,062,906	\$ 15,913,134
Expenditures								
Operating								
Public safety.....	\$ 7,989,669	\$ 7,907,480	\$ 7,225,455	\$ 7,443,939	\$ 6,870,973	\$ 6,766,956	\$ 6,246,486	\$ 5,655,995
Public works.....	3,177,611	3,206,090	2,988,781	2,969,549	2,563,142	2,597,935	2,375,455	2,189,523
Culture and recreation	3,375,571	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.....	1,566,522	1,631,865	1,784,298	1,319,293	1,437,522	1,523,641	1,061,538	1,090,282
General government	1,720,425	1,784,151	1,660,215	1,494,061	1,776,781	1,281,742	1,248,325	1,245,788
Debt service.....	3,110,244	2,715,648	3,761,247	4,106,061	1,853,090	1,902,207	1,970,226	1,769,025
Capital projects.....	11,862,997	4,853,756	5,540,965	2,380,396	4,209,427	6,899,597	4,666,646	2,118,065
Total Expenditures	\$ 32,803,039	\$ 25,403,378	\$ 25,986,846	\$ 22,568,076	\$ 21,323,612	\$ 23,513,454	\$ 19,846,426	\$ 16,304,334

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

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/Entitlement Grants	14.218	08-HSG-033	\$ 100,138
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251		<u>9,684</u>
Total U.S. Department of Housing and Urban Development			<u>109,822</u>
U.S. Department of Justice			
Direct			
Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004		17,135
Indirect			
Pass-Through California Emergency Management Agency			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	2009-F5012-IA-SB	<u>40,679</u>
Total U.S. Department of Justice			<u>57,814</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	47,296
ARRA - Highway Planning and Construction	20.205	Various	<u>2,452,714</u>
			<u>2,500,010</u>
Pass-Through Iowa Department of Public Safety			
State and Community Highway Safety	20.600	Various	<u>34,481</u>
Total U.S. Department of Transportation			<u>2,534,491</u>
U.S. Environmental Protection Agency			
Direct			
Brownfields Assessment and Cleanup Cooperative Agreements.....	66.818	Various	<u>190,924</u>
U.S. Department of Homeland Security			
Direct			
Disaster Grants - Public Assistance			
Presidentially Declared Disasters.....	97.036		467
Hazard Mitigation Grants	97.039		<u>211,409</u>
Total Department of Homeland Security			<u>211,876</u>
Total Expenditures of Federal Awards			<u>\$ 3,104,927</u>

Schedule of Expenditures of Federal Awards ---

Year Ended June 30, 2011

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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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 15, 2012. 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 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 deficiencies in internal control described in Part II of the accompanying schedule of findings and questioned costs as items 11-II-IC-1 and 11-II-IC-2 to be material weaknesses.


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, 2011 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 15, 2012

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each 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 could have a direct and material effect on major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

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 deficiencies in internal control over compliance described in Part III of the accompanying schedule of findings and questioned costs reported as items 11-III-IC-1 and 11-III-IC-2 to be material weaknesses.

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 15, 2012

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

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, 2011

Part II: Findings Related to the Financial Statements:

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

11-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.

11-II-IC-2 Financial Statement Preparation

Auditor's Finding and Recommendation - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with accounting principles generally accepted in the United States of America. As is inherent in many entities of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully prepare the financial statements and the related disclosures.

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

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

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

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.

11-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 11-II-IC-1 for additional information.

Part IV: Findings Related to Statutory Reporting

- 11-IV-A Certified Budget** - Disbursements during the year ended June 30, 2011 did not exceed the amounts in the amended budget.
- 11-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.
- 11-IV-C Travel Expense** - No disbursements of the City of Marion money for travel expenses of spouses of City officials or employees were noted.
- 11-IV-D Business Transactions** - No business transactions were noted between the City and City officials or employees.
- 11-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.
- 11-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.
- 11-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.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2011

11-IV-H Compensation Policy

Recommendation - It was noted that one City employee was able to accumulate an unusually large amount of comp time hours this past year which were subsequently paid out after a mid-year raise was granted. In doing so, there was no effort made to match the payout rate with that when the hours were earned, or matching the hours worked with the correct fiscal year. Management should review their comp-time accrual and payout practices and consider adopting a policy specifically addressing these issues.

Response - The City has subsequently adopted a comp-time policy to address these issues.

Conclusion - Response accepted.