

**CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2009**

Table of Contents

Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-10
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Governmental Fund Financial Statements	
Balance Sheet.....	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets...	14
Statement of Revenue, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	16
Proprietary Fund Financial Statements	
Statement of Net Assets	17
Statement of Revenue, Expenses and Changes in Fund Net Assets.....	18
Statement of Cash Flows.....	19
Trust Funds Financial Statements	
Statement of Fiduciary Assets and Liabilities	20
Statement of Changes in Fiduciary Net Assets	21
Notes to the Financial Statements.....	22-40
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.....	41
Schedule of Budgetary Comparison - Budget to GAAP Reconciliation	42
Schedule of Funding Progress for the Retiree Health Plan.....	43
Other Supplementary Information	
Nonmajor Governmental Funds	
Combining Balance Sheet Schedule	44
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	45
Nonmajor Enterprise Funds	
Combining Statement of Net Assets	46
Combining Statement of Revenue, Expenditures and Changes in Fund Net Assets	47
Combining Statement of Cash Flows.....	48
Schedule of Revenue by Source and Expenditures by Function - All Governmental Funds.....	49
Schedule of Expenditures of Federal Awards	50-51
Financial Assistance Section	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	52-53
Independent Auditor's Report on Compliance With Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	54-55
Schedule of Findings and Questioned Costs	56-58

Officials

Name	Title	Term Expires
Paul E. Rehn	Mayor	December 31, 2011
Steve Sprague	Council Member - First Ward	December 31, 2011
Joe Spinks	Council Member - Second Ward	December 31, 2009
Kay A. Lammers	Council Member - Third Ward	December 31, 2011
Craig Adamson	Council Member - Fourth Ward	December 31, 2009
Mary Lou Pazour	Council Member - At-Large	December 31, 2009
Nick Glew	Council Member - At-Large	December 31, 2011
Lon Pluckhahn	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Donald C. Hoskins	City Attorney	Indefinite
Tom Treharne	Director of Planning and Development	Indefinite
Harry Daugherty	Chief of Police	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Terry Jackson	Fire Chief	Civil Service
Susan Kling	Library Director	Indefinite
Richard Fox	Director of Parks and Recreation	Indefinite
Thomas Newbanks	Public Services Director	Indefinite
Robert A. Anderson	Marion Municipal Water Department - Trustee	November 1, 2014
Gregory O. Hapgood	Marion Municipal Water Department - Trustee 2009 Chairperson	November 1, 2010
Mary Ann McComas	Marion Municipal Water Department - Trustee	November 1, 2012
David O. Kalkwarf	Marion Municipal Water Department - Administrator	Retired December 31, 2008
Todd Steigerwaldt	Marion Municipal Water Department - General Manager	Indefinite

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2009, 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, 2009, 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 November 24, 2009 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
Page 2

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 41 and 43 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 years ended June 30, 2008 and 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements and supplemental data for the year 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 and supplemental data. Other supplementary information included on Pages 44 through 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
November 24, 2009

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, 2009. 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, 2009 by \$178.0 million (net assets). Of this amount, \$29.5 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 \$2.5 million.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$9.2 million, or 66.5% 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 \$1,760,000. There were \$1,310,000 of general obligation notes issued during the year and repayment of bond principal of \$3,070,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Marion's basic financial statements. The City of Marion's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

The report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. The governmental activities of the City of Marion include general government, police and fire protection, streets and public buildings operation and maintenance, and parks and recreation activities. The primary business-type activities include solid waste management collection and a sanitary sewer system. The City's only component unit, the Marion Municipal Water Department, is also included in the financial statements and notes.

Government-Wide Financial Statements

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

The Statement of Activities is also included in the government-wide financial statements. The focus of the Statement of Activities is to show how the government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Assets and the Statement of Activities and can be found on Pages 11-12 of this report.

Statement of Net Assets for the Fiscal Year Ended June 30, 2009 and 2008

A condensed version of the Statement of Net Assets as of June 30, 2009 and 2008 follows:

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	2009	2008	2009	2008	2009	2008
Cash and investments	\$ 23,920	\$ 26,125	\$ 8,281	\$ 7,579	\$ 32,201	\$ 33,704
Other assets	15,394	15,045	857	563	16,251	15,608
Capital assets	<u>143,603</u>	<u>140,206</u>	<u>18,344</u>	<u>18,631</u>	<u>161,947</u>	<u>158,837</u>
Total Assets	<u>182,917</u>	<u>181,376</u>	<u>27,482</u>	<u>26,773</u>	<u>210,399</u>	<u>208,149</u>
Current liabilities	18,007	16,925	477	244	18,484	17,169
Noncurrent liabilities	<u>13,841</u>	<u>15,437</u>	<u>—</u>	<u>—</u>	<u>13,841</u>	<u>15,437</u>
Total Liabilities	<u>31,848</u>	<u>32,362</u>	<u>477</u>	<u>244</u>	<u>32,325</u>	<u>32,606</u>
Net Assets						
Invested in capital assets, net of debt	130,255	125,113	18,344	18,631	148,599	143,744
Unrestricted	<u>20,814</u>	<u>23,901</u>	<u>8,661</u>	<u>7,898</u>	<u>29,475</u>	<u>31,799</u>
Total Net Assets	<u>\$ 151,069</u>	<u>\$ 149,014</u>	<u>\$ 27,005</u>	<u>\$ 26,529</u>	<u>\$ 178,074</u>	<u>\$ 175,543</u>

Net assets of governmental activities increased approximately \$2.1 million for the fiscal year 2009. Net assets of business-type activities increased approximately \$0.5 million for the fiscal year 2009. 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 \$21 million at the end of this year.

Statement of Activities for the Fiscal Year Ended June 30, 2009 and 2008

A summary version of the Statement of Activities follows:

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenue						
Charges for services	\$ 1,143	\$ 1,132	\$ 4,732	\$ 4,138	\$ 5,875	\$ 5,270
Operating grants and contributions	893	548	169	—	1,062	548
Capital grants and contributions	2,582	5,078	—	246	2,582	5,324
General Revenue						
Property taxes	14,437	12,821	—	—	14,437	12,821
Other taxes	589	502	—	—	589	502
Franchise fees	337	355	—	—	337	355
Road use taxes	2,179	2,253	—	—	2,179	2,253
Investment income	875	1,135	228	326	1,103	1,461
Miscellaneous revenue	48	119	—	1	48	120
Total Revenue	<u>23,083</u>	<u>23,943</u>	<u>5,129</u>	<u>4,711</u>	<u>28,212</u>	<u>28,654</u>
Program Expenses						
Public safety	7,825	7,884	—	—	7,825	7,884
Public works	5,760	5,639	—	—	5,760	5,639
Culture and recreation	3,788	3,731	—	—	3,788	3,731
Community and economic development	1,839	1,376	—	—	1,839	1,376
General government	1,892	1,596	—	—	1,892	1,596
Interest on long-term debt	540	529	—	—	540	529
Sanitary sewer	—	—	2,506	2,197	2,506	2,197
Solid waste management	—	—	1,531	1,373	1,531	1,373
Total Expenses	<u>21,644</u>	<u>20,755</u>	<u>4,037</u>	<u>3,570</u>	<u>25,681</u>	<u>24,325</u>
Transfers	<u>616</u>	<u>45</u>	<u>(616)</u>	<u>(45)</u>	<u>—</u>	<u>—</u>
Changes in Net Assets	2,055	3,233	476	1,096	2,531	4,329
Beginning net assets	<u>149,014</u>	<u>145,781</u>	<u>26,529</u>	<u>25,433</u>	<u>175,543</u>	<u>171,214</u>
Ending Net Assets	<u>\$ 151,069</u>	<u>\$ 149,014</u>	<u>\$ 27,005</u>	<u>\$ 26,529</u>	<u>\$ 178,074</u>	<u>\$ 175,543</u>

Governmental Activities

Charges for services make up 5.0% of governmental revenues. Operating and capital grants, primarily for street projects and building improvement projects, make up another 15.1% of governmental revenues. The remaining revenue comes from taxes, primarily property taxes and interest revenue.

Business-Type Activities

As expected, charges for services is the primary revenue source for business-type activities. Sanitary sewer fees and solid waste fees are the primary charges for services that make up 92.3% of total revenues. Investment income accounts for an additional 4.4% of total revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City, like other state and local governments, uses fund accounting to insure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

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

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

The City of Marion maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General fund, Road Use Tax fund, Employee Benefits fund, Debt Service fund and the Capital Projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The basic governmental financial statements can be found on Pages 13-16 of this report.

Proprietary Funds

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

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sanitary Sewer operations as this is considered a major fund of the City. Individual fund data for each of the non-major enterprise funds is provided in the form of combining statements elsewhere in this report. The Internal Service fund is shown in the proprietary fund financial statements. The basic proprietary financial statements can be found on Pages 17-19 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City of Marion's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on Pages 20-21 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Pages 22-40 of this report.

Budgetary Highlights - General Fund

The City had one budget amendment during the fiscal year, which is our common practice. The major increases in disbursements were driven mainly by flood recovery costs from the June flood. In addition, there were expenses related to the approved stimulus programs, unbudgeted employee cash-outs, increased fuel costs, additional equipment replacements and the refunding payment of older general obligation bonds. There was also offsetting revenue increases from grant revenue and the issuance of refunding general obligation bonds.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2009, the City had invested \$162.4 million (net of depreciation) in capital assets as are reflected in the following table. These investments include land, buildings, improvements, machinery and equipment, roads, bridges and infrastructure.

(in thousands - net of depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 64,220	\$ 62,810	\$ —	\$ —	\$ 64,220	\$ 62,810
Building and structures	17,226	17,033	8	—	17,234	17,033
Improvements other than buildings	93,236	90,533	—	—	93,236	90,533
Machinery and equipment	9,130	8,051	2,189	2,116	11,319	10,167
Distribution system	—	—	29,460	29,181	29,460	29,181
Construction in progress	3,230	1,738	648	710	3,878	2,448
Accumulated depreciation	(43,483)	(39,959)	(13,961)	(13,376)	(57,444)	(53,335)
Total	<u>\$ 143,559</u>	<u>\$ 140,206</u>	<u>\$ 18,344</u>	<u>\$ 18,631</u>	<u>\$ 161,903</u>	<u>\$ 158,837</u>

The following table reconciles the change in capital assets. The amount for governmental activities is \$143.6 million that represents a 2.4% increase. For business-type activities, the amount is \$18.3 million which is a 1.5% decrease. Details of this summary are presented on Pages 30-31 of the notes.

(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 140,206	\$ 137,697	\$ 18,631	\$ 18,123	\$ 158,837	\$ 155,820
Additions	4,560	5,746	534	801	5,094	6,547
Retirement, net of depreciation	(66)	(65)	(73)	(67)	(139)	(132)
Depreciation	(4,042)	(3,969)	(685)	(677)	(4,727)	(4,646)
Capital assets not being depreciated	<u>2,901</u>	<u>797</u>	<u>(63)</u>	<u>451</u>	<u>2,838</u>	<u>1,248</u>
Ending Balance	<u>\$ 143,559</u>	<u>\$ 140,206</u>	<u>\$ 18,344</u>	<u>\$ 18,631</u>	<u>\$ 161,903</u>	<u>\$ 158,837</u>

Governmental Activities

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

Business-Type Activities

Major additions were system improvements and miscellaneous equipment. Annually the solid waste division replaces a garbage truck at a cost of around \$140,000 as a scheduled replacement.

Debt Administration

The amount of general obligation debt outstanding at fiscal year end was \$13.0 million as compared to \$14.8 million the prior fiscal year. This debt is backed by the full faith and credit of the City. Every other year the City issues a general obligation bond issue to fund various street, sewer and other essential corporate purpose projects.

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

For more detailed information on the City's debt, please refer to Pages 32-33 of the Notes to the Financial Statements.

Economic Factors

The unemployment rate for Linn County is currently at 6.3%, which is higher than it was the previous year and less than the National unemployment rate of 9.7%.

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

The total value of building permits for fiscal year 2009 was approximately \$45.0 million, which is down from the fiscal year 2008 amount of \$47.7 million. The past few fiscal years have been strong with the construction of two large retail outlets, a new school (\$16.8 million in fiscal year 2007), two large industrial facilities and several large multi-family residential projects so the decrease was expected.

Next Year's Budget and Rates

The adopted FY 09-10 budget calls for an increase in tax receipts of 3.47% 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 30% increase in wastewater treatment payments to the City of Cedar Rapids for FY 09-10. Coupled with the needed increase to fund Marion's portion of the trunk sewer project, the overall projected sewer rate increase would be right at 30%. Staff is continuing to work to see if a better resolution can be found.

The City also expects no change in the solid waste fee for FY 09-10. The increase last year, coupled with increased revenues from added customer accounts, is sufficient to meet the needs of the Department.

The total City tax levy rate for FY 09-10 is 13.86482 per taxable valuation compared to 14.13850 for FY 08-09. Net taxable valuation for FY 09-10 is \$1,066.2 million, which was an increase of \$60.3 million from the FY 08-09 level which was \$1,005.9 million.

Financial Information Contact

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

Basic Financial Statements

Statement of Net Assets

At June 30, 2009

	Primary Government			Component Unit Water
	Governmental Activities	Business Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents	\$ 7,138,814	\$ 5,176,471	\$ 12,315,285	\$ 1,586,211
Investments	16,781,579	3,103,977	19,885,556	263,000
Receivables				
Accounts, net of allowance for uncollectible accounts....	163,149	469,526	632,675	159,008
Unbilled revenue	—	378,979	378,979	170,259
Interest	47,110	8,836	55,946	3,996
Notes.....	34,162	—	34,162	—
Property Taxes				
Delinquent.....	184,808	—	184,808	—
Succeeding year	14,630,030	—	14,630,030	—
Due from other governments.....	178,000	—	178,000	—
Due from other funds.....	19,174	—	19,174	—
Inventories	136,800	—	136,800	76,683
Prepaid items.....	—	—	—	19,421
Total Current Assets	<u>39,313,626</u>	<u>9,137,789</u>	<u>48,451,415</u>	<u>2,278,578</u>
Noncurrent Assets				
Notes receivable.....	23,429	—	23,429	—
Bond issue costs	21,228	—	21,228	—
Capital assets (net of accumulated depreciation).....	67,448,932	17,696,746	85,145,678	10,063,001
Capital assets not being depreciated	76,109,738	647,174	76,756,912	597,742
Total Noncurrent Assets	<u>143,603,327</u>	<u>18,343,920</u>	<u>161,947,247</u>	<u>10,660,743</u>
Restricted Assets				
Cash	—	—	—	49,410
Certificates of deposit.....	—	—	—	37,000
Total Restricted Assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>86,410</u>
Total Assets	<u>\$ 182,916,953</u>	<u>\$ 27,481,709</u>	<u>\$ 210,398,662</u>	<u>\$ 13,025,731</u>

See accompanying notes to the financial statements.

	<u>Primary Government</u>			<u>Component</u>
	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>Unit</u>
	<u>Activities</u>	<u>Activities</u>		
Liabilities				
Current Liabilities				
Accounts payable	\$ 860,660	\$ 417,069	\$ 1,277,729	\$ 312,384
Accrued payroll.....	261,993	25,143	287,136	26,339
Accrued interest.....	38,394	—	38,394	—
Due to other funds.....	—	18,543	18,543	—
Due Within One Year				
General obligation bonds payable.....	1,970,000	—	1,970,000	—
Notes payable	31,384	—	31,384	—
Compensated absences	1,590	15,890	17,480	40,434
Nonbonded indebtedness	24,986	—	24,986	—
Deferred revenue.....	14,630,030	—	14,630,030	—
Self-insured estimated claims.....	151,401	—	151,401	13,599
Reinsurance premiums payable	35,969	—	35,969	3,231
Total Current Liabilities	<u>18,006,407</u>	<u>476,645</u>	<u>18,483,052</u>	<u>395,987</u>
Noncurrent Liabilities				
Due After One Year				
General obligation bonds payable.....	11,060,000	—	11,060,000	—
Notes payable	241,806	—	241,806	—
Compensated absences	2,045,929	—	2,045,929	—
Net OPEB liability.....	292,864	—	292,864	28,161
Nonbonded indebtedness	200,594	—	200,594	—
Total Noncurrent Liabilities.....	<u>13,841,193</u>	<u>—</u>	<u>13,841,193</u>	<u>28,161</u>
Liabilities Payable from Restricted Assets				
Payable - customer deposits...	—	—	—	<u>86,410</u>
Total Liabilities	<u>31,847,600</u>	<u>476,645</u>	<u>32,324,245</u>	<u>510,558</u>
Net Assets				
Invested in capital assets, net of related debt.....	130,255,480	18,343,920	148,599,400	10,660,743
Unrestricted	20,813,873	8,661,144	29,475,017	1,854,430
Total Net Assets	<u>151,069,353</u>	<u>27,005,064</u>	<u>178,074,417</u>	<u>12,515,173</u>
Total Liabilities and Net Assets	<u>\$ 182,916,953</u>	<u>\$ 27,481,709</u>	<u>\$ 210,398,662</u>	<u>\$ 13,025,731</u>

Statement of Activities

As of and for the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
Public safety	\$ 7,824,254	\$ 188,870	\$ 117,977	\$ —	\$ (7,517,407)	\$ —	\$ (7,517,407)	\$ —
Public works	5,759,755	22,221	2,255	1,940,525	(3,794,754)	—	(3,794,754)	—
Culture and recreation	3,787,898	432,406	276,126	—	(3,079,366)	—	(3,079,366)	—
Community and economic development	1,838,951	463,156	27,888	641,283	(706,624)	—	(706,624)	—
General government.....	1,892,317	36,389	468,945	—	(1,386,983)	—	(1,386,983)	—
Interest.....	540,305	—	—	—	(540,305)	—	(540,305)	—
Total Governmental Activities	21,643,480	1,143,042	893,191	2,581,808	(17,025,439)	—	(17,025,439)	—
Business-Type Activities								
Sewer	2,505,728	3,309,575	28,725	—	—	832,572	832,572	—
Solid waste	1,531,831	1,422,911	139,779	—	—	30,859	30,859	—
Total Business-Type Activities	4,037,559	4,732,486	168,504	—	—	863,431	863,431	—
Total Primary Government	\$ 25,681,039	\$ 5,875,528	\$ 1,061,695	\$ 2,581,808	(17,025,439)	863,431	(16,162,008)	—
Component Unit - Water	\$ 2,142,110	\$ 2,230,464	\$ —	\$ 436,941	—	—	—	525,295
General Receipts								
Property taxes					14,436,527	—	14,436,527	—
Tax increment financing revenue					405,897	—	405,897	—
Other Taxes								
Cable television franchise					337,163	—	337,163	—
Hotel/motel					182,425	—	182,425	—
Road use tax.....					2,179,251	—	2,179,251	—
Investment income					874,918	228,038	1,102,956	57,791
Assessments					21,446	587	22,033	—
Miscellaneous revenue.....					26,935	—	26,935	13,895
Transfers					616,103	(616,103)	—	—
Total General Receipts and Transfers					19,080,665	(387,478)	18,693,187	71,686
Change in Net Assets.....					2,055,226	475,953	2,531,179	596,981
Net Assets - Beginning of Year					149,014,127	26,529,111	175,543,238	11,918,192
Net Assets - End of Year.....					\$ 151,069,353	\$ 27,005,064	\$ 178,074,417	\$ 12,515,173

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of and for the Year Ended June 30, 2009

	General	Road Use	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Assets							
Cash and cash equivalents	\$ 3,961,073	\$ —	\$ 343,814	\$ 143,011	\$ —	\$ 1,675,498	\$ 6,123,396
Investments	4,374,134	968,158	—	7,848	9,683,249	1,748,190	16,781,579
Receivables							
Accounts	138,836	—	—	—	—	3,200	142,036
Interest	9,575	—	—	—	32,327	5,208	47,110
Property Taxes							
Delinquent	114,130	—	40,253	30,425	—	—	184,808
Succeeding year	8,957,041	—	3,234,181	2,438,808	—	—	14,630,030
Due from other governments	—	178,000	—	—	—	—	178,000
Due from other funds	1,111,556	—	—	—	—	—	1,111,556
Inventories	136,800	—	—	—	—	—	136,800
Total Assets	\$ 18,803,145	\$ 1,146,158	\$ 3,618,248	\$ 2,620,092	\$ 9,715,576	\$ 3,432,096	\$ 39,335,315
Liabilities and Fund Balances							
Liabilities							
Current Liabilities							
Due to other funds	\$ —	\$ 736,730	\$ —	\$ —	\$ 355,652	\$ —	\$ 1,092,382
Accounts payable	235,857	79,305	63,668	—	478,064	3,766	860,660
Accrued expenses	236,866	25,127	—	—	—	—	261,993
Deferred revenue	8,957,041	—	3,234,181	2,438,808	—	—	14,630,030
Total Liabilities	9,429,764	841,162	3,297,849	2,438,808	833,716	3,766	16,845,065
Fund Balances							
Reserved for inventories	136,800	—	—	—	—	—	136,800
Reserved for debt service	—	—	—	181,284	—	—	181,284
Unreserved							
General	9,236,581	—	—	—	—	—	9,236,581
Special revenue	—	304,996	320,399	—	—	1,462,352	2,087,747
Capital projects	—	—	—	—	8,881,860	1,825,693	10,707,553
Perpetual care	—	—	—	—	—	140,285	140,285
Total Fund Balances	9,373,381	304,996	320,399	181,284	8,881,860	3,428,330	22,490,250
Total Liabilities and Fund Balances	\$ 18,803,145	\$ 1,146,158	\$ 3,618,248	\$ 2,620,092	\$ 9,715,576	\$ 3,432,096	\$ 39,335,315

See accompanying notes to the financial statements.

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

At June 30, 2009

Total Fund Balances for Governmental Funds (Page 13).....		\$ 22,490,250
 <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		143,558,670
Notes receivable are not financial resources and, therefore, are not reported as assets in the governmental funds		57,591
Internal service funds, net assets.....		849,161
Bond issue costs are not financial resources and, therefore, are not reported as assets in the governmental funds		21,228
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	\$ (2,047,519)	
Bonds payable	(13,030,000)	
Accrued interest	(38,394)	
Net OPEB liability.....	(292,864)	
Nonbonded indebtedness	(225,580)	
Notes payable	(273,190)	(15,907,547)
Net Assets of Governmental Activities (Page 12)		<u>\$ 151,069,353</u>

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

Year Ended June 30, 2009

	General Fund	Road Use	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenue							
Property taxes	\$ 8,910,632	\$ —	\$ 3,144,526	\$ 2,381,369	\$ —	\$ —	\$ 14,436,527
Tax increment financing	—	—	—	—	—	405,897	405,897
Other taxes	519,588	—	—	—	—	—	519,588
Licenses and permits.....	542,547	—	—	—	—	—	542,547
Use of money and property	300,006	—	2,027	12,676	455,662	104,534	874,905
Intergovernmental.....	597,402	2,179,251	83,990	—	652,196	180,957	3,693,796
Charges for services.....	403,887	—	—	—	950	3,473	408,310
Fines and forfeitures.....	207,138	—	—	—	—	—	207,138
Special assessments.....	43	—	—	21,403	—	—	21,446
Miscellaneous.....	36,817	—	52,095	—	2,166	20,423	111,501
Total Revenue.....	11,518,060	2,179,251	3,282,638	2,415,448	1,110,974	715,284	21,221,655
Expenditures							
Current							
Public safety.....	7,135,126	—	58,171	—	—	32,158	7,225,455
Public works.....	1,092,535	1,894,319	—	—	—	1,927	2,988,781
Culture and recreation	2,916,392	—	62,834	—	—	46,659	3,025,885
Community and economic development.....	1,170,818	—	—	—	—	613,480	1,784,298
General government	1,584,440	—	75,775	—	—	—	1,660,215
Debt Service							
Principal	—	—	—	3,126,374	—	—	3,126,374
Interest.....	—	—	—	633,473	—	—	633,473
Bond issue costs.....	—	—	—	1,400	—	—	1,400
Capital projects.....	—	541,273	—	—	4,732,571	267,121	5,540,965
Total Expenditures.....	13,899,311	2,435,592	196,780	3,761,247	4,732,571	961,345	25,986,846
Revenue Over (Under) Expenditures.....	(2,381,251)	(256,341)	3,085,858	(1,345,799)	(3,621,597)	(246,061)	(4,765,191)
Other Financing Sources (Uses)							
Operating transfers in.....	3,421,574	376,078	—	92,306	400,000	223,218	4,513,176
Operating transfers out.....	(228,169)	(539,702)	(3,104,202)	—	—	(25,000)	(3,897,073)
Sale of equipment.....	12,365	—	—	—	—	—	12,365
Bond proceeds	—	—	—	1,310,000	—	—	1,310,000
Bond issue costs	—	—	—	(5,122)	—	—	(5,122)
Total Other Financing Sources (Uses).....	3,205,770	(163,624)	(3,104,202)	1,397,184	400,000	198,218	1,933,346
Net Change in Fund Balances.....	824,519	(419,965)	(18,344)	51,385	(3,221,597)	(47,843)	(2,831,845)
Fund Balances - Beginning of Year	8,548,862	724,961	338,743	129,899	12,103,457	3,476,173	25,322,095
Fund Balances - End of Year.....	\$ 9,373,381	\$ 304,996	\$ 320,399	\$ 181,284	\$ 8,881,860	\$ 3,428,330	\$ 22,490,250

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, 2009

Changes in Fund Balances - Total Governmental Funds (Page 15) \$ (2,831,845)

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

Certain prepaid items are not financial resources and the change in those items causes a difference in the changes in fund balance and the changes in net assets..... (32,105)

In the statement of activities, notes receivable are recognized but they do not represent current financial resources. Thus, the change in fund balances differs by the change in the notes receivable balance. (18,099)

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. (86,820)

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	\$ 5,540,965	
Depreciation expense	<u>(4,042,384)</u>	1,498,581

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..... 1,940,525

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

Repayment of bond principal	\$ 3,070,000	
Bond proceeds	(1,310,000)	
Repayment of note principal	29,999	
Change in accrued interest	<u>93,168</u>	1,883,167

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. (370,059)

In the statement of activities, nonbonded indebtedness is recognized but does not require the use of current financial resources and, therefore, is not reported in governmental funds. 5,025

Internal service funds net change 66,856

Change in Net Assets of Governmental Activities (Page 12) \$ 2,055,226

Statement of Net Assets - Proprietary Funds

At June 30, 2009

	Business-Type Activities - Enterprise Funds					Governmental
	Sewer Rental	Sewer Rental Replacement	Solid Waste	Nonmajor	Totals	Internal Service Fund
Assets						
Current Assets						
Cash and cash equivalents	\$ 982,988	\$ 2,704,838	\$ —	\$ 1,488,645	\$ 5,176,471	\$ 1,015,418
Investments	350,316	613,500	1,223,775	916,386	3,103,977	—
Receivables						
Accounts	239,972	—	229,554	—	469,526	21,113
Unbilled revenue	264,390	—	114,589	—	378,979	—
Interest	—	2,900	1,772	4,164	8,836	—
Total Current Assets	1,837,666	3,321,238	1,569,690	2,409,195	9,137,789	1,036,531
Noncurrent Assets						
Capital assets (net of accumulated depreciation).....	15,878,049	—	862,582	956,115	17,696,746	—
Capital assets not being depreciated	—	352,566	—	294,608	647,174	—
Total Noncurrent Assets	15,878,049	352,566	862,582	1,250,723	18,343,920	—
Total Assets	\$ 17,715,715	\$ 3,673,804	\$ 2,432,272	\$ 3,659,918	\$ 27,481,709	\$ 1,036,531
Liabilities						
Current Liabilities						
Due to other funds	\$ —	\$ —	\$ 18,543	\$ —	\$ 18,543	\$ —
Accounts payable	124,437	93,462	39,313	159,857	417,069	—
Compensated absences.....	15,890	—	—	—	15,890	—
Self-insured estimated claims.....	—	—	—	—	—	151,401
Reinsurance premiums payable	—	—	—	—	—	35,969
Accrued payroll.....	8,790	—	16,353	—	25,143	—
Total Current Liabilities	149,117	93,462	74,209	159,857	476,645	187,370
Net Assets						
Invested in capital assets, net of related debt	15,878,049	352,566	862,582	1,250,723	18,343,920	—
Unrestricted	1,688,549	3,227,776	1,495,481	2,249,338	8,661,144	849,161
Total Net Assets	17,566,598	3,580,342	2,358,063	3,500,061	27,005,064	849,161
Total Liabilities and Net Assets	\$ 17,715,715	\$ 3,673,804	\$ 2,432,272	\$ 3,659,918	\$ 27,481,709	\$ 1,036,531

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

Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Sewer Rental	Sewer Rental Replacement	Solid Waste	Nonmajor	Totals	Internal Service Fund
Operating Revenue						
Charges for services.....	\$ 2,560,366	\$ 354,965	\$ 1,127,953	\$ 585,582	\$ 4,628,866	\$ —
Miscellaneous revenue.....	11,176	—	243,398	17,550	272,124	1,597,302
Total Operating Revenue.....	<u>2,571,542</u>	<u>354,965</u>	<u>1,371,351</u>	<u>603,132</u>	<u>4,900,990</u>	<u>1,597,302</u>
Operating Expenses						
Personal services	438,647	—	699,152	—	1,137,799	—
Services and commodities.....	1,501,128	59,109	474,003	180,204	2,214,444	1,530,446
Depreciation	475,092	—	197,630	12,594	685,316	—
Total Operating Expenses.....	<u>2,414,867</u>	<u>59,109</u>	<u>1,370,785</u>	<u>192,798</u>	<u>4,037,559</u>	<u>1,530,446</u>
Operating Income.....	<u>156,675</u>	<u>295,856</u>	<u>566</u>	<u>410,334</u>	<u>863,431</u>	<u>66,856</u>
Nonoperating Revenue						
Investment income	21,891	87,045	34,013	85,089	228,038	—
Special assessments.....	76	—	511	—	587	—
Total Nonoperating Revenue	<u>21,967</u>	<u>87,045</u>	<u>34,524</u>	<u>85,089</u>	<u>228,625</u>	<u>—</u>
Income Before Transfers	178,642	382,901	35,090	495,423	1,092,056	66,856
Transfers in.....	—	—	139,900	—	139,900	—
Transfers out	(145,025)	—	(61,632)	(549,346)	(756,003)	—
Changes in Net Assets.....	33,617	382,901	113,358	(53,923)	475,953	66,856
Net Assets - Beginning of Year	17,532,981	3,197,441	2,244,705	3,553,984	26,529,111	782,305
Net Assets - End of Year.....	<u>\$ 17,566,598</u>	<u>\$ 3,580,342</u>	<u>\$ 2,358,063</u>	<u>\$ 3,500,061</u>	<u>\$ 27,005,064</u>	<u>\$ 849,161</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds					Governmental
	Sewer Rental	Sewer Rental Replacement	Solid Waste	Nonmajor	Totals	Activities Internal Service Fund
Cash Flows From Operating Activities						
Receipts from customers.....	\$ 2,433,394	\$ 355,055	\$ 1,215,007	\$ 603,878	\$ 4,607,334	\$ 1,616,435
Payments to employees.....	(434,875)	—	(697,163)	—	(1,132,038)	—
Payments to suppliers.....	(1,490,011)	20,268	(470,254)	(47,277)	(1,987,274)	(1,525,858)
Net Cash Provided by Operating Activities.....	508,508	375,323	47,590	556,601	1,488,022	90,577
Cash Flows From Noncapital Financing Activities						
Net operating transfers.....	(145,025)	—	78,268	(549,346)	(616,103)	—
Cash Flows From Capital and Related Financing Activities						
Special assessments.....	76	—	511	—	587	—
Purchase of capital assets.....	(66,205)	(79,451)	(148,200)	(104,834)	(398,690)	—
Net Cash Used in Capital and Related Financing Activities.....	(66,129)	(79,451)	(147,689)	(104,834)	(398,103)	—
Cash Flows From Investing Activities						
Interest received.....	21,891	87,045	34,013	85,089	228,038	—
Purchase of government securities.....	(4,348)	—	(12,182)	—	(16,530)	—
Sale of government securities.....	—	—	—	129,100	129,100	—
Net Cash Provided by Investing Activities.....	17,543	87,045	21,831	214,189	340,608	—
Net Increase (Decrease) in Cash and Cash Equivalents.....	314,897	382,917	—	116,610	814,424	90,577
Cash and Cash Equivalents at Beginning of Year.....	668,091	2,321,921	—	1,372,035	4,362,047	924,841
Cash and Cash Equivalents at End of Year.....	\$ 982,988	\$ 2,704,838	\$ —	\$ 1,488,645	\$ 5,176,471	\$ 1,015,418
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating income (loss).....	\$ 156,675	\$ 295,856	\$ 566	\$ 410,334	\$ 863,431	\$ 66,856
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities						
Depreciation.....	475,092	—	197,630	12,594	685,316	—
Change in Assets and Liabilities						
(Increase) decrease in receivables.....	(138,148)	90	(156,344)	746	(293,656)	19,133
Increase (decrease) in accounts payable.....	11,117	79,377	3,749	132,927	227,170	4,588
Increase in accrued payroll.....	1,521	—	1,989	—	3,510	—
Increase in accrued compensated absences.....	2,251	—	—	—	2,251	—
Net Cash Provided by Operating Activities.....	\$ 508,508	\$ 375,323	\$ 47,590	\$ 556,601	\$ 1,488,022	\$ 90,577

See accompanying notes to the financial statements.

Statement of Fiduciary Assets and Liabilities - Trust Funds

At June 30, 2009

	Cemetery Memorial
Assets	
Cash and Investments.....	<u>\$ 1,987</u>
Liabilities	
Due to other funds.....	\$ 631
Net Assets	
Held in trust	<u>1,356</u>
Total Liabilities and Net Assets	<u>\$ 1,987</u>

Statement of Changes in Fiduciary Net Assets - Trust Funds

At June 30, 2009

	Cemetery Memorial
Additions	
Investment Earnings	
Interest	\$ 13
Net Assets - Beginning of Year	<u>1,343</u>
Net Assets - End of Year	<u>\$ 1,356</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Discretely Presented Component Unit

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

Jointly Governed Organizations

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

Basis of Presentation

Government-Wide Financial Statements

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

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

Fund Financial Statements

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

The City had the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

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

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

(1) Summary of Significant Accounting Policies

The City had the following major proprietary fund:

Enterprise Funds

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

The Sewer Rental Replacement Fund accounts for the replacement of the City's sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste department.

Description of Funds

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenue and expenditures or expenses, and other financing sources and uses, as appropriate. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into categories as follows:

Governmental Fund Types

General fund is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

Special revenue funds are used to account for proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt service funds are used to account for the accumulation of financial resources for, and the payment of, interest and principal on the City's long-term debt which is not paid by another fund.

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by another fund.

Proprietary Fund Type

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to that of a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal service funds are utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

(1) Summary of Significant Accounting Policies

Fiduciary Fund Type

Fiduciary funds account for assets held by the City in an agency capacity for others and cannot be used to support the City's own programs. The City's fiduciary funds consist of *agency funds*, which are custodial in nature, report on assets and liabilities and do not involve measurement of the results of operations.

Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recognized as expenditures only when payment is due.

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

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

Assets, Liabilities and Fund Equity

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

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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, 2009 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, 2007 assessed property valuations, is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2008.

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

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

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

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

Asset Class	Estimated Useful Lives
Buildings.....	40 - 50 Years
Improvements other than buildings.....	5 - 50 Years
Equipment.....	2 - 20 Years
Infrastructure.....	3 - 80 Years

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use and Sewer Rental Funds.

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

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

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

Net Assets

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

Budgets and Budgetary Accounting

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Estimates and Assumptions

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

(2) Deposits and Investments

Deposits

The City's deposits at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

Investments

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

On June 30, 2009, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$3,397,227 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

The City's cash and investments at June 30, 2009 were as follows:

Cash	\$ 12,315,285
Pooled cash investments - Iowa Public Agency Investment Trust	3,397,227
Money market accounts	3,802,240
U.S. Instrumentalities	
Original maturities 6 to 10 years	17,716
Original maturities 10+ years	<u>12,670,360</u>
Total	<u>\$ 32,202,828</u>

Interest Rate Risk

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

Credit Risk

The City's U.S. Instrumentalities investments at June 30, 2009 are rated Aaa or better by Moody's Investors service. The investment in the Iowa Public Agency Investment Trust is unrated.

Notes to the Financial Statements

(3) Notes Receivable

The City has established a revolving loan program using funds from the repayment of loans previously made to local businesses through grants received from the Iowa Department of Economic Development using Community Development Block Grant funds. These loans bear interest at 3% and have monthly payments maturing through December, 2010. The outstanding balances of these loans at June 30, 2009 totaled \$57,591.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 62,810,159	\$ 1,430,691	\$ 21,129	\$ 64,219,721
Construction in progress.....	<u>1,738,015</u>	<u>3,761,827</u>	<u>2,270,631</u>	<u>3,229,211</u>
Total Capital Assets Not Being Depreciated.....	<u>64,548,174</u>	<u>5,192,518</u>	<u>2,291,760</u>	<u>67,448,932</u>
Capital Assets Being Depreciated				
Buildings.....	17,032,557	193,520	—	17,226,077
Improvements other than buildings	90,533,322	3,045,418	342,433	93,236,307
Equipment.....	<u>8,050,967</u>	<u>1,320,665</u>	<u>241,364</u>	<u>9,130,268</u>
Total Capital Assets Being Depreciated.....	<u>115,616,846</u>	<u>4,559,603</u>	<u>583,797</u>	<u>119,592,652</u>
Less Accumulated Depreciation for				
Buildings.....	3,352,101	405,660	—	3,757,761
Improvements other than buildings	32,329,207	2,858,262	342,245	34,845,224
Equipment.....	<u>4,277,328</u>	<u>778,462</u>	<u>175,861</u>	<u>4,879,929</u>
Total Accumulated Depreciation...	<u>39,958,636</u>	<u>4,042,384</u>	<u>518,106</u>	<u>43,482,914</u>
Net Capital Assets Being Depreciated	<u>75,658,210</u>	<u>517,219</u>	<u>65,691</u>	<u>76,109,738</u>
Net Governmental Activities				
Capital Assets.....	<u>\$ 140,206,384</u>	<u>\$ 5,709,737</u>	<u>\$ 2,357,451</u>	<u>\$ 143,558,670</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.....	\$ 709,668	\$ 395,972	\$ 458,466	\$ 647,174
Capital Assets Being Depreciated				
Buildings	—	8,300	—	8,300
Equipment	2,115,876	247,019	173,573	2,189,322
Distribution system	28,173,338	278,883	—	28,452,221
Storm sewer system	1,007,486	—	—	1,007,486
Total Capital Assets Being Depreciated.....	<u>31,296,700</u>	<u>534,202</u>	<u>173,573</u>	<u>31,657,329</u>
Less Accumulated Depreciation for				
Buildings	—	28	—	28
Equipment	964,584	238,002	100,554	1,102,032
Distribution system	12,372,462	434,691	—	12,807,153
Storm sewer system	38,776	12,594	—	51,370
Total Accumulated Depreciation...	<u>13,375,822</u>	<u>685,315</u>	<u>100,554</u>	<u>13,960,583</u>
Net Capital Assets Being Depreciated	<u>17,920,878</u>	<u>(151,113)</u>	<u>73,019</u>	<u>17,696,746</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 18,630,546</u>	<u>\$ 244,859</u>	<u>\$ 531,485</u>	<u>\$ 18,343,920</u>

Depreciation expense was charged by the City as follows for the year ended June 30, 2009:

Governmental Activities		
Public safety		\$ 482,740
Public works		2,698,851
Culture and recreation.....		689,656
General government		171,137
Total Governmental Activities Depreciation Expense		<u>\$ 4,042,384</u>
Business-Type Activities		
Sewer		\$ 475,091
Solid waste.....		197,630
Systems		12,594
Total Business-Type Activities Depreciation Expense		<u>\$ 685,315</u>

Notes to the Financial Statements

(5) Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2009:

	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	\$ 14,790,000	\$ 1,310,000	\$ 3,070,000	\$ 13,030,000	\$ 1,970,000	1.350-4.30%
General obligation notes ..	303,189	—	29,999	273,190	31,384	4.375-5.20%
Compensated absences ..	1,970,324	191,722	114,527	2,047,519	1,590	N/A
Net OPEB liability	—	292,864	—	292,864	—	N/A
Totals	<u>\$ 17,063,513</u>	<u>\$ 1,794,586</u>	<u>\$ 3,214,526</u>	<u>\$ 15,643,573</u>	<u>\$ 2,002,974</u>	

Business-Type Activities

Compensated absences	<u>\$ 13,639</u>	<u>\$ 2,251</u>	<u>\$ —</u>	<u>\$ 15,890</u>	<u>\$ 15,890</u>
----------------------	------------------	-----------------	-------------	------------------	------------------

Bonds Payable

Seven issues of unmatured general obligation bonds totaling \$13,030,000 were outstanding at June 30, 2009. General obligation bonds bear interest at rates ranging from 1.35% to 4.30% per annum and mature in varying annual amounts ranging from \$70,000 to \$610,000, with the final maturities due in the year ending June 30, 2018.

Details of the City's general obligation bonds payable at June 30, 2009 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-09
General Obligation Bonds						
Refunding corporate purpose	12-1-01	3.50 - 4.30%	6-1-10	- \$195,000	\$1,355,000	\$ 195,000
Corporate purposes	12-1-03	2.50 - 3.75	6-1-16	\$270,000 - 370,000	3,100,000	2,310,000
Corporate purposes	12-1-04	2.20 - 3.65	6-1-15	70,000 - 80,000	700,000	450,000
Corporate purposes	12-1-05	3.30 - 3.80	6-1-17	290,000 - 385,000	3,300,000	2,680,000
Refunding corporate purpose	10-15-07	3.50 - 3.55	6-1-12	455,000 - 485,000	2,250,000	1,410,000
Corporate purpose	12-15-07	3.35 - 3.80	6-1-18	440,000 - 610,000	5,000,000	4,675,000
Refunding corporate purpose	4-30-09	1.35 - 2.70	6-1-14	250,000 - 275,000	1,310,000	1,310,000
						<u>\$ 13,030,000</u>

Year Ending June 30,	Principal	Interest	Total
2010.....	\$ 1,970,000	\$ 446,125	\$ 2,416,125
2011.....	1,850,000	381,373	2,231,373
2012.....	1,930,000	323,260	2,253,260
2013.....	1,505,000	260,040	1,765,040
2014.....	1,560,000	210,223	1,770,223
2015-2019	4,215,000	347,717	4,562,717
	<u>\$ 13,030,000</u>	<u>\$ 1,968,738</u>	<u>\$ 14,998,738</u>

Notes to the Financial Statements

(5) Long-Term Debt

General Obligation Notes

Two issues of unmatured general obligation notes totaling \$273,190 were outstanding at June 30, 2009. 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, 2009 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-09
General Obligation Notes						
Geo-Thermal note	7-20-06	5.200%	7-1-16	\$ 369 - \$ 7,740	\$ 60,255	\$ 45,589
Geo-Thermal note	12-28-06	4.375	1-1-17	14,870 - 35,327	285,577	227,601
						<u>\$ 273,190</u>

Year Ending June 30,	Principal	Interest	Total
2010.....	\$ 31,384	\$ 11,683	\$ 43,067
2011.....	32,832	10,235	43,067
2012.....	34,347	8,720	43,067
2013.....	35,933	7,134	43,067
2014.....	37,593	5,474	43,067
2015-2018	101,101	5,957	107,058
	<u>\$ 273,190</u>	<u>\$ 49,203</u>	<u>\$ 322,393</u>

(6) Summary of Nonbonded Indebtedness

During the year ended June 30, 2001, the City entered into an agreement with a donor to pay an annuity of \$25,000 each year for as long as the donor lives in exchange for a gift of 180 acres of land to be used for park purposes. Using an estimated life span based on annuity tables and discounted at the City's estimated incremental borrowing rate of 2.36%, an estimated liability of \$225,580 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, 2009 is as follows:

Transfer to	Transfer From	Amount
General	Special Revenue	
	Road Use	\$ 376,078
	Trust and Agency Employee Benefits	2,728,124
	Police and Fire Retirement	25,000
	Proprietary	
	Sewer Rental	115,813
	Solid Waste	41,547
	Storm Water Management	<u>135,012</u>
		<u>3,421,574</u>
Special Revenue	Special Revenue	
Road Use Tax	Trust and Agency Employee Benefits	<u>376,078</u>
Employee Benefits	General Fund	28,169
	Special Revenue	
	Road Use	28,663
	Proprietary	
	Sewer Rental	11,340
	Solid Waste	<u>20,085</u>
		<u>88,257</u>
Road Use Replacement	Special Revenue	
	Road Use	<u>134,961</u>
Debt Service	Proprietary	
	Sewer Rental	17,872
	Storm Water Management	<u>74,434</u>
		<u>92,306</u>
Capital Project	General	200,000
	Proprietary	
	Storm Water Management	<u>200,000</u>
		<u>400,000</u>
Proprietary	Proprietary	
Solid Waste	Solid Waste Replacement	<u>139,900</u>
		<u>\$ 4,653,076</u>

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

(8) Retirement System

The City offers City employees the following retirement plans:

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 - 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 25% of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2009, 2008 and 2007 were \$742,377, \$955,070 and \$994,639, 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.

Plan members are required to contribute 4.1% of their annual salary and the City is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$319,179, \$299,056 and \$264,667, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

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

Plan Description

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 151 active and 12 retired members in the plan. Participants must be age 55 or older at retirement.

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

Notes to the Financial Statements

(9) Other Postemployment Benefits (OPEB)

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, 2009, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution.....	\$ 292,864
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB Cost	<u>292,864</u>
Contributions made	—
Increase in Net OPEB Obligation.....	<u>292,864</u>
Net OPEB Obligation - Beginning of Year	—
Net OPEB Obligation - End of Year.....	<u>\$ 292,864</u>

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

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$292,864	0%	\$292,864

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$2,614,066 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,614,066. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,119,000 and the ratio of the UAAL to covered payroll was 28.7%. As of June 30, 2009, there were no trust fund assets.

(9) Other Postemployment Benefits (OPEB)

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, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000, applied on a gender-specific basis. Annual retirement was assumed at the rate of retirement by attained age after becoming eligible to retire and continuation 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.

(10) Compensated Absences

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Employees covered under the International Association of Firefighters contract are also eligible for compensation at normal retirement of accumulated sick leave in excess of 90 days, to a maximum payment of 60 days. Employees covered under the Marion Policeman's Protective Association contract are eligible for compensation at normal retirement of 50% of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Water Department employees and all other nonunion City employees, sick leave can be accumulated but is payable only when used. Retiring employees of the Marion Water Department who have accumulated 30 or more days of unused sick leave are entitled to one and one-half months of regular pay as severance pay. City employees may also accumulate compensatory hours for overtime worked to be used subsequently or paid out upon termination, retirement or death. The City's approximate maximum liability for earned compensated absences payable to employees, including related tax and fringe amounts, is as follows:

Notes to the Financial Statements

(10) Compensated Absences

Type of Benefit	Amount 6-30-09
Primary Government	
Sick leave	\$ 745,134
Vacation and personal leave	1,035,265
Compensatory time	283,010
	<u>\$ 2,063,409</u>
Component Unit	
Sick leave	\$ 40,434
Vacation.....	—
	<u>\$ 40,434</u>

The above liabilities have been computed based on rates of pay as of June 30, 2009.

(11) 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, 2009 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.

(12) 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, 2009:

	Primary Government	Discretely Presented Component Unit	Total
Claims paid during the year.....	\$1,192,027	\$88,788	\$1,280,815
Estimated claims incurred but unpaid at June 30, 2009....	151,401	13,599	165,000

Notes to the Financial Statements

(12) 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 \$392 per month single or \$981 per month family which is an actuarially determined amount with a reasonable provision for future unexpected claims. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

(13) 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, 2009, the Marion Water Department collected and remitted to the City \$3,082,686 for sewer and \$1,275,943 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$88,464, of which \$8,952 was payable at June 30, 2009.

(14) Local Government Risk Pool

Iowa Municipalities Workers' Compensation Association

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

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

The City's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. Premiums paid to the Association for the year ended June 30, 2009 were \$96,877.

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.

(15) Commitments and Contingencies

Primary Government

The City is involved in construction of capital assets, mainly streets and sanitary sewer lines. At June 30, 2009, the City was committed to approximately \$900,000 in construction contracts, capital asset purchases and other services.

Risk Management

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

Component Unit

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

(16) Subsequent Events

Subsequent to June 30, 2009, the City entered into several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$1,000,000.

In August, 2009, the City endured flash flooding which damaged a portion of the trail system. FEMA and insurance will not cover the damages which are estimated at approximately \$250,000.

In November, 2009, the City Council approved proceeding with the sale of \$2,120,000 of General Obligation Urban Renewal Corporate Purpose Bonds, Series 2009B and \$6,285,000 of General Obligation Corporate Purpose Bonds, Series 2009C.

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, 2009

	Actual			Original Budget	Amended Budget	Over (Under) Budget
	Govern- mental Fund Types	Proprietary Funds	Total			
Receipts						
Property taxes	\$ 16,494,006	\$ —	\$ 16,494,006	\$ 14,031,832	\$ 14,031,832	\$ 2,462,174
Tax increment financing	405,897	—	405,897	386,889	386,889	19,008
Other city taxes	524,925	—	524,925	368,116	368,116	156,809
Licenses and permits	552,151	—	552,151	548,325	548,325	3,826
Use of money and property	947,627	232,312	1,179,939	1,206,700	1,206,700	(26,761)
Intergovernmental	1,831,620	15,955	1,847,575	6,332,884	6,762,884	(4,915,309)
Charges for services	981,383	6,418,615	7,399,998	8,148,867	8,148,867	(748,869)
Special assessments	21,403	—	21,403	20,325	20,325	1,078
Miscellaneous	1,673,087	73,719	1,746,806	2,210,738	2,210,738	(463,932)
Total Receipts	<u>23,432,099</u>	<u>6,740,601</u>	<u>30,172,700</u>	<u>33,254,676</u>	<u>33,684,676</u>	<u>(3,511,976)</u>
Disbursements						
Public safety	7,189,507	—	7,189,507	7,269,771	7,569,771	(380,264)
Public works	3,028,355	—	3,028,355	3,020,632	3,320,632	(292,277)
Culture and recreation ..	3,043,123	—	3,043,123	3,087,311	3,387,311	(344,188)
Community and economic development	1,682,594	—	1,682,594	1,498,197	1,798,197	(115,603)
General government	3,158,957	—	3,158,957	3,209,841	3,409,841	(250,884)
Debt service	3,761,247	—	3,761,247	2,482,072	3,797,072	(35,825)
Capital projects	5,370,209	—	5,370,209	9,295,342	9,295,342	(3,925,133)
Business-type activities	—	5,693,330	5,693,330	7,384,833	7,384,833	(1,691,503)
Total Disbursements	<u>27,233,992</u>	<u>5,693,330</u>	<u>32,927,322</u>	<u>37,247,999</u>	<u>39,962,999</u>	<u>(7,035,677)</u>
Receipts Over (Under) Disbursements	<u>(3,801,893)</u>	<u>1,047,271</u>	<u>(2,754,622)</u>	<u>(3,993,323)</u>	<u>(6,278,323)</u>	<u>(3,523,701)</u>
Other Financing Sources (Uses)						
Other financing sources	6,523,281	—	6,523,281	5,334,963	6,649,963	126,682
Other financing uses	(5,011,746)	(206,657)	(5,218,403)	(5,334,963)	(5,334,963)	(116,560)
Total Other Financing Sources (Uses)	<u>1,511,535</u>	<u>(206,657)</u>	<u>1,304,878</u>	<u>—</u>	<u>1,315,000</u>	<u>10,122</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses						
Balance - Beginning of Year	<u>26,422,169</u>	<u>7,426,047</u>	<u>33,848,216</u>	<u>23,702,099</u>	<u>23,702,099</u>	<u>(10,146,117)</u>
Balance - End of Year	<u>\$ 24,131,811</u>	<u>\$ 8,266,661</u>	<u>\$ 32,398,472</u>	<u>\$ 19,708,776</u>	<u>\$ 18,738,776</u>	<u>\$(13,659,696)</u>

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, permanent funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment increased budgeted disbursements by \$2,715,000. This budget amendment is reflected in the final budgeted amounts.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2009

	<u>Governmental Fund Types</u>		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue	\$ 23,432,099	\$ (2,210,444)	\$ 21,221,655
Expenditures.....	<u>27,233,992</u>	<u>(1,247,146)</u>	<u>25,986,846</u>
Net	(3,801,893)	(963,298)	(4,765,191)
Other financing sources (uses).....	1,511,535	421,811	1,933,346
Beginning fund balances	<u>26,422,169</u>	<u>(1,100,074)</u>	<u>25,322,095</u>
Ending Fund Balances.....	<u>\$ 24,131,811</u>	<u>\$ (1,641,561)</u>	<u>\$ 22,490,250</u>

	<u>Proprietary Fund Types</u>			
	Cash Basis	Adjustment for Component Unit	Accrual Adjustments	GAAP Basis
Revenue	\$ 6,740,601	\$ (2,221,726)	\$ 610,740	\$ 5,129,615
Expenditures.....	<u>5,693,330</u>	<u>(2,206,357)</u>	<u>550,586</u>	<u>4,037,559</u>
Net	1,047,271	(15,369)	60,154	1,092,056
Other financing sources (uses).....	(206,657)	—	(409,446)	(616,103)
Beginning fund balances	<u>7,426,047</u>	<u>(1,620,252)</u>	<u>20,723,316</u>	<u>26,529,111</u>
Ending Fund Balances.....	<u>\$ 8,266,661</u>	<u>\$ (1,635,621)</u>	<u>\$ 20,374,024</u>	<u>\$ 27,005,064</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2008	\$—	\$2,614,066	\$2,614,066	0%	\$9,119,000	28.7%

See Note 9 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, 2009

	Special Revenue					Capital Projects		Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Develop- ment Block Grant	Police and Fire Retirement	Employee Benefits	Park Develop- ment	Maintenance Bond		
Assets									
Cash and cash equivalents	\$ 427,047	\$ 117,700	\$ 48,992	\$ 124,771	\$ 591,998	\$ 98,126	\$ 247,976	\$ 18,888	\$ 1,675,498
Investments	72,476	—	—	670,064	884,253	—	—	121,397	1,748,190
Receivables									
Accounts	—	3,200	—	—	—	—	—	—	3,200
Interest	319	—	—	902	3,987	—	—	—	5,208
Total Assets	\$ 499,842	\$ 120,900	\$ 48,992	\$ 795,737	\$ 1,480,238	\$ 98,126	\$ 247,976	\$ 140,285	\$ 3,432,096
Liabilities									
Accounts payable	\$ 2,825	\$ —	\$ 294	\$ —	\$ 647	\$ —	\$ —	\$ —	\$ 3,766
Fund Balances									
Unreserved									
Special revenue	497,017	120,900	48,698	795,737	—	—	—	—	1,462,352
Capital projects	—	—	—	—	1,479,591	98,126	247,976	—	1,825,693
Perpetual care.....	—	—	—	—	—	—	—	140,285	140,285
Total Fund Balances	497,017	120,900	48,698	795,737	1,479,591	98,126	247,976	140,285	3,428,330
Total Liabilities and Fund Balances	\$ 499,842	\$ 120,900	\$ 48,992	\$ 795,737	\$ 1,480,238	\$ 98,126	\$ 247,976	\$ 140,285	\$ 3,432,096

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

Year Ended June 30, 2009

	<u>Special Revenue</u>					<u>Capital Projects</u>		Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Road Use Replacement	Tax Increment Financing	Community Develop- ment Block Grant	Police and Fire Retirement	Employee Benefits	Park Develop- ment	Maintenance Bond		
Revenue									
Tax increment financing	\$ —	\$ 405,897	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 405,897
Use of money and property	11,475	—	1,659	23,520	60,782	2,020	5,078	—	104,534
Intergovernmental.....	153,069	—	27,888	—	—	—	—	—	180,957
Charges for services.....	—	—	—	—	—	—	3,473	—	3,473
Miscellaneous.....	—	—	18,168	—	—	—	—	2,255	20,423
Total Revenue.....	<u>164,544</u>	<u>405,897</u>	<u>47,715</u>	<u>23,520</u>	<u>60,782</u>	<u>2,020</u>	<u>8,551</u>	<u>2,255</u>	<u>715,284</u>
Expenditures									
Current									
Public safety.....	—	—	—	—	32,158	—	—	—	32,158
Public works.....	—	—	—	—	1,927	—	—	—	1,927
Culture and recreation.....	—	—	—	—	46,659	—	—	—	46,659
Community and economic development.....	—	497,779	75,815	—	39,886	—	—	—	613,480
Capital projects.....	<u>267,121</u>	—	—	—	—	—	—	—	<u>267,121</u>
Total Expenditures.....	<u>267,121</u>	<u>497,779</u>	<u>75,815</u>	<u>—</u>	<u>120,630</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>961,345</u>
Revenue Over (Under) Expenditures.....	<u>(102,577)</u>	<u>(91,882)</u>	<u>(28,100)</u>	<u>23,520</u>	<u>(59,848)</u>	<u>2,020</u>	<u>8,551</u>	<u>2,255</u>	<u>(246,061)</u>
Other Financing Sources (Uses)									
Transfers in.....	134,961	—	—	—	88,257	—	—	—	223,218
Transfers out	—	—	—	(25,000)	—	—	—	—	(25,000)
Total Other Financing Sources (Uses).....	<u>134,961</u>	<u>—</u>	<u>—</u>	<u>(25,000)</u>	<u>88,257</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>198,218</u>
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	<u>32,384</u>	<u>(91,882)</u>	<u>(28,100)</u>	<u>(1,480)</u>	<u>28,409</u>	<u>2,020</u>	<u>8,551</u>	<u>2,255</u>	<u>(47,843)</u>
Fund Balances - Beginning of Year	<u>464,633</u>	<u>212,782</u>	<u>76,798</u>	<u>797,217</u>	<u>1,451,182</u>	<u>96,106</u>	<u>239,425</u>	<u>138,030</u>	<u>3,476,173</u>
Fund Balances - End of Year.....	<u>\$ 497,017</u>	<u>\$ 120,900</u>	<u>\$ 48,698</u>	<u>\$ 795,737</u>	<u>\$ 1,479,591</u>	<u>\$ 98,126</u>	<u>\$ 247,976</u>	<u>\$ 140,285</u>	<u>\$ 3,428,330</u>

Combining Statement of Net Assets - Nonmajor Enterprise Funds —————

At June 30, 2009

	Solid Waste Replacement	Storm Water Management	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 132,971	\$ 1,355,674	\$ 1,488,645
Investments	402,000	514,386	916,386
Receivables			
Interest	<u>1,933</u>	<u>2,231</u>	<u>4,164</u>
Total Current Assets	<u>536,904</u>	<u>1,872,291</u>	<u>2,409,195</u>
Noncurrent Assets			
Capital assets (net of accumulated depreciation)	—	956,115	956,115
Capital assets not being depreciated	<u>—</u>	<u>294,608</u>	<u>294,608</u>
Total Noncurrent Assets	<u>—</u>	<u>1,250,723</u>	<u>1,250,723</u>
Total Assets	<u>\$ 536,904</u>	<u>\$ 3,123,014</u>	<u>\$ 3,659,918</u>
Liabilities			
Accounts payable	<u>\$ 150,000</u>	<u>\$ 9,857</u>	<u>\$ 159,857</u>
Net Assets			
Invested in capital assets, net of related debt	—	1,250,723	1,250,723
Unrestricted	<u>386,904</u>	<u>1,862,434</u>	<u>2,249,338</u>
Total Net Assets	<u>386,904</u>	<u>3,113,157</u>	<u>3,500,061</u>
Total Liabilities and Net Assets	<u>\$ 536,904</u>	<u>\$ 3,123,014</u>	<u>\$ 3,659,918</u>

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

Year Ended June 30, 2009

	Solid Waste Replacement	Storm Water Management	Total
Operating Revenue			
Charges for services.....	\$ 191,339	\$ 394,243	\$ 585,582
Miscellaneous revenue.....	<u>—</u>	<u>17,550</u>	<u>17,550</u>
Total Operating Revenue	<u>191,339</u>	<u>411,793</u>	<u>603,132</u>
Operating Expenses			
Services and commodities.....	161,046	19,158	180,204
Depreciation	<u>—</u>	<u>12,594</u>	<u>12,594</u>
Total Operating Expenses	<u>161,046</u>	<u>31,752</u>	<u>192,798</u>
Operating Income (Loss)	<u>30,293</u>	<u>380,041</u>	<u>410,334</u>
Nonoperating Revenue			
Investment income	<u>25,189</u>	<u>59,900</u>	<u>85,089</u>
Income (Loss) Before Contributions and Transfers	55,482	439,941	495,423
Transfers out	<u>(139,900)</u>	<u>(409,446)</u>	<u>(549,346)</u>
Change in Net Assets.....	(84,418)	30,495	(53,923)
Net Assets - Beginning of Year	<u>471,322</u>	<u>3,082,662</u>	<u>3,553,984</u>
Net Assets - End of Year	<u>\$ 386,904</u>	<u>\$ 3,113,157</u>	<u>\$ 3,500,061</u>

Combining Statement of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2009

	Solid Waste Replacement	Storm Water Management	Total
Cash Flows From Operating Activities			
Receipts from customers.....	\$ 191,399	\$ 412,479	\$ 603,878
Payments to suppliers	<u>(11,046)</u>	<u>(36,231)</u>	<u>(47,277)</u>
Net Cash Provided by Operating Activities.....	<u>180,353</u>	<u>376,248</u>	<u>556,601</u>
Cash Flows From Noncapital Financing Activities			
Operating transfers	<u>(139,900)</u>	<u>(409,446)</u>	<u>(549,346)</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	<u>—</u>	<u>(104,834)</u>	<u>(104,834)</u>
Cash Flows From Investing Activities			
Interest received.....	25,189	59,900	85,089
Sale of government securities	<u>—</u>	<u>129,100</u>	<u>129,100</u>
Net Cash Provided by Investing Activities.....	<u>25,189</u>	<u>189,000</u>	<u>214,189</u>
Net Increase (Decrease) in Cash and Cash Equivalents	65,642	50,968	116,610
Cash and Cash Equivalents at Beginning of Year	<u>67,329</u>	<u>1,304,706</u>	<u>1,372,035</u>
Cash and Cash Equivalents at End of Year	<u>\$ 132,971</u>	<u>\$ 1,355,674</u>	<u>\$ 1,488,645</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss).....	\$ 30,293	\$ 380,041	\$ 410,334
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by Operating Activities			
Depreciation.....	—	12,594	12,594
(Increase) decrease in receivables.....	60	686	746
Increase (decrease) in accounts payable...	<u>150,000</u>	<u>(17,073)</u>	<u>132,927</u>
Net Cash Provided by Operating Activities	<u>\$ 180,353</u>	<u>\$ 376,248</u>	<u>\$ 556,601</u>

Schedule of Revenue by Source and Expenditures by Function

All Governmental Funds

Years Ended June 30, 2006 Through 2009

	2009	2008	2007	2006
Revenue				
Property taxes	\$ 14,436,527	\$ 12,820,700	\$ 12,512,678	\$ 11,826,079
Tax increment financing and other city taxes.....	925,485	856,874	822,768	869,887
Special assessments.....	21,446	22,848	23,716	24,340
Licenses and permits.....	542,547	532,826	528,180	592,713
Use of money and property	874,905	1,135,512	1,198,796	1,089,406
Intergovernmental.....	3,693,796	3,752,935	2,943,735	3,946,362
Charges for service	408,310	367,322	394,383	388,304
Miscellaneous.....	<u>318,639</u>	<u>377,097</u>	<u>287,072</u>	<u>409,139</u>
Total Revenue	<u>\$ 21,221,655</u>	<u>\$ 19,866,114</u>	<u>\$ 18,711,328</u>	<u>\$ 19,146,230</u>
Expenditures				
Operating				
Public safety.....	\$ 7,225,455	\$ 7,443,939	\$ 6,870,973	\$ 6,766,956
Public works.....	2,988,781	2,969,549	2,563,142	2,597,935
Culture and recreation	3,025,885	2,854,777	2,612,677	2,541,376
Community and economic development.....	1,784,298	1,319,293	1,437,522	1,523,641
General government	1,660,215	1,494,061	1,776,781	1,281,742
Debt service.....	3,761,247	4,106,061	1,853,090	1,902,207
Capital projects.....	<u>5,540,965</u>	<u>2,380,396</u>	<u>4,209,427</u>	<u>6,899,597</u>
Total Expenditures	<u>\$ 25,986,846</u>	<u>\$ 22,568,076</u>	<u>\$ 21,323,612</u>	<u>\$ 23,513,454</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

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 Justice			
Direct			
Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	Various	<u>\$ 8,960</u>
U.S. Environmental Protection Agency			
Direct			
Brownfields Assessment and Cleanup Cooperative Agreements.....	66.818	BF98764401	25,755
		BF98778901	33,933
		BF98790301	20,499
		BF98778801-1	<u>37,926</u>
			<u>118,113</u>
U.S. Department of Homeland Security			
Direct			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DR-IA	<u>252,646</u>
U.S. Department of Housing and Urban Development			
Indirect			
Pass-Through Iowa Department of Economic Development Community Development Block Grant/Entitlement Grant	14.218	08-HSG-033	<u>78,622</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	2,051,110
Pass-Through Department of Public Safety/Governor's Traffic Safety Bureau State and Community Highway Safety	20.600	Various	<u>27,427</u>
Total U.S. Department of Transportation			<u>2,078,537</u>
Total Expenditures of Federal Awards			<u>\$ 2,536,878</u>

Schedule of Expenditures of Federal Awards ---

Year Ended June 30, 2009

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

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Marion, Iowa's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the City of Marion, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Marion, Iowa's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Marion, Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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
November 24, 2009

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

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

Compliance

We have audited the compliance of the City of Marion, Iowa, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Marion, Iowa's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Marion, Iowa's management. Our responsibility is to express an opinion on the City of Marion, Iowa's compliance based on our audit.

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

In our opinion, the City of Marion, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiency described in Part III of the accompanying Schedule of Findings and Questioned Costs is a material weakness.

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

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

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
November 24, 2009

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

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, 2009

Part II: Findings Related to the Financial Statements:

Instances of Noncompliance

There were no reported instances of noncompliance.

Significant Deficiencies

09-II-IC-1 Segregation of Duties

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

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

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance

There were no reported instances of noncompliance.

Significant Deficiencies

09-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 09-II-C-1 for additional information.

Part IV: Findings Related to Statutory Reporting

09-IV-A Certified Budget - Disbursements during the year ended June 30, 2009 did not exceed the amounts in the amended budget.

09-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.

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

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

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2009

- 09-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.
- 09-IV-F Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not except as noted below. We also noted that the Council minutes were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa for all meetings.
- 09-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.