

**CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2012**

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Officials

Name	Title	Term Expires
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Elected Officials

(Before January, 2012)

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

(Beginning January, 2012)

Allen Snooks Bouska	Mayor	December 31, 2015
Kim Etzel	Council Member - First Ward	December 31, 2015
Joe Spinks	Council Member - Second Ward	December 31, 2013
Cody Crawford	Council Member - Third Ward	December 31, 2015
Louis Stark	Council Member - Fourth Ward	December 31, 2013
Craig Adamson	Council Member - At-Large	December 31, 2013
Paul Draper	Council Member - At-Large	December 31, 2015

Appointed Officials

Lon Pluckhahn	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Donald C. Hoskins	City Attorney	Indefinite
Tom Treharne	Director of Planning and Development	Indefinite
Harry Daugherty	Chief of Police	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Terry Jackson	Fire Chief	Civil Service
Doug Raber	Library Director	Indefinite
Richard Fox	Director of Parks and Recreation	Indefinite
Ryan Miller	Public Services Director	Indefinite
Robert A. Anderson	Marion Municipal Water Department - Trustee 2011 Chairperson	December 31, 2014
Gregory O. Hapgood	Marion Municipal Water Department - Trustee 2012 Chairperson	December 31, 2016
Mary Ann McComas	Marion Municipal Water Department - Trustee	December 31, 2012
John D. McIntosh	Marion Municipal Water Department - Trustee	December 31, 2012
John C. Bender	Marion Municipal Water Department - Trustee	December 31, 2014
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, 2012, 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'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 as of June 30, 2012, 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 February 21, 2013 on our consideration of the City of Marion'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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and
Members of the City Council
City of Marion, Iowa
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Management's Discussion and Analysis, the budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 10 and pages 42 and 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion'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 five years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the three years ended June 30, 2006 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements. The supplementary information included on pages 45 through 53, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information 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
February 21, 2013

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, 2012. 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's governmental activities exceeded its liabilities at the close of June 30, 2012 by \$187.7 million (net assets). Of this amount, \$10.3 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 \$9.8 million.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$6.9 million, or 44% of the total general fund expenditures. For the purpose of these financial statements, the General fund also includes the Equipment Replacement and the Tax Stabilization Funds.

Total general obligation debt increased by \$11,370,000. There were \$13,840,000 of general obligation bonds issued during the year and repayment of bond principal of \$2,470,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has three kinds of funds:

1. Governmental Funds

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

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

2. Proprietary Funds

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

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

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

3. Fiduciary Funds

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business-type activities.

	Net Assets at End of Year					
	(in thousands)					
	Governmental Activities		Business-Type Activities		Total Government	
	2012	2011 (Restated - Note 19)	2012	2011 (Restated - Note 19)	2012	2011 (Restated - Note 19)
Cash and pooled investments	\$ 45,376	\$ 33,373	\$ 8,559	\$ 9,117	\$ 53,935	\$ 42,490
Other assets	17,991	17,776	1,374	1,091	19,365	18,867
Capital assets	<u>178,507</u>	<u>166,253</u>	<u>17,677</u>	<u>17,790</u>	<u>196,184</u>	<u>184,043</u>
Total Assets	<u>241,874</u>	<u>217,402</u>	<u>27,610</u>	<u>27,998</u>	<u>269,484</u>	<u>245,400</u>
Current liabilities	23,370	20,814	329	832	23,699	21,646
Noncurrent liabilities	<u>30,802</u>	<u>18,664</u>	—	—	<u>30,802</u>	<u>18,664</u>
Total Liabilities	<u>54,172</u>	<u>39,478</u>	<u>329</u>	<u>832</u>	<u>54,501</u>	<u>40,310</u>
Net Assets						
Invested in capital assets, net of debt	149,392	148,746	17,677	17,790	167,069	166,536
Restricted	28,039	19,261	—	—	28,039	19,261
Unrestricted	<u>10,271</u>	<u>9,917</u>	<u>9,604</u>	<u>9,376</u>	<u>19,875</u>	<u>19,293</u>
Total Net Assets	<u>\$ 187,702</u>	<u>\$ 177,924</u>	<u>\$ 27,281</u>	<u>\$ 27,166</u>	<u>\$ 214,983</u>	<u>\$ 205,090</u>

Net assets of governmental activities increased approximately \$9.8 million for the fiscal year 2012. Net assets of business-type activities increased approximately \$0.1 million for the fiscal year 2012. 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. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. 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 \$10.3 million at the end of this year for governmental activities and \$9.6 million for business-type activities.

A summary version of the Statement of Activities follows:

Changes in Net Assets for the Year Ended June 30,						
(in thousands)						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2012	2011 (Restated - Note 19)	2012	2011 (Restated - Note 19)	2012	2011 (Restated - Note 19)
Revenue						
Charges for service	\$ 1,459	\$ 1,414	\$ 5,354	\$ 5,003	\$ 6,813	\$ 6,417
Operating grants and contributions	431	597	119	—	550	597
Capital grants and contributions	5,164	12,219	10	599	5,174	12,818
General Revenue						
Property taxes	16,298	15,639	—	—	16,298	15,639
Other taxes	5,073	4,909	—	—	5,073	4,909
Franchise fees	328	329	—	—	328	329
Road use taxes	3,271	2,743	—	—	3,271	2,743
Investment income	709	711	129	102	838	813
Miscellaneous	24	70	—	61	24	131
Loss on sale of assets	(426)	—	—	—	(426)	—
Total Revenue	<u>32,331</u>	<u>38,631</u>	<u>5,612</u>	<u>5,765</u>	<u>37,943</u>	<u>44,396</u>
Program Expenses						
Public safety	9,186	7,485	—	—	9,186	7,485
Public works	6,364	6,605	—	—	6,364	6,605
Culture and recreation	3,173	3,398	—	—	3,173	3,398
Community and economic development	1,908	1,608	—	—	1,908	1,608
General government	2,169	1,904	—	—	2,169	1,904
Interest on long-term debt	633	762	—	—	633	762
Sanitary sewer	—	—	3,065	2,948	3,065	2,948
Solid waste management	—	—	1,448	1,550	1,448	1,550
City communication and utility	—	—	49	—	49	—
Urban forest	—	—	55	—	55	—
Total Expenses	<u>23,433</u>	<u>21,762</u>	<u>4,617</u>	<u>4,498</u>	<u>28,050</u>	<u>26,260</u>
Transfers	<u>880</u>	<u>476</u>	<u>(880)</u>	<u>(476)</u>	<u>—</u>	<u>—</u>
Changes in Net Assets	<u>9,778</u>	<u>17,345</u>	<u>115</u>	<u>791</u>	<u>9,893</u>	<u>18,136</u>
Beginning net assets, as restated	177,924	160,579	27,166	26,375	205,090	186,954
Ending Net Assets	<u>\$ 187,702</u>	<u>\$ 177,924</u>	<u>\$ 27,281</u>	<u>\$ 27,166</u>	<u>\$ 214,983</u>	<u>\$ 205,090</u>

Governmental Activities

Charges for services make up 4.5% of governmental revenue. Operating and capital grants, primarily for street projects and building improvement projects, make up another 17.3% of governmental revenue. The remaining revenue comes from taxes, primarily property taxes and interest revenue.

Business-Type Activities

As expected, charges for services is the primary revenue source for business-type activities. Sanitary sewer fees, urban forest fees and solid waste fees are the primary charges for services that make up 95.4% of total revenue. Investment income accounts for an additional 2.3% of total revenue.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Marion completed the year, its governmental funds reported a combined fund balance of \$39,804,624, which is more than the \$30,090,266 total fund balance at June 30, 2011. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a modest increase in fund balance of \$557,938 from the prior year to \$11,391,373. Revenue increased 3% over the prior year to \$12,558,494 and expenditures increased 3.9% to \$15,726,697. Other financing sources totaled \$3,726,141.

The Road Use Fund is used to account for the maintenance of the City's infrastructure. This fund ended fiscal year 2012 with a balance of \$1,113,439 compared to the prior year ending balance of \$486,141. Revenue increased \$527,845 or 19.2% over the prior period.

The Trust and Agency (Employee Benefits) Fund is required by the Code of Iowa to account for property taxes levied for employee benefits. This fund showed a small increase of \$46,053 from the prior year to \$306,733.

The Debt Service Fund ended fiscal year 2012 with an (\$89,680) deficit balance compared to the prior year ending deficit balance of (\$276,830). Property tax revenue increased \$234,141 while bond principal and interest payments increased \$22,851 in fiscal year 2012.

The Capital Projects Fund ended fiscal year 2012 with a \$25,758,692 balance compared to the prior year ending balance of \$17,658,196. The increase is due to current year bond issues.

Proprietary Fund Highlights

The Sewer Rental Fund accounts for the operation and maintenance of the City's sanitary sewer system. This fund ended fiscal year 2012 with a net asset balance of \$16,405,098 compared to the prior year ending net asset balance of \$16,850,011.

Budgetary Highlights

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$178,506,570 (net of accumulated depreciation) at June 30, 2012. Capital assets for business-type activities totaled \$17,677,468 (net of accumulated depreciation) at June 30, 2012. See Note 4 to the financial statements for more information about the City's capital assets.

Construction in progress at June 30, 2012 for governmental activities consists primarily of street projects, communication system and police station.

Long-Term Debt

At June 30, 2012, the City had \$28,629,627 of outstanding general obligation bonds and notes for governmental activities. See Note 5 to the financial statements for more information about the City's long-term debt.

The City continues to carry a general obligation bond rating of Aa1 assigned by national rating agencies to the City's debt since 2010. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$60 million. Additional information about the City's long-term debt is presented in Note 5 to the financial statements.

During the year ended June 30, 2012, the City issued a total of \$13,840,000 of general obligation bonds to pay costs of construction of improvements to streets and storm sewers, reimbursing a developer for the cost of constructing street improvements and acquiring equipment and establishing a joint peace officer and emergency communication services system with Linn County and the City of Cedar Rapids.

ECONOMIC FACTORS

The unemployment rate for Linn County is currently at 5.4%, which is where it was the previous year and less than the national unemployment rate of 8.2%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2012, the most recent available (April 1, 2011 to March 31, 2012), retail sales for Marion were \$341 million and \$3.528 billion for Linn County. For fiscal year 2011, retail sales were \$329 million for Marion and \$3.425 billion for Linn County.

The total value of building permits for fiscal year 2012 was approximately \$36.7 million, which is down slightly from the fiscal year 2011 amount of \$37.7 million. We did not have any big projects in either fiscal years 2011 and 2012 as we have had in previous fiscal years.

NEXT YEAR'S BUDGET AND RATES

The adopted fiscal year 2012-2013 budget calls for an increase in tax receipts of 4.1% and accomplishes all of the Council's long-standing objectives including maintaining the current level of services, maintaining adequate levels of cash reserves and complying with all of the City's financial policies.

The City anticipates an 11.6% increase in wastewater treatment payments to the City of Cedar Rapids for fiscal year 2012-2013. Increased customer accounts will be sufficient to provide the revenue needed to cover that cost increase. Additionally, the higher than projected local option sales tax collections have eliminated the need for a rate increase to cover the first phase of the trunk sewer project. No rate increase is proposed.

The City also anticipates an increase in the solid waste fee for fiscal year 2012-2013. This increase is needed to offset the costs to add an additional driver and route to stay on a five-day collection schedule.

The total City tax levy rate for fiscal year 2012-2013 is 13.62416 per taxable valuation compared to 13.50980 for fiscal year 2011-2012. Net taxable valuation for fiscal year 2012-2013 is \$1,227.4 million, which was an increase of \$33.7 million from the fiscal year 2011-2012 level which was \$1,193.7 million.

FINANCIAL INFORMATION CONTACT

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

Basic Financial Statements

Statement of Net Assets

As of June 30, 2012

	Primary Government			Component
	Governmental Activities	Business Activities	Total	Unit Water
Assets				
Current Assets				
Cash and pooled investments.....	\$ 21,646,002	\$ 6,379,239	\$ 28,025,241	\$ 2,366,012
Investments.....	23,730,269	2,179,575	25,909,844	—
Receivables				
Accounts (net of allowance for uncollectible accounts)	150,731	295,146	445,877	159,350
Unbilled usage.....	—	602,089	602,089	416,372
Accrued interest.....	41,576	7,167	48,743	5
Property Taxes				
Delinquent	165,352	—	165,352	—
Succeeding year.....	16,658,459	—	16,658,459	—
Due from other governments	551,690	14,975	566,665	—
Due from other funds	9,389	—	9,389	—
Interfund loan	—	100,679	100,679	—
Inventories.....	164,875	—	164,875	136,234
Total Current Assets	63,118,343	9,578,870	72,697,213	3,077,973
Noncurrent Assets				
Interfund loan	—	354,049	354,049	—
Bond issue costs (net of accumulated amortization).....	249,472	—	249,472	31,500
Capital assets (net of accumulated depreciation).....	83,911,843	16,790,569	100,702,412	12,477,768
Capital assets not being depreciated.....	94,594,727	886,899	95,481,626	4,226,856
Total Noncurrent Assets	178,756,042	18,031,517	196,787,559	16,736,124
Restricted Assets				
Cash.....	—	—	—	108,243
Loan proceeds restricted for capital project	—	—	—	604,149
Total Restricted Assets	—	—	—	712,392
Total Assets	\$ 241,874,385	\$ 27,610,387	\$ 269,484,772	\$ 20,526,489

See accompanying notes to the financial statements.

	<u>Primary Government</u>			<u>Component</u>
	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>Unit</u>
	<u>Activities</u>	<u>Activities</u>		<u>Water</u>
Liabilities				
Current Liabilities				
Accounts payable.....	\$ 3,100,678	\$ 269,764	\$ 3,370,442	\$ 347,188
Salary and benefits payable.....	537,440	32,841	570,281	39,649
Accrued interest payable	74,100	—	74,100	5,406
Due to other funds.....	—	8,758	8,758	—
Deferred Revenue				
Succeeding year property taxes.....	16,658,459	—	16,658,459	—
Self-insured estimated claims	206,456	—	206,456	22,253
Reinsurance premiums payable	41,291	—	41,291	—
Long-Term Liabilities				
Portion Due or Payable Within One Year				
General obligation bonds.....	2,590,000	—	2,590,000	—
General obligation notes.....	35,933	—	35,933	—
SRF loan	—	—	—	131,000
Compensated absences	4	17,262	17,266	53,820
Nonbonded indebtedness.....	24,990	—	24,990	—
Interfund loan	100,679	—	100,679	—
Total Current Liabilities	<u>23,370,030</u>	<u>328,625</u>	<u>23,698,655</u>	<u>599,316</u>
Noncurrent Liabilities				
Long-Term Liabilities				
Portion Due or Payable After One Year				
General obligation bonds.....	25,865,000	—	25,865,000	—
General obligation notes.....	138,694	—	138,694	—
SRF loan	—	—	—	3,242,000
Compensated absences	2,683,229	—	2,683,229	—
Nonbonded indebtedness.....	161,800	—	161,800	—
Net OPEB liability	1,115,000	—	1,115,000	70,000
Premium on general obligation bonds	484,806	—	484,806	—
Interfund loan	354,049	—	354,049	—
Total Noncurrent Liabilities	<u>30,802,578</u>	<u>—</u>	<u>30,802,578</u>	<u>3,312,000</u>
Liabilities Payable From Restricted Assets				
Customer deposits	—	—	—	<u>108,243</u>
Total Liabilities	<u>54,172,608</u>	<u>328,625</u>	<u>54,501,233</u>	<u>4,019,559</u>
Net Assets				
Invested in capital assets, net of related debt.....	149,392,137	17,677,468	167,069,605	13,935,773
Restricted for				
Streets	1,754,505	—	1,754,505	—
Grants.....	306,733	—	306,733	—
Capital projects.....	25,758,692	—	25,758,692	—
Cemetery perpetual care.....	149,605	—	149,605	—
Other purposes.....	69,109	—	69,109	—
Unrestricted.....	10,270,996	9,604,294	19,875,290	2,571,157
Total Net Assets	<u>187,701,777</u>	<u>27,281,762</u>	<u>214,983,539</u>	<u>16,506,930</u>
Total Liabilities and Net Assets	<u>\$ 241,874,385</u>	<u>\$ 27,610,387</u>	<u>\$ 269,484,772</u>	<u>\$ 20,526,489</u>

Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Change in Net Assets			Component Unit
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
Public safety.....	\$ 9,186,441	\$ 320,773	\$ 91,945	\$ —	\$ (8,773,723)	\$ —	\$ (8,773,723)	\$ —
Public works.....	6,363,829	15,739	3,215	3,687,592	(2,657,283)	—	(2,657,283)	—
Culture and recreation.....	3,173,418	479,622	274,301	46,731	(2,372,764)	—	(2,372,764)	—
Community and economic development.....	1,907,842	616,152	34,142	1,429,694	172,146	—	172,146	—
General government	2,168,744	26,248	27,761	—	(2,114,735)	—	(2,114,735)	—
Interest on long-term debt	632,549	—	—	—	(632,549)	—	(632,549)	—
Total Governmental Activities.....	23,432,823	1,458,534	431,364	5,164,017	(16,378,908)	—	(16,378,908)	—
Business-Type Activities								
Sewer.....	3,064,414	3,694,357	21,247	9,612	—	660,802	660,802	—
Solid waste.....	1,448,236	1,482,924	—	—	—	34,688	34,688	—
City communication and utility	49,031	—	98,041	—	—	49,010	49,010	—
Urban forest	54,787	177,016	—	—	—	122,229	122,229	—
Total Business-Type Activities.....	4,616,468	5,354,297	119,288	9,612	—	866,729	866,729	—
Total Primary Government.....	\$ 28,049,291	\$ 6,812,831	\$ 550,652	\$ 5,173,629	(16,378,908)	866,729	(15,512,179)	—
Component Unit - Water.....	\$ 2,294,223	\$ 3,280,193	\$ —	\$ 994,965	—	—	—	1,980,935
General Revenue								
Property taxes					16,298,027	—	16,298,027	—
Tax increment financing					748,727	—	748,727	—
Other Taxes								
Cable television franchise					327,538	—	327,538	—
Hotel/motel.....					158,967	—	158,967	—
Road use tax.....					3,270,837	—	3,270,837	—
Local option sales tax.....					4,151,520	—	4,151,520	—
Investment income					709,424	129,326	838,750	35,102
Special assessments.....					13,910	62	13,972	—
Miscellaneous.....					24,021	—	24,021	27,974
Loss on sale of capital assets.....					(426,394)	—	(426,394)	(36,922)
Transfers.....					880,205	(880,205)	—	—
Total General Revenue and Transfers					26,156,782	(750,817)	25,405,965	26,154
Change in Net Assets.....					9,777,874	115,912	9,893,786	2,007,089
Net Assets - Beginning of Year, as Restated (Note 19)					177,923,903	27,165,850	205,089,753	14,499,841
Net Assets - End of Year					\$ 187,701,777	\$ 27,281,762	\$ 214,983,539	\$ 16,506,930

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of June 30, 2012

	<u>Special Revenue</u>						Total
	General	Road Use	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor	
Assets							
Cash and pooled investments	\$ 6,983,488	\$ 953,529	\$ 284,436	\$ 181,479	\$ 10,204,649	\$ 1,391,508	\$ 19,999,089
Investments	4,702,667	119,942	—	7,866	17,893,125	122,416	22,846,016
Receivables							
Accounts	112,367	1,718	—	—	—	3,200	117,285
Accrued Interest.....	6,014	—	—	—	31,684	—	37,698
Property Taxes							
Delinquent.....	99,627	—	30,857	27,756	—	7,112	165,352
Succeeding year	10,431,178	—	3,049,738	3,177,543	—	—	16,658,459
Due from other governments.....	—	243,233	—	—	308,457	—	551,690
Due from other funds	9,389	—	—	—	—	—	9,389
Interfund loan.....	52,053	—	—	—	—	—	52,053
Inventories.....	164,875	—	—	—	—	—	164,875
Total Assets	<u>\$ 22,561,658</u>	<u>\$ 1,318,422</u>	<u>\$ 3,365,031</u>	<u>\$ 3,394,644</u>	<u>\$ 28,437,915</u>	<u>\$ 1,524,236</u>	<u>\$ 60,601,906</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 264,104	\$ 142,546	\$ 8,560	\$ —	\$ 2,679,223	\$ 169	\$ 3,094,602
Salaries and benefits payable.....	475,003	62,437	—	—	—	—	537,440
Deferred Revenue							
Succeeding year property taxes.....	10,431,178	—	3,049,738	3,177,543	—	—	16,658,459
Interfund loan	—	—	—	306,781	—	200,000	506,781
Total Liabilities	<u>11,170,285</u>	<u>204,983</u>	<u>3,058,298</u>	<u>3,484,324</u>	<u>2,679,223</u>	<u>200,169</u>	<u>20,797,282</u>
Fund Balances							
Nonspendable							
Inventories	164,875	—	—	—	—	—	164,875
Cemetery perpetual care.....	—	—	—	—	—	149,605	149,605
Restricted for							
Streets	—	1,113,439	—	—	—	641,066	1,754,505
Grants	—	—	306,733	—	—	—	306,733
Capital projects	—	—	—	—	25,758,692	—	25,758,692
Other purposes	—	—	—	—	—	69,109	69,109
Committed for							
Pension.....	754,216	—	—	—	—	—	754,216
Capital projects	—	—	—	—	—	285,243	285,243
Assigned for							
Equipment reserve.....	3,025,909	—	—	—	—	—	3,025,909
Tax credit reimbursement	372,169	—	—	—	—	—	372,169
Census reserve.....	150,425	—	—	—	—	—	150,425
Capital projects	—	—	—	—	—	179,044	179,044
Unassigned	6,923,779	—	—	(89,680)	—	—	6,834,099
Total Fund Balances	<u>11,391,373</u>	<u>1,113,439</u>	<u>306,733</u>	<u>(89,680)</u>	<u>25,758,692</u>	<u>1,324,067</u>	<u>39,804,624</u>
Total Liabilities and Fund Balances	<u>\$ 22,561,658</u>	<u>\$ 1,318,422</u>	<u>\$ 3,365,031</u>	<u>\$ 3,394,644</u>	<u>\$ 28,437,915</u>	<u>\$ 1,524,236</u>	<u>\$ 60,601,906</u>

See accompanying notes to the financial statements.

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

As of June 30, 2012

Total Fund Balances for Governmental Funds (Page 13).... **\$ 39,804,624**

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$232,461,792 and the accumulated depreciation is \$53,955,222..... 178,506,570

The Internal Service Fund is used by management to charge the costs of employee benefits and the partially self-funded insurance plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the statement of net assets..... 2,314,667

Unamortized bond issue costs are not financial resources and, therefore, are not reported as assets in the governmental funds..... 249,472

Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds..... (74,100)

Long-term liabilities are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.

Compensated absences.....	\$	(2,683,233)	
General obligation bonds		(28,455,000)	
NET OPEB liability		(1,115,000)	
Nonbonded indebtedness		(186,790)	
General obligation notes		(174,627)	
Premium on general obligation bonds		(484,806)	
		(484,806)	(33,099,456)

Net Assets of Governmental Activities (Page 12) **\$ 187,701,777**

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

Year Ended June 30, 2012

	<u>Special Revenue</u>						Total
	General	Road Use	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor	
Revenue							
Property taxes	\$ 10,263,844	\$ —	\$ 3,179,497	\$ 2,854,686	\$ —	\$ —	\$ 16,298,027
Tax increment financing	—	—	—	—	—	748,727	748,727
Other taxes	486,505	—	—	—	4,151,520	—	4,638,025
Licenses and permits	502,751	—	—	—	—	—	502,751
Use of money and property	191,022	—	556	6,276	454,825	4,557	657,236
Intergovernmental	299,277	3,270,835	94,730	—	1,325,362	34,142	5,024,346
Charges for service	806,005	—	25,114	—	500	10,822	842,441
Special assessments	—	—	—	13,910	—	—	13,910
Miscellaneous	9,090	—	—	—	212,608	23,215	244,913
Total Revenue	<u>12,558,494</u>	<u>3,270,835</u>	<u>3,299,897</u>	<u>2,874,872</u>	<u>6,144,815</u>	<u>821,463</u>	<u>28,970,376</u>
Expenditures							
Operating							
Public safety	8,167,593	—	31,891	—	—	—	8,199,484
Public works	1,250,026	2,133,615	—	—	—	—	3,383,641
Culture and recreation	3,285,925	—	63,752	—	—	—	3,349,677
Community and economic development	1,146,380	—	—	—	—	673,327	1,819,707
General government	1,876,773	—	—	—	—	—	1,876,773
Debt Service							
Principal	—	—	—	2,529,347	—	—	2,529,347
Interest and other charges	—	—	—	603,748	257,531	—	861,279
Capital projects	—	267,432	—	—	11,731,824	199,074	12,198,330
Total Expenditures	<u>15,726,697</u>	<u>2,401,047</u>	<u>95,643</u>	<u>3,133,095</u>	<u>11,989,355</u>	<u>872,401</u>	<u>34,218,238</u>
Revenue Over (Under) Expenditures	<u>(3,168,203)</u>	<u>869,788</u>	<u>3,204,254</u>	<u>(258,223)</u>	<u>(5,844,540)</u>	<u>(50,938)</u>	<u>(5,247,862)</u>
Other Financing Sources (Uses)							
Operating transfers in	3,762,920	530,019	—	445,373	—	491,080	5,229,392
Operating transfers out	(71,604)	(772,509)	(3,158,201)	—	(192,106)	(244,719)	(4,439,139)
Sale of capital assets	34,825	—	—	—	—	—	34,825
General obligation bonds issued	—	—	—	—	13,840,000	—	13,840,000
Premium on general obligation bonds issued	—	—	—	—	297,142	—	297,142
Total Other Financing Sources (Uses)	<u>3,726,141</u>	<u>(242,490)</u>	<u>(3,158,201)</u>	<u>445,373</u>	<u>13,945,036</u>	<u>246,361</u>	<u>14,962,220</u>
Net Changes in Fund Balances	557,938	627,298	46,053	187,150	8,100,496	195,423	9,714,358
Fund Balances (Deficit) - Beginning of Year, as Restated (Note 19)	10,833,435	486,141	260,680	(276,830)	17,658,196	1,128,644	30,090,266
Fund Balances (Deficit) - End of Year	<u>\$ 11,391,373</u>	<u>\$ 1,113,439</u>	<u>\$ 306,733</u>	<u>\$ (89,680)</u>	<u>\$ 25,758,692</u>	<u>\$ 1,324,067</u>	<u>\$ 39,804,624</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012

Net Changes in Fund Balances - Total Governmental Funds (Page 15) \$ 9,714,358

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

Repayment on notes receivable provide current financial resources to governmental funds but decrease receivables in the statement of net assets. (48,451)

In the statement of activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (1,025,338)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Capital outlay	\$ 14,103,233	
Contributed capital assets	3,734,323	
Depreciation expense.....	<u>(4,559,101)</u>	13,278,455

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the statement of net assets. Repayment or amortization of the long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assts. Current year issues exceeded repayments, bond issue costs and amortization as follows:

Increase in nonbonded indebtedness.....	\$ (13,006)	
Repayment of nonbonded indebtedness	25,000	
General obligation bonds issued	(13,840,000)	
Repayment of general obligation bond principal	2,470,000	
Repayment of general obligation note principal	34,347	
Premium on general obligation bonds	(297,142)	
Amortization of premium on general obligation bonds	25,634	
Bond issue costs.....	<u>249,472</u>	(11,345,695)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds as follows:

Compensated absences.....	\$ (239,479)	
Other post-employment benefits.....	(323,650)	
Interest on long-term debt	<u>(46,376)</u>	(609,505)

The Internal Service Fund is used by management to charge the costs of employee benefits and the partially self-funded insurance plan to individual funds. The change in net assets of the Internal Service Fund is reported within governmental activities. (185,950)

Change in Net Assets of Governmental Activities (Page 12) \$ 9,777,874

Statement of Net Assets - Proprietary Funds

As of June 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer Rental</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Activities</u> <u>Internal</u> <u>Service Fund</u>
Assets				
Current Assets				
Cash and pooled investments.....	\$ 442,607	\$ 5,936,632	\$ 6,379,239	\$ 1,646,913
Investments.....	351,106	1,828,469	2,179,575	884,253
Receivables				
Accounts.....	163,879	131,267	295,146	33,446
Unbilled usage.....	362,674	239,415	602,089	—
Accrued interest.....	—	7,167	7,167	3,878
Due from other governments.....	—	14,975	14,975	—
Interfund loan.....	48,626	52,053	100,679	—
Total Current Assets	<u>1,368,892</u>	<u>8,209,978</u>	<u>9,578,870</u>	<u>2,568,490</u>
Noncurrent Assets				
Interfund loan	154,049	200,000	354,049	—
Capital assets (net of accumulated depreciation).....	14,928,256	1,862,313	16,790,569	—
Capital assets not being depreciated.....	—	886,899	886,899	—
Total Noncurrent Assets	<u>15,082,305</u>	<u>2,949,212</u>	<u>18,031,517</u>	<u>—</u>
Total Assets	<u>\$ 16,451,197</u>	<u>\$ 11,159,190</u>	<u>\$ 27,610,387</u>	<u>\$ 2,568,490</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable.....	\$ 15,928	\$ 253,836	\$ 269,764	\$ 6,076
Due to other funds.....	—	8,758	8,758	—
Salaries and benefits payable.....	12,909	19,932	32,841	—
Self-insured estimated claims	—	—	—	206,456
Reinsurance premiums payable	—	—	—	41,291
Compensated absences	17,262	—	17,262	—
Total Current Liabilities	<u>46,099</u>	<u>282,526</u>	<u>328,625</u>	<u>253,823</u>
Net Assets				
Invested in capital assets, net of related debt.....	14,928,256	2,749,212	17,677,468	—
Unrestricted	1,476,842	8,127,452	9,604,294	2,314,667
Total Net Assets	<u>16,405,098</u>	<u>10,876,664</u>	<u>27,281,762</u>	<u>2,314,667</u>
Total Liabilities and Net Assets	<u>\$ 16,451,197</u>	<u>\$ 11,159,190</u>	<u>\$ 27,610,387</u>	<u>\$ 2,568,490</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	Sewer Rental	Nonmajor	Total	
Operating Revenue				
Charges for service	\$ 2,770,937	\$ 2,583,360	\$ 5,354,297	\$ —
Special assessments	28	34	62	—
Miscellaneous	—	—	—	1,931,284
Total Operating Revenue	<u>2,770,965</u>	<u>2,583,394</u>	<u>5,354,359</u>	<u>1,931,284</u>
Operating Expenses				
Personal services	460,985	770,139	1,231,124	—
Services and commodities	2,059,035	638,170	2,697,205	2,259,374
Depreciation	457,707	230,432	688,139	—
Total Operating Expenses	<u>2,977,727</u>	<u>1,638,741</u>	<u>4,616,468</u>	<u>2,259,374</u>
Operating Income (Loss)	<u>(206,762)</u>	<u>944,653</u>	<u>737,891</u>	<u>(328,090)</u>
Nonoperating Revenue				
Investment income	11,747	117,579	129,326	52,188
Intergovernmental	—	119,288	119,288	—
Total Nonoperating Revenue	<u>11,747</u>	<u>236,867</u>	<u>248,614</u>	<u>52,188</u>
Income (Loss) Before Transfers and Capital Assets Received (Contributed)	<u>(195,015)</u>	<u>1,181,520</u>	<u>986,505</u>	<u>(275,902)</u>
Transfers and Capital Assets Received (Contributed)				
Capital assets received (contributed)	95,099	(85,487)	9,612	—
Transfers in	—	92,106	92,106	89,952
Transfers out	(344,997)	(627,314)	(972,311)	—
Total Transfers and Capital Assets Received (Contributed)	<u>(249,898)</u>	<u>(620,695)</u>	<u>(870,593)</u>	<u>89,952</u>
Changes in Net Assets	<u>(444,913)</u>	<u>560,825</u>	<u>115,912</u>	<u>(185,950)</u>
Net Assets - Beginning of Year, as Restated (Note 19)	16,850,011	10,315,839	27,165,850	2,500,617
Net Assets - End of Year	<u>\$ 16,405,098</u>	<u>\$ 10,876,664</u>	<u>\$ 27,281,762</u>	<u>\$ 2,314,667</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer Rental</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Internal</u> <u>Service Fund</u>
Cash Flows From Operating Activities				
Receipts from customers	\$ 2,750,677	\$ 2,438,675	\$ 5,189,352	\$ 1,905,441
Payments to employees.....	(494,790)	(758,711)	(1,253,501)	—
Payments to suppliers.....	(2,372,604)	(814,495)	(3,187,099)	(2,302,079)
Net Cash Provided by (Used in)				
Operating Activities	(116,717)	865,469	748,752	(396,638)
Cash Flows From Noncapital Financing Activities				
Net transfers.....	(344,997)	(535,208)	(880,205)	89,952
State and federal grants received	—	104,313	104,313	—
Net Cash Provided by (Used in)				
Noncapital Activities.....	(344,997)	(430,895)	(775,892)	89,952
Cash Flows From Capital and Related Financing Activities				
Cash received from interfund loan repayment	47,325	50,659	97,984	—
Cash transferred from interfund loan	—	(200,000)	(200,000)	—
Purchase of capital assets	(41,113)	(524,996)	(566,109)	—
Cash advance received from other funds	—	8,758	8,758	—
Net Cash Provided by (Used in) Capital and Related Financing Activities	6,212	(665,579)	(659,367)	—
Cash Flows From Investing Activities				
Interest received.....	11,747	116,081	127,828	52,340
Purchase of investments.....	(67)	(621,074)	(621,141)	—
Sale of investments.....	—	822,151	822,151	—
Net Cash Provided by Investing Activities.....	11,680	317,158	328,838	52,340
Net Increase (Decrease) in Cash and Pooled Investments	(443,822)	86,153	(357,669)	(254,346)
Cash and Pooled Investments - Beginning of Year	886,429	5,850,479	6,736,908	1,901,259
Cash and Pooled Investments - End of Year	\$ 442,607	\$ 5,936,632	\$ 6,379,239	\$ 1,646,913
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ (206,762)	\$ 944,653	\$ 737,891	\$ (328,090)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Depreciation	457,707	230,432	688,139	—
Change in Assets and Liabilities				
Increase in receivables.....	(20,288)	(144,719)	(165,007)	(25,843)
Decrease in payables	(313,569)	(176,325)	(489,894)	(42,705)
Increase (decrease) in salaries and benefits payable.....	(32,006)	11,428	(20,578)	—
Increase in compensated absences.....	(1,799)	—	(1,799)	—
Net Cash Provided by (Used in) Operating Activities.....	\$ (116,717)	\$ 865,469	\$ 748,752	\$ (396,638)

Noncash Investing, Capital and Financing Activities

The City paid for \$95,099 of sewer improvements from the Sewer Rent Replacement Fund on behalf of the Sewer Rental Fund resulting in \$41,113 of total cash paid for capital assets for the year ended June 30, 2012 for the Sewer Rental Fund. Of the capital assets transferred to the Sewer Rental Fund, \$9,612 of sewer improvements were paid for during the year ended June 30, 2012 and \$85,487 of sewer improvements were paid for in prior years by the Sewer Rent Replacement Fund.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Trust Funds

As of June 30, 2012

	Cemetery Memorial
Assets	
Investments	<u>\$ 2,000</u>
Liabilities	
Due to other funds	<u>\$ 631</u>
Net Assets	
Held in trust	<u>1,369</u>
Total Liabilities and Net Assets	<u>\$ 2,000</u>

Statement of Changes in Fiduciary Net Assets - Trust Funds

Year Ended June 30, 2012

	Cemetery Memorial
Additions	
Interest income.....	\$ 3
Net Assets - Beginning of Year.....	<u>1,366</u>
Net Assets - End of Year	<u>\$ 1,369</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Reporting Entity

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

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

Discretely Presented Component Unit

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility of the participating governments. City officials are members of the following boards and commissions: Iowa League of Cities, Linn County Emergency Management Agency, Marion Economic Development Company (MEDCO) and Regional Planning Commission.

(1) Summary of Significant Accounting Policies

Basis of Presentation

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

The City had the following major governmental funds:

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

The City had the following major proprietary fund:

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

Measurement Focus and Basis of Accounting

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

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

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

Assets, Liabilities and Fund Equity

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

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

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

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.

(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, 2012 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, 2010 assessed property valuations, is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2011.

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

Due From and Due to Other Funds - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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 (distribution and storm sewer system)	5 - 80 Years
Intangibles.....	50 Years

Deferred Revenue - Although certain revenue is measurable, it is not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Deferred revenue 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.

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 and proprietary 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, 2012. 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, fund balances are classified as follows:

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

(2) Cash and Pooled Investments

The City's deposits at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

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

On June 30, 2012, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$4,909,050 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The City's cash and investments at June 30, 2012 were as follows:

Cash.....	\$ 28,023,241
Pooled cash investments - Iowa Public Agency Investment Trust.....	4,909,050
Money market accounts	8,306,940
U.S. Instrumentalities	
Original maturities 5 years or less	246,000
Original maturities 6 to 10 years.....	7,759
Original maturities 10+ years.....	<u>12,442,095</u>
Total	<u>\$ 53,935,085</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, 2012 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 notes were deemed repaid during the year ended June 30, 2012 as the balance of the notes were transferred to MEDCO for their administration of the remaining balance.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

Primary Government	Balance Beginning of Year (Restated - Note 19)	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 69,836,495	\$ 3,615,636	\$ 564,119	\$ 72,888,012
Construction in progress	<u>14,676,406</u>	<u>10,466,940</u>	<u>3,436,631</u>	<u>21,706,715</u>
Total Capital Assets Not Being Depreciated.....	<u>84,512,901</u>	<u>14,082,576</u>	<u>4,000,750</u>	<u>94,594,727</u>
Capital Assets Being Depreciated				
Buildings	17,391,790	2,333,931	829,302	18,896,419
Improvements other than buildings.....	104,565,368	4,036,190	332,168	108,269,390
Equipment.....	<u>10,595,394</u>	<u>821,490</u>	<u>715,628</u>	<u>10,701,256</u>
Total Capital Assets Being Depreciated.....	<u>132,552,552</u>	<u>7,191,611</u>	<u>1,877,098</u>	<u>137,867,065</u>
Less Accumulated Depreciation for				
Buildings	4,579,588	451,690	396,124	4,635,154
Improvements other than buildings.....	40,078,136	3,218,735	332,076	42,964,795
Equipment.....	<u>6,154,276</u>	<u>888,676</u>	<u>687,679</u>	<u>6,355,273</u>
Total Accumulated Depreciation	<u>50,812,000</u>	<u>4,559,101</u>	<u>1,415,879</u>	<u>53,955,222</u>
Net Capital Assets Being Depreciated.....	<u>81,740,552</u>	<u>2,632,510</u>	<u>461,219</u>	<u>83,911,843</u>
Net Governmental Activities Capital Assets	<u>\$ 166,253,453</u>	<u>\$ 16,715,086</u>	<u>\$ 4,461,969</u>	<u>\$ 178,506,570</u>

Notes to the Financial Statements

(4) Capital Assets

Primary Government	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Construction in progress	\$ 447,390	\$ 524,997	\$ 85,488	\$ 886,899
Capital Assets Being Depreciated				
Buildings	8,300	—	—	8,300
Equipment.....	2,671,672	24,088	—	2,695,760
Distribution system.....	28,124,541	112,124	—	28,236,665
Storm sewer system.....	1,288,759	—	—	1,288,759
Total Capital Assets Being Depreciated.....	<u>32,093,272</u>	<u>136,212</u>	<u>—</u>	<u>32,229,484</u>
Less Accumulated Depreciation for				
Buildings	692	332	—	1,024
Equipment.....	1,282,071	281,240	—	1,563,311
Distribution system.....	13,384,491	390,497	—	13,774,988
Storm sewer system.....	83,522	16,070	—	99,592
Total Accumulated Depreciation	<u>14,750,776</u>	<u>688,139</u>	<u>—</u>	<u>15,438,915</u>
Net Capital Assets Being Depreciated.....	<u>17,342,496</u>	<u>(551,927)</u>	<u>—</u>	<u>16,790,569</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 17,789,886</u>	<u>\$ (26,930)</u>	<u>\$ 85,488</u>	<u>\$ 17,677,468</u>

Depreciation expense was charged by the City as follows for the year ended June 30, 2012:

Governmental Activities	
Public safety.....	\$ 585,034
Public works.....	2,933,690
Culture and recreation.....	820,404
General government	219,973
Total Governmental Activities Depreciation Expense	<u>\$ 4,559,101</u>
Business-Type Activities	
Sewer rental.....	\$ 457,707
Solid waste.....	214,363
Storm water management	16,069
Total Business-Type Activities Depreciation Expense	<u>\$ 688,139</u>

Notes to the Financial Statements

(5) Long-Term Debt Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2012:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year	Due Within One Year	Range of Interest Rates
Governmental Activities						
General obligation bonds	\$ 17,085,000	\$ 13,840,000	\$ 2,470,000	\$ 28,455,000	\$ 2,590,000	2.000 - 4.00%
General obligation notes	208,974	—	34,347	174,627	35,933	4.375 - 5.20
Compensated absences	2,443,754	539,205	299,726	2,683,233	4	N/A
Nonbonded indebtedness	198,784	13,006	25,000	186,790	24,990	2.00
Interfund loan (as restated)	455,424	200,000	148,643	506,781	152,732	2.75
Net OPEB liability.....	791,350	323,650	—	1,115,000	—	N/A
Premium on general obligation bonds	213,298	297,142	25,634	484,806	—	
Totals.....	\$ 21,396,584	\$ 15,213,003	\$ 3,003,350	\$ 33,606,237	\$ 2,803,659	
Business-Type Activities						
Compensated absences	\$ 19,061	\$ —	\$ 1,799	\$ 17,262	\$ 17,262	

Bonds Payable

Nine issues of unmatured general obligation bonds totaling \$28,455,000 were outstanding at June 30, 2012. General obligation bonds bear interest at rates ranging from 2% to 4% and mature in varying annual amounts ranging from \$70,000 to \$710,000, with the final maturities due in the year ending June 30, 2028.

Details of the City's general obligation bonds payable at June 30, 2012 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-12
Governmental Activities						
Corporate purpose	12-1-03	3.40 - 3.70%	6-1-16	\$ 295,000 - \$ 370,000	\$ 3,100,000	\$ 1,425,000
Corporate purpose	12-1-04	3.45 - 3.65	6-1-15	70,000 - 80,000	700,000	235,000
Corporate purpose	12-1-05	3.60 - 3.80	6-1-17	300,000 - 385,000	3,300,000	1,775,000
Corporate purpose	12-15-07	3.55 - 3.80	6-1-18	455,000 - 610,000	5,000,000	3,305,000
Refunding corporate purpose	4-30-09	2.35 - 2.70	6-1-14	260,000 - 275,000	1,310,000	540,000
Corporate purpose	12-15-09	2.00 - 3.13	6-1-20	190,000 - 245,000	2,120,000	1,735,000
Corporate purpose	12-15-09	3.00 - 4.00	6-1-25	340,000 - 535,000	6,285,000	5,600,000
Corporate purpose	2-13-12	2.00 - 3.00	6-1-28	440,000 - 710,000	9,270,000	9,270,000
Corporate purpose	2-13-12	2.00 - 2.13	6-1-23	100,000 - 515,000	4,570,000	4,570,000
						<u>\$ 28,455,000</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

Year Ending June 30,	Principal	Interest	Total
2013	\$ 2,590,000	\$ 881,323	\$ 3,471,323
2014	2,860,000	718,454	3,578,454
2015	2,870,000	635,389	3,505,389
2016	2,855,000	551,751	3,406,751
2017	2,570,000	467,516	3,037,516
2018-2022	8,725,000	1,463,988	10,188,988
2023-2028	5,985,000	494,395	6,479,395
	<u>\$ 28,455,000</u>	<u>\$ 5,212,816</u>	<u>\$ 33,667,816</u>

General Obligation Notes

Two issues of unmatured general obligation notes totaling \$174,627 were outstanding at June 30, 2012. General obligation notes bear interest at rates ranging from 4.375% to 5.2% and mature in annual amounts ranging from \$369 to \$33,638, with the final maturities due in the year ending June 30, 2017.

Details of the City's general obligation notes payable at June 30, 2012 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-12
General Obligation Notes						
Geo-Thermal note	7-20-06	5.200%	7-1-16	\$ 369 - \$ 7,508	\$ 60,255	\$ 28,197
Geo-Thermal note	12-28-06	4.375	1-1-17	20,258 - 33,638	285,577	146,430
						<u>\$ 174,627</u>

Year Ending June 30,	Principal	Interest	Total
2013	\$ 35,933	\$ 7,134	\$ 43,067
2014	37,593	5,474	43,067
2015	39,329	3,738	43,067
2016	41,146	1,921	43,067
2017	20,626	297	20,923
	<u>\$ 174,627</u>	<u>\$ 18,564</u>	<u>\$ 193,191</u>

Interfund Loan Agreements

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

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-12
General	Capital Projects	\$ 200,000	\$ 52,053
Enterprise - Storm Water Management	Capital Projects	200,000	52,053

Notes to the Financial Statements

(5) Long-Term Liabilities

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

In August, 2010, the City approved an interfund loan from the Enterprise - Sewer Rental Fund at a 2.75% annual interest as follows:

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-12
Enterprise - Sewer Rental	Capital Projects	\$ 250,000	\$ 202,675

This loan was to fund an economic development incentive payment to the Genesis Wellness Ecosystem. The loans are eligible for, and the City plans to repay these loans with, the use of the debt service levy through the year ending June 30, 2016.

In August, 2011, the City approved an interfund loan from the Enterprise - Solid Waste Fund to the Tax Increment Financing (TIF) Fund for an undefined period. This loan was used to fund an economic development incentive payment to the ESCO Group. The city will use TIF funds to repay this loan once the TIF district has the funds. It is estimated the City will begin making repayments in three years.

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-12
Enterprise - Solid Waste	Tax Increment Financing	\$ 200,000	\$ 200,000

(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%, an estimated liability of \$186,790 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. In October, 2011, a one-year lease agreement increased the lease rate to \$200 per acre, 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, 2012 is as follows:

Transfer to	Transfer From	Amount
General Fund	Special Revenue	
	Road Use	\$ 287,019
	Trust and Agency (Employee Benefits)	2,703,182
	Proprietary	
	Sewer Rental	311,420
	Nonmajor Proprietary Funds	<u>461,299</u>
		<u>3,762,920</u>
Special Revenue	Special Revenue	
Road Use Tax	Trust and Agency (Employee Benefits)	455,019
	Proprietary	
	Nonmajor Proprietary Funds	<u>75,000</u>
		<u>530,019</u>
Internal Service Fund	General Fund	29,104
	Special Revenue	
	Road Use	29,410
	Proprietary	
	Sewer Rental	11,353
	Nonmajor Proprietary Funds	<u>20,085</u>
		<u>89,952</u>
Nonmajor Special Revenue	General Fund	35,000
	Special Revenue	
	Road Use	<u>456,080</u>
		<u>491,080</u>
Debt Service	General Fund	7,500
	Capital Projects	100,000
	Nonmajor Special Revenue	244,719
	Proprietary	
	Sewer Rental	22,224
	Nonmajor Proprietary Funds	<u>70,930</u>
		<u>445,373</u>
Nonmajor Proprietary Fund	Capital Projects	<u>92,106</u>
		<u>\$ 5,411,450</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to the Financial Statements

(8) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General	Proprietary	
	Nonmajor Proprietary Funds	\$ 8,758
	Fiduciary	
	Cemetery Memorial	<u>631</u>
		<u>\$ 9,389</u>

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

(9) Pension and Retirement Benefits

The City offers City employees the following retirement plans:

Municipal Fire and Police Retirement System of Iowa

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

Plan members are required to contribute 9.4% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, may not be less than 24.76% of earnable compensation. Contribution rates are established by State statute. The City's contributions to the Plan for the years ended June 30, 2012, 2011 and 2010 were \$1,091,493, \$862,844 and \$702,481 respectively, which met the required minimum contribution for the year.

Iowa Public Employees Retirement System

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

Most plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$460,652, \$391,774 and \$358,230 respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(10) Other Postemployment Benefits (OPEB)

Plan Description

The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 157 active and 18 retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 340,522
Interest on net OPEB obligation.....	19,784
Adjustment to annual required contribution.....	<u>(22,344)</u>
Annual OPEB Cost	337,962
Contributions made	<u>(14,312)</u>
Increase in Net OPEB Obligation	323,650
Net OPEB Obligation - Beginning of Year.....	<u>791,350</u>
Net OPEB Obligation - End of Year	<u>\$ 1,115,000</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, 2012.

For the year ended June 30, 2012, the City contributed \$14,312 to the medical plan.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 286,535	0%	\$ 579,399
2011	211,951	0	791,350
2012	323,650	0	1,115,000

Notes to the Financial Statements

(10) Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$2,904,753 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,904,753. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,152,000 and the ratio of the UAAL to covered payroll was 28.6%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions

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

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

As of the July 1, 2010 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the City's funding policy. The projected annual medical trend rate is 6%.

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

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

(11) Compensated Absences

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Employees covered under the International Association of Firefighters contract are also eligible for compensation at normal retirement of accumulated sick leave in excess of 90 days, to a maximum payment of 60 days. Employees covered under the Marion Policeman's Protective Association contract are eligible for compensation at normal retirement of 50% of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Water Department

Notes to the Financial Statements

(11) Compensated Absences

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:

Type of Benefit	Amount 6-30-12
Primary Government	
Sick leave	\$ 838,704
Vacation and personal leave	1,267,069
Compensatory time	594,722
	<u>\$ 2,700,495</u>

The above liabilities have been computed based on rates of pay as of June 30, 2012.

(12) Conduit Debt

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

The amounts of these bonds which were still outstanding at June 30, 2012 are not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(13) Employee Health Care Plan

The City self-funds for health insurance claims to a stop-loss insured amount of \$30,000 per participant and a 125% aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The following is a summary of claims paid during the year and an estimate of the claims incurred, but not reported at June 30, 2012:

	Primary Government	Discretely Presented Component Unit	Total
Claims paid during the year	\$ 1,420,870	\$ 99,550	\$ 1,520,420
Estimated claims incurred but unpaid at June 30, 2012	206,456	18,544	225,000

Notes to the Financial Statements

(13) Employee Health Care Plan

The City has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The risk financing is accounted for as an internal service fund where assets are set aside for claim settlements. The cost of these benefits is charged to each department and fund based upon the number of employees whose salary is charged to the department and fund and the type of plan (single or family) chosen by the employee. Amounts charged are \$396 per month single or \$990 per month family which is an actuarially determined amount with a reasonable provision for future unexpected claims. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

(14) Related Party Transactions

The Marion Water Department bills and collects for sewer, garbage and urban forestry services provided for the City of Marion to its residents. During the year ended June 30, 2012, the Marion Water Department collected and remitted to the City \$3,448,753 for sewer, \$1,354,052 for garbage service and \$120,956 for urban forest. Fees paid to the Water Department by the City during the year to pay for this service totaled \$98,788, of which \$8,125 was payable at June 30, 2012.

(15) Risk Management

Iowa Municipalities Workers' Compensation Association

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

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

The City's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. Premiums paid to the Association for the year ended June 30, 2012 were \$115,109.

The Association uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. Claims exceeding \$500,000 are reinsured in an amount not to exceed \$1,500,000 per occurrence.

Members may withdraw from the Association at any time provided they provide assets for settlement of all pending claims.

Notes to the Financial Statements

(16) Commitments and Contingencies

Risk Management

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

Component Unit

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

(17) Construction Commitments and Subsequent Events

At June 30, 2012, the City had entered into several construction contracts totaling approximately \$8.1 million for various street projects and the Marion Enterprise Center project.

Subsequent to June 30, 2012, the City entered into several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$12.3 million.

The City has approved \$2.775 million in general obligation refunding bonds. The City has entered into a lease agreement for a new police station.

Management has evaluated subsequent events through February 21, 2013, the date which the financial statements were available to be issued.

(18) Deficit Balances

At June 30, 2012, the Debt Service Fund had a deficit fund balance of \$89,680. This deficit balance is a result of an interfund loan made in the prior year. The deficit will be eliminated through debt service levy collections.

(19) Prior Period Restatement

During the year ended June 30, 2012, management determined that fund balances were incorrect due to interfund loans being understated as of June 30, 2011. The Sewer Rental Fund interfund loan receivable was understated by \$250,000 and the Debt Service Fund interfund loan payable was understated by \$250,000. It was also determined that capital assets being depreciated in the governmental activities were understated by \$150,000.

Notes to the Financial Statements

(19) Prior Period Restatement

The correction in accounting for these items had the following effect on beginning fund balance at July 1, 2011.

Government-Wide Financial Statements - Statement of Activities

	Governmental Activities	Business-Type Activities	Total
Net assets - beginning of year, as previously reported.....	\$ 178,023,903	\$ 26,915,850	\$ 204,939,753
Interfund loan activity.....	(250,000)	250,000	—
Restatement for capital asset	<u>150,000</u>	<u>—</u>	<u>150,000</u>
Net Assets - Beginning of Year, as Restated.....	<u>\$ 177,923,903</u>	<u>\$ 27,165,850</u>	<u>\$ 205,089,753</u>

Fund Financial Statements - Statement of Revenue, Expenditures/Expenses and Changes in Fund Balances/Net Assets

	<u>Governmental Debt Service</u>	<u>Enterprise Sewer Rental</u>
Fund deficit/net assets - beginning of year as previously reported	\$ (26,830)	\$ 16,600,011
Interfund loan activity.....	(250,000)	250,000
Fund Deficit/Net Assets - Beginning of Year, as Restated	<u>\$ (276,830)</u>	<u>\$ 16,850,011</u>
		Capital Assets Being Depreciated - Improvements Other Than Buildings
Balances - June 30, 2011, as previously reported		\$ 104,415,368
Restatement for capital assets		<u>150,000</u>
Balances - July 1, 2011, as Restated.....		<u>\$ 104,565,368</u>

Required Supplementary Information

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

Year Ended June 30, 2012

	Actual			Original Budget	Amended Budget	Over (Under) Budget
	Governmental Funds	Enterprise Funds	Total			
Receipts						
Property taxes	\$ 16,244,186	\$ —	\$ 16,244,186	\$ 15,997,625	\$ 15,997,625	\$ 246,561
Tax increment financing...	745,945	—	745,945	773,398	773,398	(27,453)
Other taxes.....	5,075,742	—	5,075,742	4,360,110	4,360,110	715,632
Licenses and permits	516,786	—	516,786	561,225	561,225	(44,439)
Use of money and property	746,179	117,998	864,177	662,000	662,000	202,177
Intergovernmental	5,451,344	6,272	5,457,616	5,384,592	5,934,592	(476,976)
Charges for service	874,689	8,468,471	9,343,160	9,215,095	9,215,095	128,065
Special assessments	13,910	—	13,910	20,525	20,525	(6,615)
Miscellaneous	2,135,733	—	2,135,733	2,323,624	2,323,624	(187,891)
Total Receipts	31,804,514	8,592,741	40,397,255	39,298,194	39,848,194	549,061
Disbursements						
Public safety.....	8,235,915	—	8,235,915	8,717,925	9,002,925	(767,010)
Public works	3,603,568	—	3,603,568	3,424,440	3,624,440	(20,872)
Culture and recreation	3,476,289	—	3,476,289	3,633,728	3,783,728	(307,439)
Community and economic development.....	1,820,222	—	1,820,222	1,762,041	2,162,041	(341,819)
General government	3,845,329	—	3,845,329	4,105,578	4,555,578	(710,249)
Debt service	3,120,571	—	3,120,571	3,119,571	3,124,571	(4,000)
Capital projects	10,630,797	—	10,630,797	14,744,465	17,269,465	(6,638,668)
Business-type activities....	—	8,810,188	8,810,188	10,640,835	11,340,835	(2,530,647)
Total Disbursements ..	34,732,691	8,810,188	43,542,879	50,148,583	54,863,583	(11,320,704)
Receipts Under Disbursements.....	(2,928,177)	(217,447)	(3,145,624)	(10,850,389)	(15,015,389)	11,869,765
Other Financing Sources, Net.....	12,972,499	1,927,513	14,900,012	8,287,000	15,837,000	(936,988)
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	10,044,322	1,710,066	11,754,388	(2,563,389)	821,611	10,932,777
Balances - Beginning of Year.....	35,397,986	9,188,656	44,586,642	41,372,010	44,586,642	—
Balances - End of Year ..	\$ 45,442,308	\$ 10,898,722	\$ 56,341,030	\$ 38,808,621	\$ 45,408,253	\$ 10,932,777

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment increased budgeted disbursements by \$4,715,000. This budget amendment is reflected in the final budgeted amounts.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2012

	<u>Governmental Fund Types</u>		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue.....	\$ 31,804,514	\$ (2,834,138)	\$ 28,970,376
Expenditures	<u>34,732,691</u>	<u>(514,453)</u>	<u>34,218,238</u>
Net.....	(2,928,177)	(2,319,685)	(5,247,862)
Other financing sources, net.....	12,972,499	1,989,721	14,962,220
Beginning fund balances, as restated.....	<u>35,397,986</u>	<u>(5,307,720)</u>	<u>30,090,266</u>
Ending Fund Balances.....	<u>\$ 45,442,308</u>	<u>\$ (5,637,684)</u>	<u>\$ 39,804,624</u>

	<u>Proprietary Fund Types</u>			
	Cash Basis	Adjustment for Component Unit	Accrual Adjustments	GAAP Basis
Revenue.....	\$ 8,592,741	\$ (3,279,065)	\$ 289,297	\$ 5,602,973
Expenses	<u>8,810,188</u>	<u>(3,934,823)</u>	<u>(258,897)</u>	<u>4,616,468</u>
Net.....	(217,447)	655,758	548,194	986,505
Other financing sources (uses), net	1,927,513	(932,810)	(1,865,296)	(870,593)
Beginning net assets, as restated	<u>9,188,656</u>	<u>(1,835,895)</u>	<u>19,813,089</u>	<u>27,165,850</u>
Ending Net Assets.....	<u>\$ 10,898,722</u>	<u>\$ (2,112,947)</u>	<u>\$ 18,495,987</u>	<u>\$ 27,281,762</u>

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	7-1-08	\$ —	\$ 2,614,066	\$ 2,614,066	0%	\$ 9,543,000	27.4%
2011	7-1-10	—	2,820,489	2,820,489	0	9,915,000	28.5
2012	7-1-10	—	2,904,753	2,904,753	0	10,152,000	28.6

See Note 10 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet Schedule - Nonmajor Governmental Funds

As of Ended June 30, 2012

	Special Revenue		Capital Projects			Permanent Cemetery Perpetual Care	Total
	Road Use Replacement	Tax Increment Financing	Park Development	Maintenance Bond	Subdivision Development		
Assets							
Cash and pooled investments	\$ 641,235	\$ 258,797	\$ 168,051	\$ 285,243	\$ 10,993	\$ 27,189	\$ 1,391,508
Investments	—	—	—	—	—	122,416	122,416
Receivables							
Accounts	—	3,200	—	—	—	—	3,200
Property Taxes							
Delinquent	—	7,112	—	—	—	—	7,112
Total Assets	\$ 641,235	\$ 269,109	\$ 168,051	\$ 285,243	\$ 10,993	\$ 149,605	\$ 1,524,236
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 169	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 169
Interfund loan	—	200,000	—	—	—	—	200,000
Total Liabilities	169	200,000	—	—	—	—	200,169
Fund Balances							
Nonspendable							
Cemetery perpetual care	—	—	—	—	—	149,605	149,605
Restricted for							
Streets	641,066	—	—	—	—	—	641,066
Other purposes	—	69,109	—	—	—	—	69,109
Committed for							
Capital projects	—	—	—	285,243	—	—	285,243
Assigned for							
Capital projects	—	—	168,051	—	10,993	—	179,044
Total Fund Balances	641,066	69,109	168,051	285,243	10,993	149,605	1,324,067
Total Liabilities and Fund Balances	\$ 641,235	\$ 269,109	\$ 168,051	\$ 285,243	\$ 10,993	\$ 149,605	\$ 1,524,236

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

Year Ended June 30, 2012

	Special Revenue			Capital Projects			Permanent Cemetery Perpetual Care	Total
	Road Use Replacement	Tax Increment Financing	Community Development Block Grant	Park Development	Maintenance Bond	Subdivision Development		
Revenue								
Tax increment financing	\$ —	\$ 748,727	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 748,727
Use of money and property	1,561	—	—	840	1,592	564	—	4,557
Intergovernmental	—	—	34,142	—	—	—	—	34,142
Charges for service	—	—	—	—	10,822	—	—	10,822
Miscellaneous.....	—	—	20,000	—	—	—	3,215	23,215
Total Revenue.....	1,561	748,727	54,142	840	12,414	564	3,215	821,463
Expenditures								
Operating								
Community and economic development.....	—	564,018	109,309	—	—	—	—	673,327
Capital projects.....	183,189	—	—	15,885	—	—	—	199,074
Total Expenditures.....	183,189	564,018	109,309	15,885	—	—	—	872,401
Revenue Over (Under) Expenditures	(181,628)	184,709	(55,167)	(15,045)	12,414	564	3,215	(50,938)
Other Financing Sources (Uses)								
Operating transfers in	456,080	—	—	35,000	—	—	—	491,080
Operating transfers out.....	—	(244,719)	—	—	—	—	—	(244,719)
Total Other Financing Sources (Uses).....	456,080	(244,719)	—	35,000	—	—	—	246,361
Net Changes in Fund Balances	274,452	(60,010)	(55,167)	19,955	12,414	564	3,215	195,423
Fund Balances - Beginning of Year	366,614	129,119	55,167	148,096	272,829	10,429	146,390	1,128,644
Fund Balances - End of Year	\$ 641,066	\$ 69,109	\$ —	\$ 168,051	\$ 285,243	\$ 10,993	\$ 149,605	\$ 1,324,067

Combining Schedule of Net Assets - Nonmajor Enterprise Funds

As of June 30, 2012

	Sewer Rent Replacement	City Communication and Utility	Solid Waste	Solid Waste Replacement	Urban Forest Utility	Storm Water Management	Total
Assets							
Current Assets							
Cash and pooled investments	\$ 3,347,824	\$ 78,000	\$ 605,615	\$ 357,294	\$ —	\$ 1,547,899	\$ 5,936,632
Investments	1,019,909	—	406,560	402,000	—	—	1,828,469
Receivables							
Accounts	291	—	90,282	185	10,640	29,869	131,267
Unbilled usage	—	—	139,721	—	46,387	53,307	239,415
Accrued interest	3,564	—	1,723	1,880	—	—	7,167
Due from other governments	—	—	—	—	—	14,975	14,975
Interfund loan	—	—	—	—	—	52,053	52,053
Total Current Assets	4,371,588	78,000	1,243,901	761,359	57,027	1,698,103	8,209,978
Noncurrent Assets							
Interfund loan	—	—	200,000	—	—	—	200,000
Capital assets (net of accumulated depreciation)	—	—	673,146	—	—	1,189,167	1,862,313
Capital assets not being depreciated	92,106	—	—	—	—	794,793	886,899
Total Noncurrent Assets	92,106	—	873,146	—	—	1,983,960	2,949,212
Total Assets	\$ 4,463,694	\$ 78,000	\$ 2,117,047	\$ 761,359	\$ 57,027	\$ 3,682,063	\$ 11,159,190
Liabilities and Net Assets							
Current Liabilities							
Accounts payable	\$ —	\$ 28,861	\$ 32,612	\$ 375	\$ 876	\$ 191,112	\$ 253,836
Salaries and benefits payable	—	—	19,932	—	—	—	19,932
Due to other funds	—	—	—	—	8,758	—	8,758
Total Current Liabilities	—	28,861	52,544	375	9,634	191,112	282,526
Net Assets							
Invested in capital assets, net of related debt	92,106	—	673,146	—	—	1,983,960	2,749,212
Unrestricted	4,371,588	49,139	1,391,357	760,984	47,393	1,506,991	8,127,452
Total Net Assets	4,463,694	49,139	2,064,503	760,984	47,393	3,490,951	10,876,664
Total Liabilities and Fund Balances	\$ 4,463,694	\$ 78,000	\$ 2,117,047	\$ 761,359	\$ 57,027	\$ 3,682,063	\$ 11,159,190

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

Year Ended June 30, 2012

	Sewer Rent Replacement	City Communication and Utility	Solid Waste	Solid Waste Replacement	Urban Forest Utility	Storm Water Management	Total
Operating Revenue							
Charges for service	\$ 366,272	\$ —	\$ 1,279,637	\$ 203,287	\$ 177,016	\$ 557,148	\$ 2,583,360
Special assessments	—	—	34	—	—	—	34
Total Operating Revenue	366,272	—	1,279,671	203,287	177,016	557,148	2,583,394
Operating Expenses							
Personal services	—	43,065	727,074	—	—	—	770,139
Services and commodities	—	5,966	504,525	2,274	54,787	70,618	638,170
Depreciation	—	—	214,363	—	—	16,069	230,432
Total Operating Expenses	—	49,031	1,445,962	2,274	54,787	86,687	1,638,741
Operating Income (Loss)	366,272	(49,031)	(166,291)	201,013	122,229	470,461	944,653
Nonoperating Revenue							
Intergovernmental	—	98,041	—	—	—	21,247	119,288
Investment income	52,959	129	25,762	25,371	164	13,194	117,579
Total Nonoperating Revenue	52,959	98,170	25,762	25,371	164	34,441	236,867
Income (Loss) Before Transfers and Capital Assets	419,231	49,139	(140,529)	226,384	122,393	504,902	1,181,520
Transfers and Capital Assets Contributed							
Capital assets contributed	(85,487)	—	—	—	—	—	(85,487)
Transfers in	92,106	—	—	—	—	—	92,106
Transfers out	—	—	(115,877)	—	(75,000)	(436,437)	(627,314)
Total Transfers and Capital Assets Contributed	6,619	—	(115,877)	—	(75,000)	(436,437)	(620,695)
Changes in Net Assets	425,850	49,139	(256,406)	226,384	47,393	68,465	560,825
Net Assets - Beginning of Year	4,037,844	—	2,320,909	534,600	—	3,422,486	10,315,839
Net Assets - End of Year	\$ 4,463,694	\$ 49,139	\$ 2,064,503	\$ 760,984	\$ 47,393	\$ 3,490,951	\$ 10,876,664

Combining Schedule of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2012

	Sewer Rent Replacement	City Communication and Utility	Solid Waste	Solid Waste Replacement	Urban Forest Utility	Storm Water Management	Total
Cash Flows From Operating Activities							
Receipts from customers.....	\$ 365,981	\$ —	\$ 1,275,631	\$ 203,102	\$ 119,989	\$ 473,972	\$ 2,438,675
Payments to employees.....	—	(43,065)	(715,646)	—	—	—	(758,711)
Credits from (payments to) suppliers.....	(155,632)	22,895	(565,624)	(1,899)	(53,911)	(60,324)	(814,495)
Net Cash Provided by (Used in) Operating Activities.....	<u>210,349</u>	<u>(20,170)</u>	<u>(5,639)</u>	<u>201,203</u>	<u>66,078</u>	<u>413,648</u>	<u>865,469</u>
Cash Flows From Noncapital Financing Activities							
Net transfers.....	92,106	—	(115,877)	—	(75,000)	(436,437)	(535,208)
State and federal grants received.....	—	98,041	—	—	—	6,272	104,313
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>92,106</u>	<u>98,041</u>	<u>(115,877)</u>	<u>—</u>	<u>(75,000)</u>	<u>(430,165)</u>	<u>(430,895)</u>
Cash Flows From Capital and Related Financing Activities							
Cash received from interfund loan repayment.....	—	—	—	—	—	50,659	50,659
Cash transferred for interfund loan.....	—	—	(200,000)	—	—	—	(200,000)
Purchase of capital assets.....	—	—	—	—	—	(524,996)	(524,996)
Cash advance received from other funds.....	—	—	—	—	8,758	—	8,758
Net Cash Provided by (Used in) Capital and Related Financing Activities.....	<u>—</u>	<u>—</u>	<u>(200,000)</u>	<u>—</u>	<u>8,758</u>	<u>(474,337)</u>	<u>(665,579)</u>
Cash Flows From Investing Activities							
Interest received.....	51,318	129	25,831	25,445	164	13,194	116,081
Purchase of investments.....	(621,074)	—	—	—	—	—	(621,074)
Sale of investments.....	—	—	822,151	—	—	—	822,151
Net Cash Provided by (Used in) Investing Activities.....	<u>(569,756)</u>	<u>129</u>	<u>847,982</u>	<u>25,445</u>	<u>164</u>	<u>13,194</u>	<u>317,158</u>
Net Increase (Decrease) in Cash and Pooled Investments.....	<u>(267,301)</u>	<u>78,000</u>	<u>526,466</u>	<u>226,648</u>	<u>—</u>	<u>(477,660)</u>	<u>86,153</u>
Cash and Pooled Investments - Beginning of Year.....	<u>3,615,125</u>	<u>—</u>	<u>79,149</u>	<u>130,646</u>	<u>—</u>	<u>2,025,559</u>	<u>5,850,479</u>
Cash and Pooled Investments - End of Year.....	<u>\$ 3,347,824</u>	<u>\$ 78,000</u>	<u>\$ 605,615</u>	<u>\$ 357,294</u>	<u>\$ —</u>	<u>\$ 1,547,899</u>	<u>\$ 5,936,632</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities							
Operating income (loss).....	\$ 366,272	\$ (49,031)	\$ (166,291)	\$ 201,013	\$ 122,229	\$ 470,461	\$ 944,653
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities							
Depreciation.....	—	—	214,363	—	—	16,069	230,432
Change in Assets and Liabilities							
Increase in receivables.....	(291)	—	(4,040)	(185)	(57,027)	(83,176)	(144,719)
Increase (decrease) in payables.....	(155,632)	28,861	(61,099)	375	876	10,294	(176,325)
Increase in salaries and benefits payable.....	—	—	11,428	—	—	—	11,428
Net Cash Provided by (Used in) Operating Activities.....	<u>\$ 210,349</u>	<u>\$ (20,170)</u>	<u>\$ (5,639)</u>	<u>\$ 201,203</u>	<u>\$ 66,078</u>	<u>\$ 413,648</u>	<u>\$ 865,469</u>

Combining Schedule of Net Assets - Nonmajor Internal Service Funds ▬

As of June 30, 2012

	Employee Benefit	Health Insurance	Total
Assets			
Current Assets			
Cash and pooled investments	\$ 422,708	\$ 1,224,205	\$ 1,646,913
Investments	884,253	—	884,253
Receivables			
Accounts	—	33,446	33,446
Accrued interest	<u>3,878</u>	<u>—</u>	<u>3,878</u>
Total Assets	<u>\$ 1,310,839</u>	<u>\$ 1,257,651</u>	<u>\$ 2,568,490</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 6,076	\$ —	\$ 6,076
Self-insurance estimated claims	—	206,456	206,456
Reinsurance premiums payable	<u>—</u>	<u>41,291</u>	<u>41,291</u>
Total Current Liabilities	<u>6,076</u>	<u>247,747</u>	<u>253,823</u>
Net Assets			
Unrestricted	<u>1,304,763</u>	<u>1,009,904</u>	<u>2,314,667</u>
Total Liabilities and Net Assets	<u>\$ 1,310,839</u>	<u>\$ 1,257,651</u>	<u>\$ 2,568,490</u>

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

Year Ended June 30, 2012

	Employee Benefit	Health Insurance	Total
Operating Revenue			
Miscellaneous.....	\$ —	\$ 1,931,284	\$ 1,931,284
Operating Expenses			
Services and commodities.....	<u>413,868</u>	<u>1,845,506</u>	<u>2,259,374</u>
Operating Income (Loss)	(413,868)	85,778	(328,090)
Nonoperating Revenue			
Investment income	<u>52,188</u>	<u>—</u>	<u>52,188</u>
Income (Loss) Before Transfers.....	(361,680)	85,778	(275,902)
Transfers in	<u>89,952</u>	<u>—</u>	<u>89,952</u>
Change in Net Assets.....	(271,728)	85,778	(185,950)
Net Assets - Beginning of Year.....	<u>1,576,491</u>	<u>924,126</u>	<u>2,500,617</u>
Net Assets - End of Year	<u>\$ 1,304,763</u>	<u>\$ 1,009,904</u>	<u>\$ 2,314,667</u>

Combining Schedule of Cash Flows - Nonmajor Internal Service Funds ▬

Year Ended June 30, 2012

	Employee Benefit	Health Insurance	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ —	\$ 1,905,441	\$ 1,905,441
Payments to suppliers	<u>(410,942)</u>	<u>(1,891,137)</u>	<u>(2,302,079)</u>
Net Cash Provided by (Used in)			
Operating Activities	<u>(410,942)</u>	<u>14,304</u>	<u>(396,638)</u>
Cash Flows From Noncapital Financing Activities			
Transfers in	<u>89,952</u>	<u>—</u>	<u>89,952</u>
Cash Flows From Investing Activities			
Interest received	<u>52,340</u>	<u>—</u>	<u>52,340</u>
Net Increase (Decrease) in Cash and Pooled Investments	(268,650)	14,304	(254,346)
Cash and Pooled Investments - Beginning of Year	<u>691,358</u>	<u>1,209,901</u>	<u>1,901,259</u>
Cash and Pooled Investments - End of Year	<u>\$ 422,708</u>	<u>\$ 1,224,205</u>	<u>\$ 1,646,913</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	\$ (413,868)	\$ 85,778	\$ (328,090)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Changes in Assets and Liabilities			
Increase in receivables	—	(25,843)	(25,843)
Increase (decrease) in payables	<u>2,926</u>	<u>(45,631)</u>	<u>(42,705)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (410,942)</u>	<u>\$ 14,304</u>	<u>\$ (396,638)</u>

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

Years Ended June 30, 2004 Through 2012

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenue									
Property taxes	\$ 16,298,027	\$ 15,638,561	\$ 14,857,708	\$ 14,436,527	\$ 12,820,700	\$ 12,512,678	\$ 11,826,079	\$ 10,914,028	\$ 10,241,000
Tax increment financing and other city taxes	5,386,752	5,238,300	4,531,109	925,485	856,874	822,768	869,887	694,740	342,128
Licenses and permits	502,751	573,802	541,439	542,547	532,826	528,180	592,713	604,373	545,391
Use of money and property	657,236	658,559	715,090	874,905	1,135,512	1,198,796	1,089,406	916,855	657,703
Intergovernmental	5,024,346	7,951,255	5,677,970	3,693,796	3,752,935	2,943,735	3,946,362	3,139,845	3,423,035
Charges for service	842,441	808,083	432,527	408,310	367,322	394,383	388,304	357,767	384,108
Special assessments	13,910	18,069	19,323	21,446	22,848	23,716	24,340	59,444	12,795
Miscellaneous	244,913	53,871	365,070	318,639	377,097	287,072	409,139	375,854	306,974
Total Revenue	\$ 28,970,376	\$ 30,940,500	\$ 27,140,236	\$ 21,221,655	\$ 19,866,114	\$ 18,711,328	\$ 19,146,230	\$ 17,062,906	\$ 15,913,134
Expenditures									
Operating									
Public safety	\$ 8,199,484	\$ 7,989,669	\$ 7,907,480	\$ 7,225,455	\$ 7,443,939	\$ 6,870,973	\$ 6,766,956	\$ 6,246,486	\$ 5,655,995
Public works	3,383,641	3,177,611	3,206,090	2,988,781	2,969,549	2,563,142	2,597,935	2,375,455	2,189,523
Culture and recreation	3,349,677	3,375,571	3,304,388	3,025,885	2,854,777	2,612,677	2,541,376	2,277,750	2,235,656
Community and economic development	1,819,707	1,566,522	1,631,865	1,784,298	1,319,293	1,437,522	1,523,641	1,061,538	1,090,282
General government	1,876,773	1,720,425	1,784,151	1,660,215	1,494,061	1,776,781	1,281,742	1,248,325	1,245,788
Debt service	3,390,626	3,110,244	2,715,648	3,761,247	4,106,061	1,853,090	1,902,207	1,970,226	1,769,025
Capital projects	12,198,330	11,862,997	4,853,756	5,540,965	2,380,396	4,209,427	6,899,597	4,666,646	2,118,065
Total Expenditures	\$ 34,218,238	\$ 32,803,039	\$ 25,403,378	\$ 25,986,846	\$ 22,568,076	\$ 21,323,612	\$ 23,513,454	\$ 19,846,426	\$ 16,304,334

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents, and have issued our report thereon dated February 21, 2013. 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

The management of the City of Marion is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Marion'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marion's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Marion's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying schedule of findings as items 12-I-R-1, 12-I-R-2 and 12-I-R-3 to be material weaknesses.

To the Honorable Mayor and
Members of the City Council
City of Marion, Iowa
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marion'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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part II of the accompanying schedule of findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 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'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'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 and other parties to whom the City of Marion 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

HOGAN - HANSEN

Cedar Rapids, Iowa
February 21, 2013

Schedule of Findings

Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

12-I-R-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.

12-I-R-2 Financial Statement Preparation

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

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

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

Auditor's Conclusion - Response accepted.

12-I-R-3 Credit Cards

Auditor's Finding and Recommendation - The City has credit cards for use by various employees while on City business. The City has a policy related to credit cards for travel expenses in its personnel policy manual. This policy does not formally regulate the use of credit cards or establish procedures for the proper accounting of credit card charges, specifically relating to supporting documentation for online and local business charges. We found that supporting documentation was not always available to support credit card charges. Also, the current policy requires that credit cards not be used for personal use, but when an official use and personal use of the credit card cannot be reasonably separated, the employee shall reimburse the City within three calendar days of their return to work. We found that the credit card was used for items that were purely personal and that the reimbursement was made well after the three calendar day requirement.

Schedule of Findings

Year Ended June 30, 2012

We recommend that the Council revise the formal written policy regulating the use of City credit cards. The policy, at a minimum should address who controls credit cards, who is authorized to use credit cars and for what purposes, the types of supporting documentation required to substantiate charges and address personal use.

City's Response - The City is in the process of reviewing their current credit card policy and will make a recommendation to the City Council for their adoption in the near future regarding a revised policy addressing these issues.

Auditor's Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting

12-II-A Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed the amounts in the amended budget.

12-II-B Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented, were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Lon Pluckhahn	Reimbursement of meal expense which included a charge for an alcoholic beverage	\$ 6
Dan Whitlow	Reimbursement for an iPad purchased at Best Buy which included sales tax	49
Apple Online Store	\$499 iPad purchased for an employee which was reimbursed by the employee. Since the City is tax exempt, the employee personally benefitted from this arrangement	—
Iowa League of Cities	Golf outing fees for the City Manager and Assistant City Manager	90
Iowa League of Cities	Meal expenses for the City's Manager's wife and children	102
Various restaurants	Meal expenses of the City Manager and department heads	986
Hy-Vee	Flowers	51
Hy-Vee	Retirement party supplies	72

Schedule of Findings

Year Ended June 30, 2012

According to an Attorney General's opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Auditor's Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

City's Response - The City is in the process of reviewing their current practices regarding these types of expenditures and will be recommending to the City Council, for their adoption, policies addressing these issues.

Auditor's Conclusion - Response accepted.

- 12-II-C Travel Expense** - As noted in the questionable expenditures finding above, \$102 of City money was expended on meals for the wife and children of the City Manager while on travel for a conference. No other expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- 12-II-D Business Transactions** - No business transactions were noted between the City and City officials or employees.
- 12-II-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.
- 12-II-F Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not. Council minutes were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.
- 12-II-G Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.