

**CITY OF MARION, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

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# Officials

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Name	Title	Term Expires
<b>Elected Officials</b>		
Nicolas AbouAssaly	Mayor	December 31, 2019
Kim Etzel	Council Member - First Ward	December 31, 2019
Joe Spinks	Council Member - Second Ward	December 31, 2017
Will Brandt	Council Member - Third Ward	December 31, 2019
Randy Strnad	Council Member - Fourth Ward (resigned November 17, 2016)	December 31, 2017
David Nicholson	Council Member - Fourth Ward (appointed November 8, 2016)	December 31, 2017
Mary Lou Pazour	Council Member - At-Large	December 31, 2017
Paul Draper	Council Member - At-Large	December 31, 2019

<b>Appointed Officials</b>		
Lon Pluckhahn	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Anne Kruse	City Attorney	Indefinite
Tom Treharne	Director of Planning and Development	Indefinite
Joseph McHale	Chief of Police (appointed December 11, 2016)	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Deb Krebill	Fire Chief	Civil Service
Elsworth Carman	Library Director	Indefinite
Mike Carolan	Director of Parks and Recreation	Indefinite
Ryan Miller	Public Services Director	Indefinite
John C. Bender	Marion Municipal Water Department - Trustee - 2017 Chairperson	December 31, 2021
Gregory O. Hapgood	Marion Municipal Water Department - Trustee	December 31, 2022
John D. McIntosh	Marion Municipal Water Department - Trustee	December 31, 2017
Mary Ann McComas	Marion Municipal Water Department - Trustee	December 31, 2018
William A. Kling	Marion Municipal Water Department - Trustee - 2016 Chairperson	December 31, 2020
Todd Steigerwaldt	Marion Municipal Water Department - General Manager	Indefinite

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the City's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **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 units, each major fund and the aggregate remaining fund information of the City of Marion as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedules of proportionate share of the net pension liability, the schedules of contributions and the schedule of funding progress for the retiree health plan on pages 5 through 12 and 57 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

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 third paragraph of this report, the financial statements for the ten years ended June 30, 2017 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included on pages 67 through 72, 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 basic 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 basic financial statements or to the basic 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.

To the Honorable Mayor and  
Members of the City Council  
City of Marion, Iowa  
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**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2017 on our consideration of the City of Marion's internal control over financial reporting and on 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* in considering the City of Marion's internal control over financial reporting and compliance.

*HOGAN - HANSEN*

HOGAN - HANSEN

Cedar Rapids, Iowa  
December 21, 2017

## **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, 2017. 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-type 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, 2017 by \$180.9 million (net position).

The City's net position for governmental activities increased by \$6.2 million.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7 million, or 34.4% of the total General Fund expenditures. For the purpose of these financial statements, the General Fund also includes the Equipment Replacement, Tax Stabilization and Police Retirement Trust and Agency Funds.

Total general obligation debt decreased by \$3,985,000. There were no general obligation notes issued during the year.

### **USING THIS ANNUAL REPORT**

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

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

Government-wide financial statements consist of a statement of net position 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 financial 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, the City's proportionate share of the net pension liability and related contributions, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary information provides detailed information about the nonmajor governmental and enterprise 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 position and the statement of activities report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 position presents financial information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the City's net position 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 position changed during the most recent fiscal year. All changes in net position 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 position 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 units include the activities of the Marion Water Department (Water), the Friends of the Marion Carnegie Library (Friends), the Marion Parks and Recreation Foundation, Inc. (Parks) and the Marion Firefighter's Association (Fire). The City is financially accountable for the component units and has included them in the financial statements and notes, although they are legally separate from the City.



## **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 Road Use Tax, Local Option Sales Tax, Tax Increment Financing and the Employee Benefits Fund, (3) the Debt Service Fund, (4) the Capital Projects Funds and (5) the Permanent 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 and internal service funds. The enterprise funds report services for which the City charges customers for the service it provides. The internal service funds are used to account for health insurance and other employee benefits. Proprietary funds are reported in the same way all activities are reported in the statement of net position 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. Internal service funds are included in governmental activities in the statement of net position and statement of activities. The enterprise funds include the Sewer Rental Fund and Storm Water Management Fund which are considered to be major funds 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 position, a statement of revenue, expenses and changes in fund net position and a statement of cash flows.

### **3. Fiduciary Fund**

The fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected on the government-wide financial statements because the resources of this fund are not available to support the City of Marion's own programs. The accounting used for the fiduciary fund is much like that used for proprietary funds. The financial statement required for the fiduciary fund is the statement of changes in fiduciary net position.

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

## Government-Wide Financial Analysis

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

	<b>Net Position at End of Year</b>					
	(in thousands)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 68,066	\$ 75,273	\$ 9,747	\$ 9,107	\$ 77,813	\$ 84,380
Capital assets	<u>204,261</u>	<u>194,546</u>	<u>41,515</u>	<u>41,651</u>	<u>245,776</u>	<u>236,197</u>
<b>Total Assets</b>	<b><u>272,327</u></b>	<b><u>269,819</u></b>	<b><u>51,262</u></b>	<b><u>50,758</u></b>	<b><u>323,589</u></b>	<b><u>320,577</u></b>
<b>Deferred Outflows of Resources</b>	<b><u>6,212</u></b>	<b><u>3,339</u></b>	<b><u>513</u></b>	<b><u>263</u></b>	<b><u>6,725</u></b>	<b><u>3,602</u></b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 278,539</u></b>	<b><u>\$ 273,158</u></b>	<b><u>\$ 51,775</u></b>	<b><u>\$ 51,021</u></b>	<b><u>\$ 330,314</u></b>	<b><u>\$ 324,179</u></b>
Long-term liabilities	\$ 66,659	\$ 66,181	\$ 1,546	\$ 1,188	\$ 68,205	\$ 67,369
Other liabilities	<u>7,113</u>	<u>8,458</u>	<u>309</u>	<u>291</u>	<u>7,422</u>	<u>8,749</u>
<b>Total Liabilities</b>	<b><u>73,772</u></b>	<b><u>74,639</u></b>	<b><u>1,855</u></b>	<b><u>1,479</u></b>	<b><u>75,627</u></b>	<b><u>76,118</u></b>
<b>Deferred Inflows of Resources</b>	<b><u>23,876</u></b>	<b><u>23,797</u></b>	<b><u>19</u></b>	<b><u>90</u></b>	<b><u>23,895</u></b>	<b><u>23,887</u></b>
<b>Net Position</b>						
Net investment in capital assets	155,206	141,127	41,515	41,651	196,721	182,778
Restricted	27,423	33,656	—	—	27,423	33,656
Unrestricted	<u>(1,738)</u>	<u>(61)</u>	<u>8,386</u>	<u>7,801</u>	<u>6,648</u>	<u>7,740</u>
<b>Total Net Position</b>	<b><u>180,891</u></b>	<b><u>174,722</u></b>	<b><u>49,901</u></b>	<b><u>49,452</u></b>	<b><u>230,792</u></b>	<b><u>224,174</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b><u>\$ 278,539</u></b>	<b><u>\$ 273,158</u></b>	<b><u>\$ 51,775</u></b>	<b><u>\$ 51,021</u></b>	<b><u>\$ 330,314</u></b>	<b><u>\$ 324,179</u></b>

Net position of governmental activities increased approximately \$6.2 million for the fiscal year 2017. Net position of business-type activities increased approximately \$0.5 million for the fiscal year 2017. The largest portion of the City's net position 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 position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately (\$1.7) million as of the end of this year for governmental activities and \$8.4 million for business-type activities. The deficit in unrestricted net position for the governmental activities is due to the recording of the net pension liability.

A summary version of the statement of activities follows:

<b>Changes in Net Position for the Year Ended June 30,</b>						
(in thousands)						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2017	2016	2017	2016	2017	2016
<b>Revenue</b>						
Program Revenue						
Charges for service	\$ 2,183	\$ 1,921	\$ 7,955	\$ 7,447	\$ 10,138	\$ 9,368
Operating grants and contributions	1,123	553	96	2	1,219	555
Capital grants and contributions	1,814	2,201	647	1,626	2,461	3,827
General Revenue						
Property tax and tax increment financing	23,237	21,889	—	—	23,237	21,889
Other city tax and special assessments	5,223	4,931	—	—	5,223	4,931
Local option sales tax	5,013	4,510	—	—	5,013	4,510
Unrestricted investment earnings	712	611	139	97	851	708
Miscellaneous	42	20	—	—	42	20
Gain (loss) on disposal of capital assets	606	(13)	—	—	606	(13)
<b>Total Revenue</b>	<b><u>39,953</u></b>	<b><u>36,623</u></b>	<b><u>8,837</u></b>	<b><u>9,172</u></b>	<b><u>48,790</u></b>	<b><u>45,795</u></b>
<b>Program Expenses</b>						
Public safety	13,476	9,876	—	—	13,476	9,876
Public works	8,612	6,853	—	—	8,612	6,853
Culture and recreation	4,277	5,231	—	—	4,277	5,231
Community and economic development	3,471	7,310	—	—	3,471	7,310
General government	2,720	3,153	—	—	2,720	3,153
Interest and fiscal charges on long-term debt	1,398	1,635	—	—	1,398	1,635
Sewer	—	—	5,829	5,100	5,829	5,100
Solid waste	—	—	2,015	1,648	2,015	1,648
City communication and utility	—	—	80	80	80	80
Urban forest	—	—	295	183	295	183
<b>Total Expenses</b>	<b><u>33,954</u></b>	<b><u>34,058</u></b>	<b><u>8,219</u></b>	<b><u>7,011</u></b>	<b><u>42,173</u></b>	<b><u>41,069</u></b>
<b>Transfers</b>	<b><u>170</u></b>	<b><u>924</u></b>	<b><u>(169)</u></b>	<b><u>(924)</u></b>	<b><u>1</u></b>	<b><u>—</u></b>
<b>Change in Net Position</b>	<b>6,169</b>	<b>3,489</b>	<b>449</b>	<b>1,237</b>	<b>6,618</b>	<b>4,726</b>
Net Position - Beginning of Year	<u>174,722</u>	<u>171,233</u>	<u>49,452</u>	<u>48,215</u>	<u>224,174</u>	<u>219,448</u>
<b>Net Position - End of Year</b>	<b><u>\$ 180,891</u></b>	<b><u>\$ 174,722</u></b>	<b><u>\$ 49,901</u></b>	<b><u>\$ 49,452</u></b>	<b><u>\$ 230,792</u></b>	<b><u>\$ 224,174</u></b>

## **Governmental Activities**

Charges for service make up 5.5% of governmental revenue. Operating and capital grants and contributions, primarily for street projects and building improvement projects, make up another 7.4% of governmental revenue. The remaining revenue comes from primarily property, road use and local option sales taxes.

## **Business-Type Activities**

As expected, charges for service is the primary revenue source for business-type activities. Sanitary sewer, urban forest and solid waste fees are the primary charges for service that make up 90.0% of total revenue. Investment income accounts for an additional 1.6% 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 \$39,071,552 which is less than the \$45,553,362 total fund balance as of June 30, 2016. 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 decrease in fund balance of \$685,646 from the prior year to \$10,678,311. Revenue increased 0.1% over the prior year to \$15,000,426 and expenditures increased 21.2% to \$20,728,607. Net other financing sources totaled \$5,042,535.

The Special Revenue, Road Use Tax Fund is used to account for the maintenance of the City's infrastructure. This fund ended fiscal year 2017 with a balance of \$6,756,370, compared to the prior year ending balance of \$4,674,646.

The Special Revenue, Trust and Agency (Employee Benefits) Fund is required by the Code of Iowa to account for property tax levied for employee benefits. This fund showed a decrease in fund balance of \$133,409 from the prior year to \$679,889.

The Special Revenue, Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements, equipment and community programs and services. This fund ended fiscal year 2017 with a \$7,167,704 balance compared to the prior year ending fund balance of \$5,316,675. Local option sales tax revenue increased \$503,023 in fiscal year 2017.

The Special Revenue, Tax Increment Financing Fund accounts for revenue from the tax authorized by ordinance in the urban renewal district which is used to pay the principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended fiscal year 2017 with a \$335,792 balance compared to the prior year ending balance of (\$97,615).

The Debt Service Fund ended fiscal year 2017 with a \$538,584 balance compared to the prior year ending balance of \$465,968. Property tax revenue decreased \$155,267 while bond principal and interest payments increased \$55,169 in fiscal year 2017.

The Capital Projects Fund ended fiscal year 2017 with a \$11,822,222 balance compared to the prior year ending balance of \$22,232,765.

## **Proprietary Fund Highlights**

The Enterprise, Sewer Rental Fund accounts for the operation and maintenance of the City's sanitary sewer system. This fund ended fiscal year 2017 with a net position of \$17,497,864 compared to the prior year ending net position of \$17,869,077.

The Enterprise, Storm Water Management Fund, which accounts for the operation and maintenance of the City's storm water management system, ended fiscal year 2017 with a \$24,174,381 net position balance compared to the prior year ending net position balance of \$23,919,759.

## **Budgetary Highlights**

Over the course of the year, the City amended its budget two times. The budgeted disbursements were increased due to the purchase of Fire and Police vehicles, asset forfeiture purchases, employee retirement payouts, increased street light utility costs, building repairs and remodeling costs, GO bond expenses, carryover of equipment and project costs budgeted in FY 16 to FY 17, acquisition of properties for various projects, an additional Parks position, increased audit fees, professional fees for Police Chief search, etc.

## **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 \$204,260,502 (net of accumulated depreciation) as of June 30, 2017. Capital assets for business-type activities totaled \$41,514,818 (net of accumulated depreciation) as of June 30, 2017. See Note 3 to the financial statements for more information about the City's capital assets.

Construction in progress as of June 30, 2017 consists primarily of street projects, sewer projects and the central corridor project.

### **Long-Term Debt**

As of June 30, 2017, the City had \$37,155,000 of outstanding general obligation bonds for governmental activities. See Note 4 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 \$125 million. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

## **ECONOMIC FACTORS**

The unemployment rate for Linn County is currently at 3.5%, which is 0.5% less than where it was the previous year at 4.0% and less than the national unemployment rate of 4.4%.

Retail sales are also reported on a fiscal year, July 1 to June 30, basis. For fiscal year 2016, retail sales for Marion were \$364.4 million and \$3.8 billion for Linn County. For fiscal year 2015, retail sales were \$361.3 million for Marion and \$3.814 billion for Linn County.

The total value of building permits for fiscal year 2017 was approximately \$68.8 million, which is up from the fiscal year 2016 amount of \$68.7 million. Building activity continues to remain strong in the Marion area.

## **NEXT YEAR'S BUDGET AND RATES**

The adopted fiscal year 2017-2018 budget calls for an increase in tax receipts of 7.6% and accomplishes all of the Council's long-standing objectives including maintaining the current level of services, maintaining adequate levels of cash reserves and complying with all of the City's financial policies.

Unlike many cities, Marion does not own or operate a wastewater treatment plant. Wastewater treatment is handled through a contract with the City of Cedar Rapids. The City of Marion has been negotiating a new agreement with Cedar Rapids to use a flow-based billing system rather than population-based. The draft budget anticipates that happening in the next fiscal year. A 24.0% overall increase in collections is budgeted. The main reason for this is a budgeted increase in costs to Cedar Rapids in case the adoption of a new agreement is delayed.

Fees are also expected to start the transition from a base fee/usage billing system to a consumption-based system starting in fiscal year 2017-2018. This will equalize residential rates and more accurately bill based on usage. Unlike the current system, it will also reward those that conserve and put less into the system. The new flow-based agreement with Cedar Rapids will ensure that the City sees a reduction in costs as well with lower flows.

The solid waste fee was last increased in January, 2017. At that time the reduced rate was eliminated and the regular rate was set at \$14.25 per month. When the public service department transitions over to a compressed natural gas fleet, it is anticipated that the fleet will be leased vehicles rather than purchased. This will reduce the annual capital needs in the replacement fund.

The total City tax levy rate for fiscal year 2017-2018 is 13.98943 per taxable valuation compared to 13.82107 for fiscal year 2016-2017. Net taxable valuation for fiscal year 2017-2018 is \$1,487.0 million, which was an increase of \$90.4 million from the fiscal year 2016-2017 level which was \$1,396.6 million.

## **FINANCIAL INFORMATION CONTACT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities 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**

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# Statement of Net Position

As of June 30, 2017

	Primary Government			Component Unit			
	Governmental Activities	Business-Type Activities	Total	Water	Friends	Parks	Fire
<b>Assets and Deferred Outflows of Resources</b>							
<b>Assets</b>							
Cash.....	\$ 27,165,744	\$ 6,108,864	\$ 33,274,608	\$ 4,429,983	\$ 154,673	\$ 35,957	\$ 116,949
Pooled investments .....	16,118,506	1,656,438	17,774,944	—	977,748	—	22,494
Receivables							
Property Tax and Tax Increment Financing, Net of Allowance							
Current year delinquent.....	80,786	—	80,786	—	—	—	—
Succeeding year .....	23,646,214	—	23,646,214	—	—	—	—
Unbilled usage .....	—	720,829	720,829	420,455	—	—	—
Accounts .....	334,665	525,429	860,094	303,093	—	—	—
Accrued interest .....	36,064	5,188	41,252	—	—	—	1,392
Other.....	212,077	—	212,077	—	—	—	—
Due from other governments .....	975,633	2,761	978,394	—	—	—	—
Internal loans - portion due within one year .....	(39,245)	22,873	(16,372)	—	—	—	—
Inventories.....	224,355	—	224,355	312,150	—	—	20
Internal loans - portion due after one year .....	(688,440)	704,812	16,372	—	—	—	—
Restricted Assets							
Cash and investments.....	—	—	—	160,578	472,628	—	931,501
Capital assets, net of accumulated depreciation.....	204,260,502	41,514,818	245,775,320	22,625,361	—	—	—
<b>Total Assets</b> .....	<b>272,326,861</b>	<b>51,262,012</b>	<b>323,588,873</b>	<b>28,251,620</b>	<b>1,605,049</b>	<b>35,957</b>	<b>1,072,356</b>
<b>Deferred Outflows of Resources</b>							
Pension-related deferred outflows .....	<b>6,212,162</b>	<b>512,717</b>	<b>6,724,879</b>	<b>212,609</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Assets and Deferred Outflows of Resources</b> .....	<b>\$ 278,539,023</b>	<b>\$ 51,774,729</b>	<b>\$ 330,313,752</b>	<b>\$ 28,464,229</b>	<b>\$ 1,605,049</b>	<b>\$ 35,957</b>	<b>\$ 1,072,356</b>



# Statement of Net Position

As of June 30, 2017

	Primary Government			Component Unit			
	Governmental Activities	Business-Type Activities	Total	Water	Friends	Parks	Fire
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>							
<b>Liabilities</b>							
Accounts payable .....	\$ 1,822,159	\$ 247,291	\$ 2,069,450	\$ 1,153,635	\$ —	\$ —	\$ —
Accrued interest payable .....	115,068	—	115,068	3,520	—	—	—
Salaries and benefits payable .....	354,256	21,087	375,343	37,161	—	—	—
Self-insured estimated claims .....	282,818	—	282,818	22,182	—	—	—
Reinsurance premiums payable .....	430,035	—	430,035	33,728	—	—	—
Payable from restricted assets .....	—	—	—	160,578	—	—	—
Long-Term Liabilities							
Portion Due Within One Year							
General obligation bonds .....	3,680,000	—	3,680,000	—	—	—	—
Capital lease .....	400,000	—	400,000	—	—	—	—
Compensated absences .....	3,996	40,729	44,725	81,849	—	—	—
Nonbonded indebtedness .....	24,994	—	24,994	—	—	—	—
Early separation plan liability .....	—	—	—	15,530	—	—	—
SRF loan .....	—	—	—	126,000	—	—	—
Portion Due or Payable After One Year							
General obligation bonds .....	33,475,000	—	33,475,000	—	—	—	—
Unamortized premium on general obligation notes .....	604,829	—	604,829	—	—	—	—
Capital lease .....	10,750,000	—	10,750,000	—	—	—	—
Compensated absences .....	3,730,900	—	3,730,900	—	—	—	—
Nonbonded indebtedness .....	119,530	—	119,530	—	—	—	—
Early separation plan liability .....	—	—	—	24,589	—	—	—
SRF loan .....	—	—	—	2,070,000	—	—	—
Net pension liability .....	16,642,366	1,545,934	18,188,300	756,502	—	—	—
Net OPEB liability .....	1,336,000	—	1,336,000	101,000	—	—	—
<b>Total Liabilities</b> .....	<b>73,771,951</b>	<b>1,855,041</b>	<b>75,626,992</b>	<b>4,586,274</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Deferred Inflows of Resources</b>							
Unavailable Revenue							
Succeeding year property tax and tax increment financing .....	23,646,214	—	23,646,214	—	—	—	—
Pension-related deferred inflows .....	230,205	18,926	249,131	40,800	—	—	—
<b>Total Deferred Inflows of Resources</b> .....	<b>23,876,419</b>	<b>18,926</b>	<b>23,895,345</b>	<b>40,800</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Position</b>							
Net investment in capital assets .....	155,206,149	41,514,818	196,720,967	20,429,361	—	—	—
Restricted for							
Cemetery perpetual care .....	176,314	—	176,314	—	—	—	—
Benefits .....	679,889	—	679,889	—	—	—	—
Debt service .....	423,516	—	423,516	—	—	—	—
Capital projects .....	11,822,222	—	11,822,222	—	—	—	—
Streets .....	6,756,370	—	6,756,370	—	—	—	—
Economic development .....	60,311	—	60,311	—	—	—	—
Other purposes .....	7,503,496	—	7,503,496	—	—	—	—
Unrestricted .....	(1,737,614)	8,385,944	6,648,330	3,407,794	1,605,049	35,957	1,072,356
<b>Total Net Position</b> .....	<b>180,890,653</b>	<b>49,900,762</b>	<b>230,791,415</b>	<b>23,837,155</b>	<b>1,605,049</b>	<b>35,957</b>	<b>1,072,356</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b> .....	<b>\$ 278,539,023</b>	<b>\$ 51,774,729</b>	<b>\$ 330,313,752</b>	<b>\$ 28,464,229</b>	<b>\$ 1,605,049</b>	<b>\$ 35,957</b>	<b>\$ 1,072,356</b>

See accompanying notes to the financial statements.

# Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position			Component Unit			
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	Water	Friends	Parks	Fire
<b>Primary Government</b>											
<b>Governmental Activities</b>											
Public safety .....	\$ 13,476,176	\$ 229,448	\$ 124,996	\$ 1,350	\$ (13,120,382)	\$ —	\$ (13,120,382)	\$ —	\$ —	\$ —	\$ —
Public works.....	8,611,779	21,210	119,204	688,646	(7,782,719)	—	(7,782,719)	—	—	—	—
Culture and recreation.....	4,276,781	506,398	358,097	—	(3,412,286)	—	(3,412,286)	—	—	—	—
Community and economic development.....	3,470,766	1,332,785	474	1,124,054	(1,013,453)	—	(1,013,453)	—	—	—	—
General government .....	2,719,638	92,695	520,694	—	(2,106,249)	—	(2,106,249)	—	—	—	—
Interest and other charges on long-term debt.....	1,398,082	—	—	—	(1,398,082)	—	(1,398,082)	—	—	—	—
<b>Total Governmental Activities.....</b>	<b>33,953,222</b>	<b>2,182,536</b>	<b>1,123,465</b>	<b>1,814,050</b>	<b>(28,833,171)</b>	<b>—</b>	<b>(28,833,171)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Business-Type Activities</b>											
Sewer .....	5,828,650	5,432,208	2,681	646,872	—	253,111	253,111	—	—	—	—
Solid waste .....	2,015,528	2,143,216	92,678	—	—	220,366	220,366	—	—	—	—
City communication and utility.....	79,674	7,241	—	—	—	(72,433)	(72,433)	—	—	—	—
Urban forest .....	295,200	372,242	—	—	—	77,042	77,042	—	—	—	—
<b>Total Business-Type Activities .....</b>	<b>8,219,052</b>	<b>7,954,907</b>	<b>95,359</b>	<b>646,872</b>	<b>—</b>	<b>478,086</b>	<b>478,086</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Primary Government.....</b>	<b>\$ 42,172,274</b>	<b>\$ 10,137,443</b>	<b>\$ 1,218,824</b>	<b>\$ 2,460,922</b>	<b>(28,833,171)</b>	<b>478,086</b>	<b>(28,355,085)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Component Unit - Water.....</b>	<b>\$ 2,974,438</b>	<b>\$ 4,193,822</b>	<b>\$ —</b>	<b>\$ 298,403</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,517,787</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Component Unit - Friends.....</b>	<b>\$ 28,179</b>	<b>\$ —</b>	<b>\$ 32,588</b>	<b>\$ —</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,409</b>	<b>—</b>	<b>—</b>
<b>Component Unit - Parks.....</b>	<b>\$ 2,544</b>	<b>\$ —</b>	<b>\$ 4,339</b>	<b>\$ —</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,795</b>	<b>—</b>
<b>Component Unit - Fire.....</b>	<b>\$ 16,706</b>	<b>\$ —</b>	<b>\$ 13,151</b>	<b>\$ —</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(3,555)</b>
<b>General Revenue (Expense)</b>											
Property Tax Levied for											
General purposes .....					16,701,342	—	16,701,342	—	—	—	—
Debt service .....					3,264,513	—	3,264,513	—	—	—	—
Tax increment financing .....					3,270,812	—	3,270,812	—	—	—	—
Other City Tax											
Cable television franchise .....					345,559	—	345,559	—	—	—	—
Hotel/motel.....					176,478	—	176,478	—	—	—	—
Road use tax.....					4,696,288	—	4,696,288	—	—	—	—
Local option sales tax.....					5,013,090	—	5,013,090	—	—	—	—
Unrestricted investment earnings .....					712,077	139,019	851,096	30,312	108,435	104	46,784
Special assessments.....					4,197	—	4,197	—	—	—	—
Miscellaneous.....					41,578	—	41,578	85,344	—	—	—
Gain (loss) on disposal of capital assets.....					606,218	—	606,218	(1,186)	—	—	—
<b>Total General Revenue .....</b>					<b>34,832,152</b>	<b>139,019</b>	<b>34,971,171</b>	<b>114,470</b>	<b>108,435</b>	<b>104</b>	<b>46,784</b>
<b>Transfers .....</b>					<b>170,173</b>	<b>(168,794)</b>	<b>1,379</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Change in Net Position .....</b>					<b>6,169,154</b>	<b>448,311</b>	<b>6,617,465</b>	<b>1,632,257</b>	<b>112,844</b>	<b>1,899</b>	<b>43,229</b>
Net Position - Beginning of Year.....					174,721,499	49,452,451	224,173,950	22,204,898	1,492,205	34,058	1,029,127
<b>Net Position - End of Year.....</b>					<b>\$ 180,890,653</b>	<b>\$ 49,900,762</b>	<b>\$ 230,791,415</b>	<b>\$ 23,837,155</b>	<b>\$ 1,605,049</b>	<b>\$ 35,957</b>	<b>\$ 1,072,356</b>

See accompanying notes to the financial statements.

**Balance Sheet - Governmental Funds**

As of June 30, 2017

	General	Special Revenue					Debt Service	Capital Projects	Nonmajor	Total
		Road Use Tax	Trust and Agency (Employee Benefits)	Local Option Sales Tax	Tax Increment Financing					
<b>Assets</b>										
Cash.....	\$ 7,359,177	\$ 6,150,775	\$ 601,978	\$ 6,347,598	\$ 756,609	\$ 518,911	\$ 1,539,710	\$ 1,047,491	\$ 24,322,249	
Pooled investments.....	3,312,027	120,259	98,736	451,653	—	7,887	11,701,798	—	15,692,360	
Receivables										
Property Tax										
Current year delinquent.....	45,945	—	16,187	—	6,868	11,786	—	—	80,786	
Succeeding year.....	12,785,728	—	4,480,456	—	2,876,066	3,503,964	—	—	23,646,214	
Accounts.....	105,274	138,549	17,500	—	—	—	—	58,869	320,192	
Accrued interest.....	2,818	—	—	858	—	—	30,553	—	34,229	
Other.....	212,077	—	—	—	—	—	—	—	212,077	
Due from other governments.....	53,447	494,791	—	414,486	—	—	12,909	—	975,633	
Inventories.....	224,355	—	—	—	—	—	—	—	224,355	
<b>Total Assets</b> .....	<b>\$ 24,100,848</b>	<b>\$ 6,904,374</b>	<b>\$ 5,214,857</b>	<b>\$ 7,214,595</b>	<b>\$ 3,639,543</b>	<b>\$ 4,042,548</b>	<b>\$ 13,284,970</b>	<b>\$ 1,106,360</b>	<b>\$ 65,508,095</b>	
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>										
<b>Liabilities</b>										
Accounts payable.....	\$ 317,195	\$ 115,253	\$ 54,512	\$ 45,000	\$ —	\$ —	\$ 1,162,748	\$ 13,680	\$ 1,708,388	
Salaries and benefits payable.....	319,614	32,751	—	1,891	—	—	—	—	354,256	
Interfund loan.....	—	—	—	—	427,685	—	300,000	—	727,685	
<b>Total Liabilities</b> .....	<b>636,809</b>	<b>148,004</b>	<b>54,512</b>	<b>46,891</b>	<b>427,685</b>	<b>—</b>	<b>1,462,748</b>	<b>13,680</b>	<b>2,790,329</b>	
<b>Deferred Inflows of Resources</b>										
<b>Unavailable Revenue</b>										
Succeeding year property tax.....	<b>12,785,728</b>	<b>—</b>	<b>4,480,456</b>	<b>—</b>	<b>2,876,066</b>	<b>3,503,964</b>	<b>—</b>	<b>—</b>	<b>23,646,214</b>	
<b>Fund Balances</b>										
<b>Nonspendable</b>										
Inventories.....	224,355	—	—	—	—	—	—	—	224,355	
Cemetery perpetual care.....	—	—	—	—	—	—	—	176,314	176,314	
<b>Restricted for</b>										
Benefits.....	—	—	679,889	—	—	—	—	—	679,889	
Debt service.....	—	—	—	—	—	538,584	—	—	538,584	
Capital projects.....	—	—	—	—	—	—	11,822,222	—	11,822,222	
Streets.....	—	6,756,370	—	—	—	—	—	—	6,756,370	
Economic development.....	—	—	—	—	—	—	—	60,311	60,311	
Other purposes.....	—	—	—	7,167,704	335,792	—	—	—	7,503,496	
<b>Committed for</b>										
Pension.....	667,331	—	—	—	—	—	—	—	667,331	
Capital projects.....	—	—	—	—	—	—	—	348,173	348,173	
<b>Assigned for</b>										
Equipment reserve.....	2,356,621	—	—	—	—	—	—	—	2,356,621	
Tax stabilization.....	230,653	—	—	—	—	—	—	—	230,653	
Census reserve.....	64,154	—	—	—	—	—	—	—	64,154	
Capital projects.....	—	—	—	—	—	—	—	507,882	507,882	
Unassigned.....	7,135,197	—	—	—	—	—	—	—	7,135,197	
<b>Total Fund Balances</b> .....	<b>10,678,311</b>	<b>6,756,370</b>	<b>679,889</b>	<b>7,167,704</b>	<b>335,792</b>	<b>538,584</b>	<b>11,822,222</b>	<b>1,092,680</b>	<b>39,071,552</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b> .....	<b>\$ 24,100,848</b>	<b>\$ 6,904,374</b>	<b>\$ 5,214,857</b>	<b>\$ 7,214,595</b>	<b>\$ 3,639,543</b>	<b>\$ 4,042,548</b>	<b>\$ 13,284,970</b>	<b>\$ 1,106,360</b>	<b>\$ 65,508,095</b>	

See accompanying notes to the financial statements.

## Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

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As of June 30, 2017

**Total Fund Balances for Governmental Funds (Page 16)....** **\$ 39,071,552**

***Amounts reported for governmental activities in the  
statement of net position 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 \$257,860,574 and the accumulated depreciation is \$53,600,072. .... 204,260,502

Internal service funds are 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 funds are included in governmental activities in the statements of net position. .... 2,459,325

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. .... (115,068)

Pension-related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources.....	\$ 6,212,162	
Deferred inflows of resources.....	<u>(230,205)</u>	5,981,957

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

General obligation bonds .....	\$ (37,155,000)	
Unamortized premium on general obligation bonds.....	(604,829)	
Capital lease .....	(11,150,000)	
Compensated absences.....	(3,734,896)	
Nonbonded indebtedness .....	(144,524)	
Net pension liability .....	(16,642,366)	
Net OPEB liability .....	<u>(1,336,000)</u>	<u>(70,767,615)</u>

**Net Position of Governmental Activities (Page 14) .....** **\$ 180,890,653**

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

Year Ended June 30, 2017

	Special Revenue								
	General	Road Use Tax	Trust and Agency (Employee Benefits)	Local Option Sales Tax	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
<b>Revenue</b>									
Property tax.....	\$ 12,344,170	\$ —	\$ 4,357,172	\$ —	\$ —	\$ 3,264,513	\$ —	\$ —	\$ 19,965,855
Tax increment financing .....	—	—	—	—	3,270,812	—	—	—	3,270,812
Other city tax .....	522,038	—	—	—	—	—	—	—	522,038
Licenses and permits.....	706,589	—	—	—	—	—	—	—	706,589
Use of money and property .....	155,420	13,448	1,034	58,416	—	11,091	438,736	6,213	684,358
Intergovernmental .....	324,796	4,814,593	127,269	5,013,090	—	—	1,106,932	171,801	11,558,481
Charges for service .....	899,052	—	5,457	—	—	—	228,847	342,590	1,475,946
Special assessments.....	—	—	—	—	—	650	3,547	—	4,197
Miscellaneous.....	48,361	—	216,545	—	—	—	85,602	90,838	441,346
<b>Total Revenue</b> .....	<b>15,000,426</b>	<b>4,828,041</b>	<b>4,707,477</b>	<b>5,071,506</b>	<b>3,270,812</b>	<b>3,276,254</b>	<b>1,863,664</b>	<b>611,442</b>	<b>38,629,622</b>
<b>Expenditures</b>									
Operating									
Public safety .....	12,192,227	—	58,418	—	—	—	—	—	12,250,645
Public works.....	975,622	2,657,065	—	235,028	—	—	—	—	3,867,715
Culture and recreation.....	3,832,009	—	427,111	—	—	—	—	—	4,259,120
Community and economic development.....	1,360,092	—	—	—	425,385	—	—	303,809	2,089,286
General government .....	2,368,657	90,011	—	—	—	—	—	—	2,458,668
Debt Service									
Principal.....	—	—	—	—	—	4,295,508	—	—	4,295,508
Interest and other charges .....	—	—	—	—	6,250	1,470,772	—	—	1,477,022
Capital projects.....	—	605,179	1,481	—	—	—	15,117,372	—	15,724,032
<b>Total Expenditures</b> .....	<b>20,728,607</b>	<b>3,352,255</b>	<b>487,010</b>	<b>235,028</b>	<b>431,635</b>	<b>5,766,280</b>	<b>15,117,372</b>	<b>303,809</b>	<b>46,421,996</b>
<b>Revenue Over (Under) Expenditures</b> .....	<b>(5,728,181)</b>	<b>1,475,786</b>	<b>4,220,467</b>	<b>4,836,478</b>	<b>2,839,177</b>	<b>(2,490,026)</b>	<b>(13,253,708)</b>	<b>307,633</b>	<b>(7,792,374)</b>
<b>Other Financing Sources (Uses)</b>									
Operating transfers in.....	5,039,338	5,000	4,462	—	—	2,562,642	2,855,977	1,379	10,468,798
Operating transfers out.....	(42,794)	(61,488)	(4,358,338)	(2,985,449)	(2,405,770)	—	(41,215)	—	(9,895,054)
Insurance recoveries .....	—	138,549	—	—	—	—	—	—	138,549
Sale of capital assets.....	45,991	523,877	—	—	—	—	28,403	—	598,271
<b>Total Other Financing Sources (Uses)</b> .....	<b>5,042,535</b>	<b>605,938</b>	<b>(4,353,876)</b>	<b>(2,985,449)</b>	<b>(2,405,770)</b>	<b>2,562,642</b>	<b>2,843,165</b>	<b>1,379</b>	<b>1,310,564</b>
<b>Net Change in Fund Balances</b> .....	<b>(685,646)</b>	<b>2,081,724</b>	<b>(133,409)</b>	<b>1,851,029</b>	<b>433,407</b>	<b>72,616</b>	<b>(10,410,543)</b>	<b>309,012</b>	<b>(6,481,810)</b>
Fund Balances - Beginning of Year .....	11,363,957	4,674,646	813,298	5,316,675	(97,615)	465,968	22,232,765	783,668	45,553,362
<b>Fund Balances - End of Year</b> .....	<b>\$ 10,678,311</b>	<b>\$ 6,756,370</b>	<b>\$ 679,889</b>	<b>\$ 7,167,704</b>	<b>\$ 335,792</b>	<b>\$ 538,584</b>	<b>\$ 11,822,222</b>	<b>\$ 1,092,680</b>	<b>\$ 39,071,552</b>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2017

**Change in Fund Balances - Total Governmental Funds (Page 18) \$ (6,481,810)**

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

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 .....	\$ 14,788,357	
Contributed capital assets .....	688,646	
Depreciation expense.....	<u>(5,632,306)</u>	9,844,697

The net book value of capital assets disposed of during the year..... (130,611)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the statement of activities, interest expense is recognized as interest accrues, regardless of when it is due. .... 7,609

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 position. Repayment of the long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Current year issuances exceeded repayments as follows:

Repayment of general obligation bonds .....	\$ 3,985,000	
Repayment of capital lease .....	265,000	
Increase in nonbonded indebtedness.....	(2,152)	
Repayment of general obligation notes .....	20,626	
Repayment of nonbonded indebtedness .....	<u>25,000</u>	4,293,474

Amortization of premiums on bonds payable does not provide current financial resources to governmental funds but it decreases liabilities in the statement of net position. ... 71,213

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

Year Ended June 30, 2017

The current year City employer share of IPERS and MFPRSI contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the statement of net position. .... \$ 1,998,952

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.....	\$ (305,255)	
Pension expense.....	(2,340,099)	
Net OPEB liability.....	<u>(56,000)</u>	(2,701,354)

Internal service funds are used by management to charge the costs of employee benefits and the partially self-funded insurance plan to individual funds. The change in net position of the internal service funds is reported in governmental activities in the statement of activities..... (733,016)

**Change in Net Position of Governmental Activities (Page 15) \$ 6,169,154**

# Statement of Net Position - Proprietary Funds

As of June 30, 2017

	Enterprise				Internal Service		
	Sewer Rental	Storm Water Management	Nonmajor	Total	Employee Benefit	Health Insurance	Total
<b>Assets and Deferred Outflows of Resources</b>							
<b>Current Assets</b>							
Cash.....	\$ 589,803	\$ 1,408,608	\$ 4,110,453	\$ 6,108,864	\$ —	\$ 2,843,495	\$ 2,843,495
Pooled investments .....	352,034	—	1,304,404	1,656,438	426,146	—	426,146
Receivables							
Unbilled usage.....	426,159	81,655	213,015	720,829	—	—	—
Accounts.....	273,497	66,807	185,125	525,429	—	14,473	14,473
Accrued interest.....	—	—	5,188	5,188	1,835	—	1,835
Due from other governments.....	422	—	2,339	2,761	—	—	—
Interfund loan .....	—	—	22,873	22,873	—	—	—
<b>Total Current Assets .....</b>	<b>1,641,915</b>	<b>1,557,070</b>	<b>5,843,397</b>	<b>9,042,382</b>	<b>427,981</b>	<b>2,857,968</b>	<b>3,285,949</b>
<b>Noncurrent Assets</b>							
Interfund loan .....	—	—	704,812	704,812	—	—	—
Capital assets, net of accumulated depreciation.....	16,348,649	22,850,506	2,315,663	41,514,818	—	—	—
<b>Total Noncurrent Assets .....</b>	<b>16,348,649</b>	<b>22,850,506</b>	<b>3,020,475</b>	<b>42,219,630</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Assets .....</b>	<b>17,990,564</b>	<b>24,407,576</b>	<b>8,863,872</b>	<b>51,262,012</b>	<b>427,981</b>	<b>2,857,968</b>	<b>3,285,949</b>
<b>Deferred Outflows of Resources</b>							
Pension-related deferred outflows .....	174,349	110,712	227,656	512,717	—	—	—
<b>Total Assets and Deferred Outflows of Resources.....</b>	<b>\$ 18,164,913</b>	<b>\$ 24,518,288</b>	<b>\$ 9,091,528</b>	<b>\$ 51,774,729</b>	<b>\$ 427,981</b>	<b>\$ 2,857,968</b>	<b>\$ 3,285,949</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>							
<b>Current Liabilities</b>							
Accounts payable .....	\$ 87,083	\$ 2,379	\$ 157,829	\$ 247,291	\$ 81,590	\$ 32,181	\$ 113,771
Salaries and benefits payable.....	7,025	—	14,062	21,087	—	—	—
Self-insured estimated claims.....	—	—	—	—	—	282,818	282,818
Reinsurance premiums payable .....	—	—	—	—	—	430,035	430,035
Compensated absences .....	40,729	—	—	40,729	—	—	—
<b>Total Current Liabilities.....</b>	<b>134,837</b>	<b>2,379</b>	<b>171,891</b>	<b>309,107</b>	<b>81,590</b>	<b>745,034</b>	<b>826,624</b>
<b>Noncurrent Liabilities</b>							
Net pension liability.....	525,809	337,212	682,913	1,545,934	—	—	—
<b>Total Liabilities .....</b>	<b>660,646</b>	<b>339,591</b>	<b>854,804</b>	<b>1,855,041</b>	<b>81,590</b>	<b>745,034</b>	<b>826,624</b>
<b>Deferred Inflows of Resources</b>							
Pension-related deferred inflows .....	6,403	4,316	8,207	18,926	—	—	—
<b>Net Position</b>							
Net investment in capital assets .....	16,348,649	22,850,506	2,315,663	41,514,818	—	—	—
Unrestricted .....	1,149,215	1,323,875	5,912,854	8,385,944	346,391	2,112,934	2,459,325
<b>Total Net Position .....</b>	<b>17,497,864</b>	<b>24,174,381</b>	<b>8,228,517</b>	<b>49,900,762</b>	<b>346,391</b>	<b>2,112,934</b>	<b>2,459,325</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position.....</b>	<b>\$ 18,164,913</b>	<b>\$ 24,518,288</b>	<b>\$ 9,091,528</b>	<b>\$ 51,774,729</b>	<b>\$ 427,981</b>	<b>\$ 2,857,968</b>	<b>\$ 3,285,949</b>

See accompanying notes to the financial statements.



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

Year Ended June 30, 2017

	Enterprise				Internal Service		
	Sewer Rental	Storm Water Management	Nonmajor	Total	Employee Benefit	Health Insurance	Total
<b>Operating Revenue</b>							
Licenses and permits.....	\$ —	\$ —	\$ 1,390	\$ 1,390	\$ —	\$ —	\$ —
Charges for service .....	3,930,928	1,093,337	2,927,578	7,951,843	—	—	—
Miscellaneous.....	—	—	1,674	1,674	—	3,030,857	3,030,857
<b>Total Operating Revenue .....</b>	<b>3,930,928</b>	<b>1,093,337</b>	<b>2,930,642</b>	<b>7,954,907</b>	<b>—</b>	<b>3,030,857</b>	<b>3,030,857</b>
<b>Operating Expenses</b>							
Personal services .....	960,608	584,201	1,301,017	2,845,826	—	—	—
Services and commodities.....	3,267,441	21,042	859,509	4,147,992	232,351	3,155,668	3,388,019
Depreciation .....	496,893	498,465	229,876	1,225,234	—	—	—
<b>Total Operating Expenses.....</b>	<b>4,724,942</b>	<b>1,103,708</b>	<b>2,390,402</b>	<b>8,219,052</b>	<b>232,351</b>	<b>3,155,668</b>	<b>3,388,019</b>
<b>Operating Income (Loss) .....</b>	<b>(794,014)</b>	<b>(10,371)</b>	<b>540,240</b>	<b>(264,145)</b>	<b>(232,351)</b>	<b>(124,811)</b>	<b>(357,162)</b>
<b>Nonoperating Revenue</b>							
Investment income .....	8,874	12,932	117,213	139,019	27,717	—	27,717
Intergovernmental .....	2,681	—	92,678	95,359	—	—	—
Capital contributions .....	268,308	378,564	—	646,872	—	—	—
<b>Total Nonoperating Revenue .....</b>	<b>279,863</b>	<b>391,496</b>	<b>209,891</b>	<b>881,250</b>	<b>27,717</b>	<b>—</b>	<b>27,717</b>
<b>Income (Loss) Before Transfers.....</b>	<b>(514,151)</b>	<b>381,125</b>	<b>750,131</b>	<b>617,105</b>	<b>(204,634)</b>	<b>(124,811)</b>	<b>(329,445)</b>
<b>Transfers</b>							
Transfers in .....	183,004	—	41,215	224,219	112,429	—	112,429
Transfers out .....	(40,066)	(126,503)	(226,444)	(393,013)	(516,000)	—	(516,000)
<b>Total Transfers.....</b>	<b>142,938</b>	<b>(126,503)</b>	<b>(185,229)</b>	<b>(168,794)</b>	<b>(403,571)</b>	<b>—</b>	<b>(403,571)</b>
<b>Change in Net Position .....</b>	<b>(371,213)</b>	<b>254,622</b>	<b>564,902</b>	<b>448,311</b>	<b>(608,205)</b>	<b>(124,811)</b>	<b>(733,016)</b>
Net Position - Beginning of Year.....	17,869,077	23,919,759	7,663,615	49,452,451	954,596	2,237,745	3,192,341
<b>Net Position - End of Year.....</b>	<b>\$ 17,497,864</b>	<b>\$ 24,174,381</b>	<b>\$ 8,228,517</b>	<b>\$ 49,900,762</b>	<b>\$ 346,391</b>	<b>\$ 2,112,934</b>	<b>\$ 2,459,325</b>

# Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2017

	Enterprise				Internal Service		
	Sewer Rental	Storm Water Management	Nonmajor	Total	Employee Benefit	Health Insurance	Total
<b>Cash Flows From Operating Activities</b>							
Cash received from customers and users .....	\$ 3,855,200	\$ 1,079,130	\$ 2,878,632	\$ 7,812,962	\$ —	\$ 3,040,764	\$ 3,040,764
Cash paid to employees for services..	(974,816)	(599,411)	(1,320,610)	(2,894,837)	—	—	—
Cash paid to suppliers for goods and services .....	(3,215,830)	(22,103)	(880,472)	(4,118,405)	(234,080)	(2,704,220)	(2,938,300)
<b>Net Cash Provided by (Used in) Operating Activities.....</b>	<b>(335,446)</b>	<b>457,616</b>	<b>677,550</b>	<b>799,720</b>	<b>(234,080)</b>	<b>336,544</b>	<b>102,464</b>
<b>Cash Flows From Noncapital Financing Activities</b>							
Net transfers.....	142,938	(126,503)	(185,229)	(168,794)	(403,571)	—	(403,571)
State and federal grants received.....	2,569	—	90,339	92,908	—	—	—
Increase in due to other funds .....	—	—	76,778	76,778	—	—	—
<b>Net Cash Provided by (Used in) Noncapital Activities .....</b>	<b>145,507</b>	<b>(126,503)</b>	<b>(18,112)</b>	<b>892</b>	<b>(403,571)</b>	<b>—</b>	<b>(403,571)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>							
Decrease in interfund loan.....	—	—	22,315	22,315	77,242	—	77,242
Acquisition of capital assets.....	(308,806)	—	(318,356)	(627,162)	—	—	—
Disposal of capital assets .....	—	—	183,004	183,004	—	—	—
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities .....</b>	<b>(308,806)</b>	<b>—</b>	<b>(113,037)</b>	<b>(421,843)</b>	<b>77,242</b>	<b>—</b>	<b>77,242</b>
<b>Cash Flows From Investing Activities</b>							
Interest on investments .....	8,874	12,932	117,497	139,303	28,263	—	28,263
Purchase of investments .....	(754)	—	—	(754)	—	—	—
Proceeds from sale of investments.....	—	—	64,215	64,215	75,979	—	75,979
<b>Net Cash Provided by Investing Activities .....</b>	<b>8,120</b>	<b>12,932</b>	<b>181,712</b>	<b>202,764</b>	<b>104,242</b>	<b>—</b>	<b>104,242</b>
<b>Net Increase (Decrease) in Cash .....</b>	<b>(490,625)</b>	<b>344,045</b>	<b>728,113</b>	<b>581,533</b>	<b>(456,167)</b>	<b>336,544</b>	<b>(119,623)</b>
Cash - Beginning of Year .....	1,080,428	1,064,563	3,382,340	5,527,331	456,167	2,506,951	2,963,118
<b>Cash - End of Year.....</b>	<b>\$ 589,803</b>	<b>\$ 1,408,608</b>	<b>\$ 4,110,453</b>	<b>\$ 6,108,864</b>	<b>\$ —</b>	<b>\$ 2,843,495</b>	<b>\$ 2,843,495</b>
<b>Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities</b>							
Income (loss) from operations .....	\$ (794,014)	\$ (10,371)	\$ 540,240	\$ (264,145)	\$ (232,351)	\$ (124,811)	\$ (357,162)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities							
Depreciation .....	496,893	498,465	229,876	1,225,234	—	—	—
Change in Assets and Liabilities (Increase) decrease in receivables	(75,728)	(14,207)	(52,010)	(141,945)	—	9,907	9,907
Increase in deferred outflows of resources .....	(84,702)	(52,871)	(111,869)	(249,442)	—	—	—
Increase (decrease) in payables	51,611	(1,061)	(20,963)	29,587	(1,729)	451,448	449,719
Decrease in salaries and benefits payable .....	(33,838)	(23,266)	(36,793)	(93,897)	—	—	—
Increase in compensated absences	6,874	—	—	6,874	—	—	—
Increase in net pension liability ...	120,196	75,921	162,079	358,196	—	—	—
Decrease in deferred inflows of resources .....	(22,738)	(14,994)	(33,010)	(70,742)	—	—	—
<b>Net Cash Provided by (Used in) Operating Activities.....</b>	<b>\$ (335,446)</b>	<b>\$ 457,616</b>	<b>\$ 677,550</b>	<b>\$ 799,720</b>	<b>\$ (234,080)</b>	<b>\$ 336,544</b>	<b>\$ 102,464</b>

See accompanying notes to the financial statements.

# Statement of Changes in Fiduciary Net Position - Trust Fund

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Year Ended June 30, 2017

	<b>Cemetery Memorial</b>
<b>Additions</b>	
Interest income .....	\$ 2
<b>Deductions</b>	
Transfers out .....	1,379
Net Position - Beginning of Year .....	<u>1,377</u>
<b>Net Position - End of Year .....</b>	<b><u><u>\$ —</u></u></b>

## Notes to the Financial Statements

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### **(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 Mayor-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 government 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, 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 units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Certain disclosures about the Marion Water Department (Water) 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 Units**

The 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.

The Friends of Marion Carnegie Library (Friends) 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. Friends is a nonprofit organization founded to promote the use of the Library and provide financial assistance for various programs. The Organization has a year end of December 31. Accordingly, the Organization's financial information included in the statement of activities and net position is as of and for the year ended December 31, 2016.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

The Marion Parks and Recreation Foundation, Inc. (Parks) 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 Parks Foundation is a nonprofit organization founded to develop parks and recreation facilities within the City and provide financial assistance for various programs. The Parks Foundation has a year end of December 31. Accordingly, the Parks Foundation's financial information included in the statement of activities and net position is as of and for the year ended December 31, 2016.

The Marion Firefighter's Association (Fire) 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 Fire association is a nonprofit organization founded to provide a structural way for volunteers and full-time firefighters to coordinate, encourage, promote and participate and to develop and implement programs aimed at meeting the needs of the City. The Fire association has a year end of December 31. Accordingly, the Fire association's financial information included in the statement of activities and net position is as of and for the year ended December 31, 2016.

### Jointly Governed Organizations

The City 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 by 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.

### Basis of Presentation

#### ***Government-Wide Financial Statements***

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

The statement of net position presents the City's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those clearly identifiable with a specific function. 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 and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax 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 and enterprise funds and all internal service funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor governmental and enterprise funds, respectively.

The City reports the following major governmental funds:

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

The Special Revenue, Road Use Tax 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 Special Revenue, Trust and Agency (Employee Benefits) Fund is required by the Code of Iowa to account for property tax 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 Special Revenue, Local Option Sales Tax Fund is used to account for the revenue from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

The Special Revenue, Tax Increment Financing Fund is used to account for revenue from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation bonds and other indebtedness incurred for urban renewal projects.

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 is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

The City reports the following major proprietary funds:

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

The Enterprise, Storm Water Management Fund is used to account for the operation and maintenance of the City's storm water management system.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for health insurance and other employee benefits provided to other departments on a cost-reimbursement basis.

Additionally, the City reports a trust fund which is used to account for outside donations held by the City as a trustee. The trust fund was closed during the year ended June 30, 2017, and the funds were transferred to the permanent fund.

### Measurement Focus and Basis of Accounting

The government-wide, proprietary funds and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is 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 tax, local option sales tax, intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest are 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.

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.

# Notes to the Financial Statements

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## **(1) Summary of Significant Accounting Policies**

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 position 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.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity**

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

#### ***Cash and Pooled Investments***

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, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

#### ***Property Tax Receivable, Including Tax Increment Financing***

Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City as of June 30, 2017 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City 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 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 tax 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.



# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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, 2015 assessed property valuations, is for the tax accrual period July 1, 2016 through June 30, 2017 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2016.

### **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, 2017, 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 acquired after July 1, 1980 (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 position and in the proprietary funds statement of net position. 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 \$3,000 for all items except for intangible assets which are \$5,000. The City had no intangible assets as of June 30, 2017.

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

<b>Asset Class</b>	<b>Estimated Useful Lives</b>
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

## (1) Summary of Significant Accounting Policies

### ***Deferred Outflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

### ***Compensated Absences***

City employees accumulate a limited amount of earned but unused vacation and sick leave hours and personal leave and compensatory time 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 as of June 30, 2017. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use Tax and Sewer Rental Funds. Also see Note 9.

### ***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 position and the proprietary fund statement of net position.

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.

### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and the Municipal Fire and Police Retirement System and additions to/deductions from the Systems' fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### ***Deferred Inflows of Resources***

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax and tax increment financing receivable not collected within 60 days after year end.

## (1) Summary of Significant Accounting Policies

Deferred inflows of resources in the statement of net position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

### **Fund Balances**

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 are imposed by law through constitutional provisions or enabling legislation.

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

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

**Unassigned** - All amounts not included in the preceding classifications.

### **Tax Stabilization**

The City Council has established the Tax Stabilization Fund to provide a funding mechanism to reduce future property tax impacts. In an unusual budget year, this reserve can be used to smooth spikes in property tax. The Tax Stabilization Fund is presented as part of the General Fund in the financial statements.

### **Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.

### **Estimates and Assumptions**

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

# Notes to the Financial Statements

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## (2) Cash and Pooled Investments

### Primary Government

The City's deposits as of June 30, 2017 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 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; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash and investments as of June 30, 2017 were as follows:

Cash.....	\$ 33,274,608
Pooled cash investments - Iowa Public Agency Investment Trust.....	4,922,025
Money market accounts .....	308,781
U.S. Instrumentalities	
Original maturities 5 years or less .....	—
Original maturities 6 to 10 years.....	29,677
Original maturities 10+ years.....	12,514,461
<b>Total .....</b>	<b><u>\$ 51,049,552</u></b>

The City uses the fair value hierarchy established by generally accepted accounting principles, based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The recurring fair value measurement for the U.S. instrumentalities of \$12,544,138 is valued using the last reported sales price at current exchange rates. (Level 1 inputs)

In addition, the City had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at an amortized cost of \$4,922,025 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in IPAIT is unrated.

The City had no other investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

### 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.

## Notes to the Financial Statements

### (2) Cash and Pooled Investments

#### Credit Risk

The City's U.S. Instrumentalities investments as of June 30, 2017 are rated Aaa or better by Moody's Investors service. The investment in the Iowa Public Agency Investment Trust is unrated.

#### Discretely Presented Component Units

The Friends of Marion Carnegie Library's investments as of December 31, 2016 consist of mutual funds and other investments with a fair value of \$1,450,376.

The Marion Firefighter's Association's investments as of December 31, 2016 consist of mutual funds and other investments with a fair value of \$928,131.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

Primary Government	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land.....	\$ 78,406,761	\$ 974,139	\$ —	\$ 79,380,900
Construction in progress .....	11,738,171	13,601,713	4,551,701	20,788,183
Total Capital Assets Not Being Depreciated.....	<u>90,144,932</u>	<u>14,575,852</u>	<u>4,551,701</u>	<u>100,169,083</u>
Capital Assets Being Depreciated				
Buildings .....	30,439,986	74,030	5,566	30,508,450
Improvements other than buildings.....	109,390,801	4,246,613	3,351,725	110,285,689
Equipment.....	16,918,247	1,132,209	1,153,104	16,897,352
Total Capital Assets Being Depreciated.....	<u>156,749,034</u>	<u>5,452,852</u>	<u>4,510,395</u>	<u>157,691,491</u>
Less Accumulated Depreciation for				
Buildings .....	5,963,595	758,752	5,566	6,716,781
Improvements other than buildings.....	36,775,786	3,402,788	3,351,725	36,826,849
Equipment.....	9,608,169	1,470,766	1,022,493	10,056,442
Total Accumulated Depreciation .....	<u>52,347,550</u>	<u>5,632,306</u>	<u>4,379,784</u>	<u>53,600,072</u>
Net Capital Assets Being Depreciated.....	<u>104,401,484</u>	<u>(179,454)</u>	<u>130,611</u>	<u>104,091,419</u>
<b>Net Governmental Activities Capital Assets .....</b>	<b><u>\$ 194,546,416</u></b>	<b><u>\$ 14,396,398</u></b>	<b><u>\$ 4,682,312</u></b>	<b><u>\$ 204,260,502</u></b>

## Notes to the Financial Statements

### (3) Capital Assets

Primary Government	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated				
Land.....	\$ 467,658	\$ —	\$ —	\$ 467,658
Construction in progress .....	1,366,416	401,053	183,004	1,584,465
Total Capital Assets Not Being Depreciated.....	<u>1,834,074</u>	<u>401,053</u>	<u>183,004</u>	<u>2,052,123</u>
Capital Assets Being Depreciated				
Buildings .....	20,300	—	—	20,300
Equipment.....	3,217,151	41,215	40,725	3,217,641
Distribution system.....	28,952,234	451,556	326,135	29,077,655
Storm sewer system.....	30,825,806	378,564	46,564	31,157,806
Communication system.....	533,558	—	—	533,558
Total Capital Assets Being Depreciated.....	<u>63,549,049</u>	<u>871,335</u>	<u>413,424</u>	<u>64,006,960</u>
Less Accumulated Depreciation for				
Buildings .....	3,052	1,532	—	4,584
Equipment.....	2,305,118	227,781	40,725	2,492,174
Distribution system.....	13,057,822	444,100	326,135	13,175,787
Storm sewer system.....	7,988,526	498,465	46,564	8,440,427
Communication system.....	377,937	53,356	—	431,293
Total Accumulated Depreciation .....	<u>23,732,455</u>	<u>1,225,234</u>	<u>413,424</u>	<u>24,544,265</u>
Net Capital Assets Being Depreciated.....	<u>39,816,594</u>	<u>(353,899)</u>	<u>—</u>	<u>39,462,695</u>
<b>Net Business-Type Activities</b>				
<b>Capital Assets .....</b>	<b><u>\$ 41,650,668</u></b>	<b><u>\$ 47,154</u></b>	<b><u>\$ 183,004</u></b>	<b><u>\$ 41,514,818</u></b>

Depreciation expense was charged to functions of the primary government as follows for the year ended June 30, 2017:

#### Governmental Activities

Public safety .....	\$ 1,079,023
Public works .....	3,454,881
Culture and recreation .....	899,574
Community and economic development .....	12,094
General government.....	186,734
<b>Total Depreciation Expense - Governmental Activities .....</b>	<b><u>\$ 5,632,306</u></b>

#### Business-Type Activities

City communication and utility .....	\$ 53,356
Sewer rental .....	496,893
Solid waste .....	175,833
Storm water management .....	498,465
Urban forest utility .....	687
<b>Total Depreciation Expense - Business-Type Activities .....</b>	<b><u>\$ 1,225,234</u></b>

## Notes to the Financial Statements

### (4) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2017:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year	Due Within One Year	Range of Interest Rates
<b>Governmental Activities</b>						
General obligation bonds	\$ 41,140,000	\$ —	\$ 3,985,000	\$ 37,155,000	\$ 3,680,000	1.500 - 4.00%
Unamortized premium on general obligation bonds.....	676,042	—	71,213	604,829	—	N/A
General obligation notes	20,626	—	20,626	—	—	N/A
Capital lease .....	11,415,000	—	265,000	11,150,000	400,000	2.200 - 4.15
Compensated absences	3,429,641	488,784	183,529	3,734,896	3,996	N/A
Nonbonded indebtedness	167,372	2,152	25,000	144,524	24,994	1.50
Net pension liability .....	12,427,657	4,214,709	—	16,642,366	—	N/A
Net OPEB liability.....	1,280,000	198,359	142,359	1,336,000	—	N/A
<b>Total.....</b>	<b>\$ 70,556,338</b>	<b>\$ 4,904,004</b>	<b>\$ 4,692,727</b>	<b>\$ 70,767,615</b>	<b>\$ 4,108,990</b>	
<b>Business-Type Activities</b>						
Compensated absences	\$ 33,855	\$ 18,925	\$ 12,051	\$ 40,729	\$ 96	N/A
Net pension liability .....	1,187,738	358,196	—	1,545,934	—	N/A
<b>Total.....</b>	<b>\$ 1,221,593</b>	<b>\$ 377,121</b>	<b>\$ 12,051</b>	<b>\$ 1,586,663</b>	<b>\$ 96</b>	

### General Obligation Bonds

Ten issues of unmatured general obligation bonds totaling \$37,155,000 were outstanding as of June 30, 2017. General obligation bonds bear interest at rates ranging from 1.5% to 4% per annum and mature in varying annual amounts ranging from \$100,000 to \$800,000, with the final maturities due in the year ending June 30, 2034.

Details of the City's general obligation bonds payable as of June 30, 2017 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-17
<b>Governmental Activities</b>						
Corporate purpose .....	12-15-09	3.00 - 3.13%	6-1-20	\$ 225,000 - \$ 245,000	\$ 2,120,000	\$ 705,000
Corporate purpose .....	12-15-09	3.00 - 4.00	6-1-25	410,000 - 535,000	6,285,000	3,745,000
Corporate purpose .....	2-13-12	2.00 - 3.00	6-1-28	540,000 - 710,000	9,270,000	6,745,000
Corporate purpose .....	2-13-12	2.00 - 2.13	6-1-23	460,000 - 515,000	4,570,000	2,905,000
Corporate purpose .....	1-7-14	2.00 - 3.75	6-1-29	445,000 - 605,000	6,575,000	6,135,000
Corporate purpose .....	1-7-14	2.00 - 2.75	6-1-25	100,000 - 120,000	1,065,000	865,000
Corporate purpose .....	10-2-14	2.00 - 3.25	6-1-30	140,000 - 185,000	2,360,000	2,080,000
Corporate purpose .....	2-3-15	2.00 - 3.00	6-1-34	555,000 - 800,000	12,180,000	11,175,000
Corporate purpose .....	2-3-15	1.50 - 2.90	6-1-27	200,000 - 245,000	2,565,000	2,195,000
Refunding corporate purpose.....	3-5-15	1.50	6-1-18	605,000	1,765,000	605,000
						<b>\$ 37,155,000</b>

## Notes to the Financial Statements

### (4) Long-Term Liabilities

A summary of the annual general obligation bond principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2018 .....	\$ 3,680,000	\$ 990,339	\$ 4,670,339
2019 .....	3,125,000	914,414	4,039,414
2020 .....	3,210,000	843,264	4,053,264
2021 .....	3,035,000	769,708	3,804,708
2022 .....	3,110,000	697,483	3,807,483
2023-2027 .....	13,395,000	2,276,981	15,671,981
2028-2032 .....	6,025,000	687,025	6,712,025
2033-2034 .....	1,575,000	71,250	1,646,250
	<b><u>\$ 37,155,000</u></b>	<b><u>\$ 7,250,464</u></b>	<b><u>\$ 44,405,464</u></b>

In August, 2011, the City approved an interfund loan from the Enterprise - Solid Waste Fund to the Special Revenue - Tax Increment Financing (TIF) Fund for an undefined period at 2.75% annual interest. 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 beginning in the fiscal year ending June 30, 2018.

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-17
Enterprise - Solid Waste	Special Revenue - Tax Increment Financing	\$ 200,000	\$ 200,000

In March, 2014, the City approved an interfund loan from the Enterprise - Sewer Rent Replacement Fund to the Special Revenue - Tax Increment Financing (TIF) Fund for a period not to exceed ten years at 2.5% annual interest. This loan was used to fund an economic development incentive payment to PDS Investments, LLC. The City will use 50% of the TIF funds from the PDS project to repay this loan beginning in the fiscal year ending June 30, 2017.

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-17
Enterprise - Sewer Rental Replacement	Special Revenue - Tax Increment Financing	\$ 250,000	\$ 227,685



## Notes to the Financial Statements

### (4) Long-Term Liabilities

In June, 2014, the City approved an interfund loan from the Enterprise - Sewer Rent Replacement Fund to the Capital Projects Fund for a period not to exceed 20 years at 2.5% annual interest. This loan was used to fund an economic development incentive payment to Capital Commercial Division, LLC. The City will use TIF funds to repay this loan once the TIF district has the funds.

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-17
Enterprise - Sewer Rent Replacement	Capital Projects	\$ 300,000	\$ 300,000

### Capital Lease

During the year ended June 30, 2013, the City entered into various agreements to construct a police station containing approximately 45,000 square feet on two floors plus a basement and related facilities and improvements. To finance the construction, the City entered into an agreement to lease land it owns to Bankers Trust Company, NA (Bankers) as trustee, and in turn lease that land back from Bankers for 50 years for the total lease payment of \$1. Bankers subleased the land to V & K Development, LLC to provide for the engineering, design, development, construction, furnishing and equipping of the facility. In November, 2013, the City leased the building from Bankers under a lease purchase agreement being accounted for as a capital lease by the City. The capital lease agreement included interest at 2.20% - 4.15% per annum and requires payments in amounts necessary to repay Bankers for the total proceeds of \$11,650,000 that Bankers obtained by selling certificates of participation in the lease to investors. Once the certificates of participation are repaid, ownership of the building transfers to the City.

The City paid \$386,927 of interest under the capital lease agreement during the year ended June 30, 2017.

The following is a schedule by years of future minimum lease payments on the capital lease obligation:

Year Ending June 30,	
2018 .....	\$ 790,481
2019 .....	816,681
2020 .....	865,806
2021 .....	876,686
2022 .....	891,086
2023-2027 .....	4,708,863
2028-2032 .....	5,146,900
2032-2033 .....	<u>1,135,235</u>
Total Minimum Lease Payments.....	15,231,738
Less amount representing interest.....	<u>(4,081,738)</u>
<b>Present Value of Net Minimum Lease Payments.....</b>	<b><u>\$ 11,150,000</u></b>

## Notes to the Financial Statements

### (5) 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 1.5%, an estimated liability of \$167,372 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. In October, 2012, the City entered into a one-year agreement to lease 66 acres of cropland at \$250 per acre per year subject to proportionate reduction as land is developed. In September, 2013, October, 2014, September, 2015 and November, 2016, a one-year extension of the lease was approved.

### (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to	Transfer From	Amount
General	Special Revenue	
	Trust and Agency (Employee Benefits)	\$ 4,358,338
	Local Option Sales Tax	165,000
	Internal Service	
	Employee Benefits	<u>516,000</u>
		<u>5,039,338</u>
Special Revenue	Enterprise	
Road Use Tax	Urban Forest Utility	<u>5,000</u>
Special Revenue	General	<u>4,462</u>
Trust and Agency (Employee Benefits)		
Capital Projects	Special Revenue	
	Road Use Tax	36,034
	Local Option Sales Tax	<u>2,819,943</u>
		<u>2,855,977</u>
Debt Service	General	7,500
	Special Revenue	
	Tax Increment Financing	2,405,770
	Enterprise	
	Sewer Rental	24,000
	Storm Water Management	<u>125,372</u>
		<u>2,562,642</u>

## Notes to the Financial Statements

### (6) Interfund Transfers

Transfer to	Transfer From	Amount
Permanent Cemetery Perpetual Care	Trust Cemetery Memorial	<u>\$ 1,379</u>
Enterprise Urban Forest Utility	Capital Projects	<u>41,215</u>
Enterprise Sewer Rental	Sewer Rental Replacement	<u>183,004</u>
Internal Service Employee Benefits	General Special Revenue Road Use Tax Local Option Sales Tax Enterprise Sewer Rental Solid Waste Urban Forest Utility Storm Water Management	30,832 25,454 506 16,066 38,000 440 <u>1,131</u> <u>112,429</u>
		<b><u>\$ 10,805,446</u></b>

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

### (7) Pension and Retirement Benefits

The City offers City employees the following retirement plans:

#### IPERS

##### Plan Description

IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

### (7) Pension and Retirement Benefits

#### Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July, 1990 receive a guaranteed dividend with their regular November benefit payments.

#### Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

## Notes to the Financial Statements

### (7) Pension and Retirement Benefits

#### Contributions

Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to one percentage point. IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, regular members contributed 5.95% of covered payroll and the City contributed 8.93% for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 were \$698,972.

#### Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2017, the City reported a liability of \$6,311,031 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. As of June 30, 2016, the City's proportion was 0.100282% which was an increase of 0.001387% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$850,216. As of June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience .....	\$ 55,775	\$ 75,385
Changes of assumptions .....	96,284	1
Net difference between projected and actual earnings on IPERS' investments .....	899,571	—
Changes in proportion and differences between City contributions and proportionate share of contributions .....	302,785	44
City contributions subsequent to the measurement date .....	698,972	—
<b>Total .....</b>	<b><u>\$ 2,053,387</u></b>	<b><u>\$ 75,430</u></b>

## Notes to the Financial Statements

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### (7) Pension and Retirement Benefits

\$698,972 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	
2018 .....	\$ 223,071
2019 .....	223,071
2020 .....	534,157
2021 .....	295,568
2022 .....	3,118
<b>Total</b> .....	<b><u>\$ 1,278,985</u></b>

There were no nonemployer contributing entities to IPERS.

#### Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3% per annum.
Salary increases (effective June 30, 2010)	4% to 17%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.5% per annum, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4% per annum, based on 3% inflation assumption and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

## Notes to the Financial Statements

### (7) Pension and Retirement Benefits

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	28%	1.90%
Domestic Equity	24	5.85
International Equity	16	6.32
Private Equity/Debt	11	10.31
Real Estate	8	3.87
Credit Opportunities	5	4.48
U.S. TIPS	5	1.36
Other Real Assets	2	6.42
Cash	1	(0.26)
<b>Total</b>	<u><u>100%</u></u>	

#### Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$10,212,055	\$6,311,031	\$3,018,517

#### Pension Plan Fiduciary Net Position

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

#### Payables to the Pension Plan

As of June 30, 2017, the City reported payables to IPERS of \$78,174 for legally required employer contributions and \$52,087 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

### **(7) Pension and Retirement Benefits**

#### **Municipal Fire and Police Retirement System of Iowa (MFPRSI)**

##### **Plan Description**

MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, IA 50266 or at [www.mfprsi.org](http://www.mfprsi.org).

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

##### **Pension Benefits**

Members with four or more years of service are entitled to pension benefits beginning at age 55. Full-service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than four years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest three years of compensation. The average of these three years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2% for each additional year of service, up to a maximum of eight years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members, at least 55 years of age, with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a three, four or five year DROP period. By electing to participate in DROP, the member is signing a contract indicating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.



## Notes to the Financial Statements

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### (7) Pension and Retirement Benefits

#### Disability and Death Benefits

Disability coverage may be either accidental or ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation, for those with five or more years of service, or the member's service retirement benefit calculation amount, and 25% of average final compensation for those with less than five years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa which states a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

#### Contributions

Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2017.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 25.92% for the year ended June 30, 2017.

The City's contributions to MFPRSI for the year ended June 30, 2017 were \$1,475,656.

If approved by the state legislature, state appropriation may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa therefore is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67).

There were no state appropriations to MFPRSI during the year ended June 30, 2017.

## Notes to the Financial Statements

### (7) Pension and Retirement Benefits

#### Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2017, the City reported a liability of \$11,877,269 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all MFPRSI participating employers. As of June 30, 2016, the City's proportion was 1.899570% which was an increase of 0.041486% from its proportions measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$1,703,571. As of June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience .....	\$ 306,537	\$ 11,015
Changes of assumptions .....	501,465	162,686
Net difference between projected and actual earnings on investments.....	2,100,176	—
Changes in proportion and differences between City contributions and proportionate share of contributions .....	287,658	—
City contributions subsequent to the measurement date .....	1,475,656	—
<b>Total</b> .....	<b><u>\$ 4,671,492</u></b>	<b><u>\$ 173,701</u></b>

\$1,475,656 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year Ending June 30,

2018 .....	\$ 501,131
2019 .....	501,131
2020 .....	1,257,464
2021 .....	749,522
2022 .....	12,887
<b>Total</b> .....	<b><u>\$ 3,022,135</u></b>

#### Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3%
Salary increases	4.5% to 15.00%, including inflation
Investment rate of return	7.5%, net of investment expense, including inflation

## Notes to the Financial Statements

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### (7) Pension and Retirement Benefits

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Postretirement mortality rates were based on the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled individuals set-forward one year (male-only rates), with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap	6.0%
Small Cap	5.8
International Large Cap	7.0
Emerging Markets	8.8
Emerging Market Debt	6.5
Private Non-Core Real Estate	9.3
Master Limited Partnerships	8.5
Private Equity	9.8
Core Plus Fixed Income	3.8
Private Core Real Estate	6.8
Treasury Inflation Protected Securities	2.8
Tactical Asset Allocation	6.0

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at 9.40% of covered payroll and the City contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

## Notes to the Financial Statements

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### (7) Pension and Retirement Benefits

#### Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$18,640,768	\$11,877,269	\$6,244,714

#### MFPRSI's Fiduciary Net Position

Detailed information about MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at [www.mfprsi.org](http://www.mfprsi.org).

#### Payables to MFPRSI

All legally required employer contributions and legally required employee contributions which had been withheld from employee wages were remitted by the City to MFPRSI by June 30, 2017.

### (8) Other Postemployment Benefits (OPEB)

#### Plan Description

The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 186 active and 18 retired members in the plan. Retired 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 benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

#### Funding Policy

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

#### Annual OPEB Cost and Net OPEB Obligation

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

## Notes to the Financial Statements

### (8) Other Postemployment Benefits (OPEB)

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2017, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution .....	\$ 301,348
Interest on net OPEB obligation.....	32,088
Adjustment to annual required contribution.....	<u>(135,077)</u>
Annual OPEB Cost .....	198,359
Contributions made .....	<u>(142,359)</u>
Increase in Net OPEB Obligation .....	56,000
Net OPEB Obligation - Beginning of Year.....	<u>1,280,000</u>
Net OPEB Obligation - End of Year .....	<u><b>\$ 1,336,000</b></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, 2017.

For the year ended June 30, 2017, the City contributed \$142,359 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, 2017 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 197,873	79.8%	\$ 1,240,000
2016	208,867	80.8	1,280,000
2017	198,359	71.8	1,336,000

### Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date for the period July 1, 2016 through June 30, 2017, the actuarial accrued liability was \$2,026,496 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,026,496. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,208,000 and the ratio of the UAAL to covered payroll was 15.3%. As of June 30, 2017, 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.

## Notes to the Financial Statements

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### (8) Other Postemployment Benefits (OPEB)

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

As of the July 1, 2016 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%. An inflation rate of 0% is assumed for the purpose of this computation.

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 a closed basis over 30 years.

### (9) Compensated Absences

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Employees covered under the International Association of Firefighters contract are also eligible for compensation at normal retirement of accumulated sick leave in excess of 90 days, to a maximum payment of 60 days. Employees covered under the Marion Policeman's Protective Association contract are eligible for compensation at normal retirement of 50% of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Water Department employees and all other nonunion City employees, sick leave can be accumulated but is payable only when used. 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 6-30-17
<b>Primary Government</b>	
Sick leave .....	\$ 1,051,358
Vacation and personal leave .....	1,601,621
Compensatory time .....	1,122,646
	<u>\$ 3,775,625</u>

The above liabilities have been computed based on rates of pay as of June 30, 2017.

## Notes to the Financial Statements

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### (10) Conduit Debt

The City has issued a total of \$18,153,515 of industrial development revenue and health care facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$9,377,487 is outstanding as of June 30, 2017. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

### (11) 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 as of June 30, 2017:

	<b>Primary Government</b>	<b>Discretely Presented Component Unit - Marion Water Department</b>	<b>Total</b>
Claims paid during the year .....	\$ 2,023,286	\$ 105,831	\$ 2,129,117
Estimated claims incurred but unpaid at June 30, 2017 .....	282,818	22,182	305,000

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 \$509 per month single or \$1,275 per month family which is an actuarially determined amount with a reasonable provision for future unexpected claims. Employees pay a set amount per month based on coverage and other factors. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

### (12) 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, 2017, the Marion Water Department collected and remitted to the City \$5,127,152 for sewer, \$1,863,351 for garbage service and \$399,957 for urban forest. Fees paid to the Water Department by the City during the year to pay for this service totaled \$111,284.

### (13) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 753 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2017 were \$232,031.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or loss was incurred.

The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, as of June 30, 2017, no liability has been recorded in the City's financial statements. As of June 30, 2017, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.



### **(13) Risk Management**

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

#### **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, 2017 were \$106,711.

The Association uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. Claims exceeding \$750,000 are reinsured in an amount not to exceed \$2,000,000 per occurrence.

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

### **(14) Development Agreements**

The City has entered into various development agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met.

The total amount rebated during the year ended June 30, 2017 was \$423,823. The estimated outstanding balance of the agreements as of June 30, 2017 was approximately \$4,880,000.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for approximately \$4,880,000 which requires an annual appropriation by the City Council.

## Notes to the Financial Statements

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### (15) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenue that results from an agreement between one or more governments and an individual entity in which (a) one or more governments promise to forgo tax revenue to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

#### City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$1,925,385 of property tax under the urban renewal and economic development projects.

#### Tax Abatements of Other Entities

Property tax revenue of the City were reduced by the following amounts for the year ended June 30, 2017 under agreements entered into by the following entities:

Entity	Tax Abatement Program	Amount of Tax Abated
City of Hiawatha	Economic Development	\$430,303

### (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. See Note 13. 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 two years for retirees who qualify under an early separation agreement.

### (17) Insurance Recovery

In October, 2016, the City experienced a total loss to one of their street sweepers. Subsequent to June 30, 2017, the City received \$138,549 from the insurance company, which has been reported as other financing sources in the Road Use Fund, to replace it.

### **(18) Construction Commitments and Subsequent Events**

As of June 30, 2017, the City had entered into several construction contracts and agreements to purchase equipment and supplies totaling approximately \$3.15 million for various street projects.

As of June 30, 2017, the City had committed up to \$6.5 million including \$2 million in local option sales tax funding, in partnership with the Cedar Rapids Metro Area YMCA to building a community fitness center in Marion. The City has also pledged a total of \$1.25 million in financial support for a proposed baseball and softball complex.

Management has evaluated subsequent events through December 21, 2017, the date which the financial statements were available to be issued, of which \$800,000 was paid subsequent to year end.

Subsequent to June 30, 2017, the City entered into the following transactions:

Approved several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$7.6 million.

Approved several development agreements totaling approximately \$15.1 million.

Issued \$6,840,000 of general obligation corporate purpose bonds and \$4,205,000 of general obligation refunding bonds.

### **(19) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the statement of net position is expected to include a significant liability for the government's other postemployment benefits.

**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, 2017

	Actual			Budgeted Amounts		Over (Under) Budget
	Governmental Funds	Enterprise Funds	Total	Original	Final	
<b>Receipts</b>						
Property tax.....	\$ 19,980,044	\$ —	\$ 19,980,044	\$ 19,287,872	\$ 19,287,872	\$ 692,172
Tax increment financing...	3,271,975	—	3,271,975	3,278,698	3,278,698	(6,723)
Other city tax .....	5,711,604	—	5,711,604	4,637,874	4,637,874	1,073,730
Licenses and permits .....	729,764	5,840	735,604	622,200	622,200	113,404
Use of money and property	784,625	156,694	941,319	423,057	423,057	518,262
Intergovernmental .....	6,920,741	74,125	6,994,866	5,505,800	5,505,800	1,489,066
Charges for service .....	769,389	12,679,881	13,449,270	12,659,367	12,659,367	789,903
Special assessments .....	4,197	—	4,197	12,000	12,000	(7,803)
Miscellaneous .....	1,668,582	3,054,179	4,722,761	3,403,541	3,403,541	1,319,220
<b>Total Receipts .....</b>	<b><u>39,840,921</u></b>	<b><u>15,970,719</u></b>	<b><u>55,811,640</u></b>	<b><u>49,830,409</u></b>	<b><u>49,830,409</u></b>	<b><u>5,981,231</u></b>
<b>Disbursements</b>						
Public safety.....	12,484,926	—	12,484,926	11,999,916	13,620,258	(1,135,332)
Public works .....	3,974,417	—	3,974,417	4,526,754	6,015,168	(2,040,751)
Culture and recreation .....	4,275,924	—	4,275,924	4,823,606	5,768,148	(1,492,224)
Community and economic development.....	2,191,466	—	2,191,466	2,217,236	2,337,236	(145,770)
General government .....	2,517,793	—	2,517,793	2,627,851	2,775,878	(258,085)
Debt service .....	5,766,281	—	5,766,281	5,775,140	5,775,140	(8,859)
Capital projects .....	16,965,979	—	16,965,979	25,862,127	40,826,067	(23,860,088)
Business-type activities....	—	15,103,358	15,103,358	16,863,076	17,313,756	(2,210,398)
<b>Total Disbursements ..</b>	<b><u>48,176,786</u></b>	<b><u>15,103,358</u></b>	<b><u>63,280,144</u></b>	<b><u>74,695,706</u></b>	<b><u>94,431,651</u></b>	<b><u>(31,151,507)</u></b>
<b>Receipts Over (Under) Disbursements.....</b>	<b>(8,335,865)</b>	<b>867,361</b>	<b>(7,468,504)</b>	<b>(24,865,297)</b>	<b>(44,601,242)</b>	<b>37,132,738</b>
<b>Other Financing Sources (Uses), Net .....</b>	<b><u>586,670</u></b>	<b><u>(543,800)</u></b>	<b><u>42,870</u></b>	<b><u>6,514,000</u></b>	<b><u>13,514,000</u></b>	<b><u>(13,471,130)</u></b>
<b>Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses</b>	<b>(7,749,195)</b>	<b>323,561</b>	<b>(7,425,634)</b>	<b>(18,351,297)</b>	<b>(31,087,242)</b>	<b>23,661,608</b>
Balances - Beginning of Year .....	48,415,439	14,615,793	63,031,232	49,315,356	63,030,888	344
<b>Balances - End of Year ..</b>	<b><u>\$ 40,666,244</u></b>	<b><u>\$ 14,939,354</u></b>	<b><u>\$ 55,605,598</u></b>	<b><u>\$ 30,964,059</u></b>	<b><u>\$ 31,943,646</u></b>	<b><u>\$ 23,661,952</u></b>

## Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2017

	<b>Governmental Funds</b>		
		<b>Accrual</b>	
	<b>Cash Basis</b>	<b>Adjustments</b>	<b>GAAP Basis</b>
Revenue.....	\$ 39,840,921	\$ (1,211,299)	\$ 38,629,622
Expenditures .....	<u>48,176,786</u>	<u>(1,754,790)</u>	<u>46,421,996</u>
Net .....	(8,335,865)	543,491	(7,792,374)
Other financing sources (uses), net.....	586,670	723,894	1,310,564
Beginning fund balances .....	<u>48,415,439</u>	<u>(2,862,077)</u>	<u>45,553,362</u>
<b>Ending Fund Balances.....</b>	<b><u>\$ 40,666,244</u></b>	<b><u>\$ (1,594,692)</u></b>	<b><u>\$ 39,071,552</u></b>

	<b>Proprietary Funds</b>			
		<b>Adjustment for</b>		
	<b>Cash Basis</b>	<b>Component</b>	<b>Accrual</b>	<b>GAAP Basis</b>
		<b>Unit</b>	<b>Adjustments</b>	
Revenue.....	\$ 15,970,719	\$ (4,833,073)	\$ (2,301,489)	\$ 8,836,157
Expenditures .....	<u>15,103,358</u>	<u>(4,957,633)</u>	<u>(1,926,673)</u>	<u>8,219,052</u>
Net .....	867,361	124,560	(374,816)	617,105
Other financing sources (uses), net.....	(543,800)	—	375,006	(168,794)
Beginning fund balances .....	<u>14,615,793</u>	<u>(3,599,337)</u>	<u>38,435,995</u>	<u>49,452,451</u>
<b>Ending Fund Balances.....</b>	<b><u>\$ 14,939,354</u></b>	<b><u>\$ (3,474,777)</u></b>	<b><u>\$ 38,436,185</u></b>	<b><u>\$ 49,900,762</u></b>

## Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2017

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 for the internal service, trust fund and 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. 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 Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$19,735,945. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.

# Schedule of Proportionate Share of the Net Pension Liability ————— Iowa Public Employees' Retirement System

Last Three Years\*

	<b>2017</b>	<b>2016</b>	<b>2015</b>
City's proportion of the net pension liability.....	0.100282%	0.098894%	0.098683%
City's proportionate share of the net pension liability .....	\$6,311,031	\$4,885,852	\$3,913,656
City's covered-employee payroll.....	\$7,200,000	\$6,778,000	\$6,458,000
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll .	87.65%	72.08%	60.60%
Plan fiduciary net position as a percentage of the total pension liability .....	81.82%	85.19%	87.61%

\* The amounts presented for each fiscal year were determined as of June 30 of the preceding year.



**Schedule of Contributions**  
**Iowa Public Employees' Retirement System**

Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution .....	\$ 698,972	\$ 642,963	\$ 605,312	\$ 576,709	\$ 511,969	\$ 460,652	\$ 391,774	\$ 358,230	\$ 319,179	\$ 299,056
Contributions in relation to the statutorily required contributions.....	<u>(698,972)</u>	<u>(642,963)</u>	<u>(605,312)</u>	<u>(576,709)</u>	<u>(511,969)</u>	<u>(460,652)</u>	<u>(391,774)</u>	<u>(358,230)</u>	<u>(319,179)</u>	<u>(299,056)</u>
Contribution Deficiency (Excess) .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
City's covered-employee payroll .....	\$ 7,827,000	\$ 7,200,000	\$ 6,778,000	\$ 6,458,000	\$ 5,905,000	\$ 5,715,000	\$ 5,637,000	\$ 5,387,000	\$ 5,026,000	\$ 4,943,000
Contributions as a percentage of covered-employee payroll .....	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%

# Notes to Required Supplementary Information - Pension Liability

## Iowa Public Employees' Retirement System

Year Ended June 30, 2017

### Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from regular membership to the protection occupation group for future service only.

### Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the unfunded actuarial liability (UAL) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

## Schedule of Proportionate Share of the Net Pension Liability

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### Municipal Fire and Police Retirement System of Iowa

Last Three Years\*

	2017	2016	2015
City's proportion of the net pension liability.....	1.899570%	1.858084%	1.839468%
City's proportionate share of the net pension liability	\$11,877,269	\$8,729,543	\$6,668,039
City's covered-employee payroll.....	\$5,148,000	\$4,873,000	\$4,697,000
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll .	230.72%	179.14%	141.96%
Plan fiduciary net position as a percentage of the total pension liability .....	78.20%	83.04%	86.27%

\* The amounts presented for each fiscal year were determined as of June 30.

**Schedule of Contributions**  
**Municipal Fire and Police Retirement System of Iowa**

Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution .....	\$ 1,475,656	\$ 1,429,516	\$ 1,481,801	\$ 1,414,872	\$ 1,184,641	\$ 1,091,493	\$ 862,844	\$ 702,481	\$ 742,377	\$ 955,070
Contributions in relation to the statutorily required contributions.....	<u>(1,475,656)</u>	<u>(1,429,516)</u>	<u>(1,481,801)</u>	<u>(1,414,872)</u>	<u>(1,184,641)</u>	<u>(1,091,493)</u>	<u>(862,844)</u>	<u>(702,481)</u>	<u>(742,377)</u>	<u>(955,070)</u>
Contribution Deficiency (Excess) .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
City's covered-employee payroll .....	\$ 5,693,000	\$ 5,148,000	\$ 4,873,000	\$ 4,697,000	\$ 4,535,000	\$ 4,408,000	\$ 4,336,000	\$ 4,132,000	\$ 3,959,000	\$ 3,748,000
Contributions as a percentage of covered-employee payroll .....	25.92%	27.78%	30.41%	30.12%	26.12%	24.76%	19.90%	17.00%	18.75%	25.48%

# Notes to Required Supplementary Information - Pension Liability ---

## Municipal Fire and Police Retirement System of Iowa

Year Ended June 30, 2017

### **Changes of Benefit Terms**

There were no significant changes of benefit terms.

### **Changes of Assumptions**

Postretirement mortality changed to the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disableds set-forward one year (male-only rates), with no projection of future mortality improvement.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 2,614,066	\$ 2,614,066	0%	\$ 9,119,000	28.7%
2010	7-1-08	—	2,614,066	2,614,066	0	9,543,000	27.4
2011	7-1-10	—	2,820,489	2,820,489	0	9,915,000	28.5
2012	7-1-10	—	2,904,753	2,904,753	0	10,152,000	28.6
2013	7-1-12	—	1,672,700	1,672,700	0	10,429,000	16.0
2014	7-1-12	—	1,672,700	1,672,700	0	10,858,000	15.4
2015	7-1-14	—	1,702,936	1,702,936	0	11,344,000	15.0
2016	7-1-14	—	1,605,633	1,605,633	0	12,277,000	13.1
2017	7-1-16	—	2,026,496	2,026,496	0	13,208,000	15.3

See Note 8 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**

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# Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2017

	<u>Special Revenue</u>	<u>Capital Projects</u>			<u>Permanent</u>	
	<u>Community Development Block Grant</u>	<u>Park Develop- ment</u>	<u>Main- tenance Bond</u>	<u>Subdivision Develop- ment</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
<b>Assets</b>						
<b>Current Assets</b>						
Cash .....	\$ 51,442	\$ 172,685	\$ 348,173	\$ 298,877	\$ 176,314	\$ 1,047,491
Accounts receivables .....	<u>8,869</u>	<u>—</u>	<u>—</u>	<u>50,000</u>	<u>—</u>	<u>58,869</u>
<b>Total Assets .....</b>	<b><u>\$ 60,311</u></b>	<b><u>\$ 172,685</u></b>	<b><u>\$ 348,173</u></b>	<b><u>\$ 348,877</u></b>	<b><u>\$ 176,314</u></b>	<b><u>\$ 1,106,360</u></b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,680</u>	<u>\$ —</u>	<u>\$ 13,680</u>
<b>Fund Balances</b>						
Nonspendable						
Cemetery perpetual care .....	—	—	—	—	176,314	176,314
Restricted for						
Economic development .....	60,311	—	—	—	—	60,311
Committed for						
Capital projects .....	—	—	348,173	—	—	348,173
Assigned for						
Capital projects .....	<u>—</u>	<u>172,685</u>	<u>—</u>	<u>335,197</u>	<u>—</u>	<u>507,882</u>
<b>Total Fund Balances .....</b>	<b><u>60,311</u></b>	<b><u>172,685</u></b>	<b><u>348,173</u></b>	<b><u>335,197</u></b>	<b><u>176,314</u></b>	<b><u>1,092,680</u></b>
<b>Total Liabilities and Fund Balances .....</b>	<b><u>\$ 60,311</u></b>	<b><u>\$ 172,685</u></b>	<b><u>\$ 348,173</u></b>	<b><u>\$ 348,877</u></b>	<b><u>\$ 176,314</u></b>	<b><u>\$ 1,106,360</u></b>



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

Year Ended June 30, 2017

	<u>Special Revenue</u>	<u>Capital Projects</u>			<u>Permanent Cemetery Perpetual Care</u>	Total
	Community Development Block Grant	Park Develop- ment	Main- tenance Bond	Subdivision Develop- ment		
<b>Revenue</b>						
Use of money and property.....	\$ 1,355	\$ 1,667	\$ 3,191	\$ —	\$ —	\$ 6,213
Intergovernmental .....	167,232	—	—	—	4,569	171,801
Charges for service .....	—	—	27,681	314,909	—	342,590
Miscellaneous .....	90,838	—	—	—	—	90,838
<b>Total Revenue.....</b>	<b>259,425</b>	<b>1,667</b>	<b>30,872</b>	<b>314,909</b>	<b>4,569</b>	<b>611,442</b>
<b>Expenditures</b>						
Operating						
Community and economic development .....	<b>303,809</b>	—	—	—	—	<b>303,809</b>
<b>Revenue Over (Under)</b>						
<b>Expenditures.....</b>	<b>(44,384)</b>	<b>1,667</b>	<b>30,872</b>	<b>314,909</b>	<b>4,569</b>	<b>307,633</b>
<b>Transfers In.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,379</b>	<b>1,379</b>
<b>Net Changes in Fund Balances</b>	<b>(44,384)</b>	<b>1,667</b>	<b>30,872</b>	<b>314,909</b>	<b>5,948</b>	<b>309,012</b>
Fund Balances - Beginning of Year .....	104,695	171,018	317,301	20,288	170,366	783,668
<b>Fund Balances - End of Year ....</b>	<b><u>\$ 60,311</u></b>	<b><u>\$ 172,685</u></b>	<b><u>\$ 348,173</u></b>	<b><u>\$ 335,197</u></b>	<b><u>\$ 176,314</u></b>	<b><u>\$ 1,092,680</u></b>

# Combining Schedule of Net Position - Nonmajor Enterprise Funds

As of June 30, 2017

	Sewer Rental Replace- ment	City Communi- cation and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Total
<b>Assets and Deferred Outflows of Resources</b>						
<b>Current Assets</b>						
Cash .....	\$ 2,365,392	\$ 460,650	\$ 100	\$ 739,001	\$ 545,310	\$ 4,110,453
Pooled investments .....	525,105	—	405,005	374,294	—	1,304,404
Receivables						
Unbilled usage .....	2,063	—	178,244	—	32,708	213,015
Accounts .....	—	—	156,393	427	28,305	185,125
Accrued interest .....	1,545	—	1,799	1,844	—	5,188
Due from other governments .....	—	—	2,339	—	—	2,339
Interfund loan .....	22,873	—	—	—	—	22,873
<b>Total Current Assets .....</b>	<b><u>2,916,978</u></b>	<b><u>460,650</u></b>	<b><u>743,880</u></b>	<b><u>1,115,566</u></b>	<b><u>606,323</u></b>	<b><u>5,843,397</u></b>
<b>Noncurrent Assets</b>						
Interfund loan .....	504,812	—	200,000	—	—	704,812
Capital assets, net of accumulated depreciation .....	<u>1,175,288</u>	<u>102,265</u>	<u>997,582</u>	<u>—</u>	<u>40,528</u>	<u>2,315,663</u>
<b>Total Noncurrent Assets .....</b>	<b><u>1,680,100</u></b>	<b><u>102,265</u></b>	<b><u>1,197,582</u></b>	<b><u>—</u></b>	<b><u>40,528</u></b>	<b><u>3,020,475</u></b>
<b>Total Assets .....</b>	<b><u>4,597,078</u></b>	<b><u>562,915</u></b>	<b><u>1,941,462</u></b>	<b><u>1,115,566</u></b>	<b><u>646,851</u></b>	<b><u>8,863,872</u></b>
<b>Deferred Outflows of Resources</b>						
Pension-related deferred outflows .....	—	—	199,754	—	27,902	227,656
<b>Total Assets and Deferred     Outflows of Resources .....</b>	<b><u>\$ 4,597,078</u></b>	<b><u>\$ 562,915</u></b>	<b><u>\$ 2,141,216</u></b>	<b><u>\$ 1,115,566</u></b>	<b><u>\$ 674,753</u></b>	<b><u>\$ 9,091,528</u></b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>						
<b>Current Liabilities</b>						
Accounts payable .....	\$ —	\$ 30	\$ 152,513	\$ —	\$ 5,286	\$ 157,829
Salaries and benefits payable .....	—	—	11,240	—	2,822	14,062
<b>Total Current Liabilities .....</b>	<b><u>—</u></b>	<b><u>30</u></b>	<b><u>163,753</u></b>	<b><u>—</u></b>	<b><u>8,108</u></b>	<b><u>171,891</u></b>
<b>Net Pension Liability .....</b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>622,626</u></b>	<b><u>—</u></b>	<b><u>60,287</u></b>	<b><u>682,913</u></b>
<b>Total Liabilities .....</b>	<b><u>—</u></b>	<b><u>30</u></b>	<b><u>786,379</u></b>	<b><u>—</u></b>	<b><u>68,395</u></b>	<b><u>854,804</u></b>
<b>Deferred Inflows of Resources</b>						
Pension-related deferred inflows .....	—	—	7,441	—	766	8,207
<b>Net Position</b>						
Net investment in capital assets	1,175,288	102,265	997,582	—	40,528	2,315,663
Unrestricted .....	<u>3,421,790</u>	<u>460,620</u>	<u>349,814</u>	<u>1,115,566</u>	<u>565,064</u>	<u>5,912,854</u>
<b>Total Net Position .....</b>	<b><u>4,597,078</u></b>	<b><u>562,885</u></b>	<b><u>1,347,396</u></b>	<b><u>1,115,566</u></b>	<b><u>605,592</u></b>	<b><u>8,228,517</u></b>
<b>Total Liabilities, Deferred     Inflows of Resources and     Net Position .....</b>	<b><u>\$ 4,597,078</u></b>	<b><u>\$ 562,915</u></b>	<b><u>\$ 2,141,216</u></b>	<b><u>\$ 1,115,566</u></b>	<b><u>\$ 674,753</u></b>	<b><u>\$ 9,091,528</u></b>

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

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Year Ended June 30, 2017

	Sewer Rental Replace- ment	City Communi- cation and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Total
<b>Operating Revenue</b>						
Licenses and permits .....	\$ —	\$ —	\$ 1,390	\$ —	\$ —	\$ 1,390
Charges for service .....	407,943	7,241	1,861,345	278,954	372,095	2,927,578
Miscellaneous .....	—	—	1,527	—	147	1,674
<b>Total Operating Revenue .....</b>	<b><u>407,943</u></b>	<b><u>7,241</u></b>	<b><u>1,864,262</u></b>	<b><u>278,954</u></b>	<b><u>372,242</u></b>	<b><u>2,930,642</u></b>
<b>Operating Expenses</b>						
Personal services .....	—	—	1,120,452	—	180,565	1,301,017
Services and commodities .....	—	26,318	719,136	107	113,948	859,509
Depreciation .....	—	53,356	175,833	—	687	229,876
<b>Total Operating Expenses .....</b>	<b><u>—</u></b>	<b><u>79,674</u></b>	<b><u>2,015,421</u></b>	<b><u>107</u></b>	<b><u>295,200</u></b>	<b><u>2,390,402</u></b>
<b>Operating Income (Loss) .....</b>	<b><u>407,943</u></b>	<b><u>(72,433)</u></b>	<b><u>(151,159)</u></b>	<b><u>278,847</u></b>	<b><u>77,042</u></b>	<b><u>540,240</u></b>
<b>Nonoperating Revenue</b>						
Investment income .....	57,248	4,622	21,021	29,360	4,962	117,213
Intergovernmental .....	—	—	92,678	—	—	92,678
<b>Total Nonoperating Revenue ..</b>	<b><u>57,248</u></b>	<b><u>4,622</u></b>	<b><u>113,699</u></b>	<b><u>29,360</u></b>	<b><u>4,962</u></b>	<b><u>209,891</u></b>
<b>Income (Loss) Before Transfers</b>	<b><u>465,191</u></b>	<b><u>(67,811)</u></b>	<b><u>(37,460)</u></b>	<b><u>308,207</u></b>	<b><u>82,004</u></b>	<b><u>750,131</u></b>
<b>Transfers</b>						
Transfers in .....	—	—	—	—	41,215	41,215
Transfers out .....	(183,004)	—	(38,000)	—	(5,440)	(226,444)
<b>Total Transfers .....</b>	<b><u>(183,004)</u></b>	<b><u>—</u></b>	<b><u>(38,000)</u></b>	<b><u>—</u></b>	<b><u>35,775</u></b>	<b><u>(185,229)</u></b>
<b>Change in Net Position .....</b>	<b><u>282,187</u></b>	<b><u>(67,811)</u></b>	<b><u>(75,460)</u></b>	<b><u>308,207</u></b>	<b><u>117,779</u></b>	<b><u>564,902</u></b>
Net Position - Beginning of Year .....	4,314,891	630,696	1,422,856	807,359	487,813	7,663,615
<b>Net Position - End of Year .....</b>	<b><u>\$ 4,597,078</u></b>	<b><u>\$ 562,885</u></b>	<b><u>\$ 1,347,396</u></b>	<b><u>\$ 1,115,566</u></b>	<b><u>\$ 605,592</u></b>	<b><u>\$ 8,228,517</u></b>

## Combining Schedule of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2017

	Sewer Rental Replace- ment	City Communi- cation and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Total
<b>Cash Flows From Operating Activities</b>						
Cash received from customers and users.....	\$ 406,529	\$ 7,241	\$ 1,819,183	\$ 279,131	\$ 366,548	\$ 2,878,632
Cash paid to employees for services .....	—	—	(1,138,090)	—	(182,520)	(1,320,610)
Cash paid to suppliers for goods and services .....	(31,268)	(26,388)	(705,662)	(107)	(117,047)	(880,472)
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b>375,261</b>	<b>(19,147)</b>	<b>(24,569)</b>	<b>279,024</b>	<b>66,981</b>	<b>677,550</b>
<b>Cash Flows From Noncapital Financing Activities</b>						
Net transfers.....	(183,004)	—	(38,000)	—	35,775	(185,229)
State and federal grants received	—	—	90,339	—	—	90,339
Increase in due to other funds....	—	—	76,778	—	—	76,778
<b>Net Cash Provided by (Used in) Noncapital Financing Activities .....</b>	<b>(183,004)</b>	<b>—</b>	<b>129,117</b>	<b>—</b>	<b>35,775</b>	<b>(18,112)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>						
Decrease in interfund loan .....	22,315	—	—	—	—	22,315
Acquisition of capital assets .....	(151,583)	—	(125,558)	—	(41,215)	(318,356)
Disposal of capital assets.....	183,004	—	—	—	—	183,004
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities.....</b>	<b>53,736</b>	<b>—</b>	<b>(125,558)</b>	<b>—</b>	<b>(41,215)</b>	<b>(113,037)</b>
<b>Cash Flows From Investing Activities</b>						
Interest on investments.....	57,437	4,622	21,010	29,466	4,962	117,497
Sale of investments.....	36,509	—	—	27,706	—	64,215
<b>Net Cash Provided by Investing Activities.....</b>	<b>93,946</b>	<b>4,622</b>	<b>21,010</b>	<b>57,172</b>	<b>4,962</b>	<b>181,712</b>
<b>Net Increase (Decrease) in Cash</b>	<b>339,939</b>	<b>(14,525)</b>	<b>—</b>	<b>336,196</b>	<b>66,503</b>	<b>728,113</b>
Cash - Beginning of Year.....	2,025,453	475,175	100	402,805	478,807	3,382,340
<b>Cash - End of Year .....</b>	<b>\$ 2,365,392</b>	<b>\$ 460,650</b>	<b>\$ 100</b>	<b>\$ 739,001</b>	<b>\$ 545,310</b>	<b>\$ 4,110,453</b>
<b>Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities</b>						
Income (loss) from operations....	\$ 407,943	\$ (72,433)	\$ (151,159)	\$ 278,847	\$ 77,042	\$ 540,240
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities						
Depreciation .....	—	53,356	175,833	—	687	229,876
Change in Assets and Liabilities (Increase) decrease in receivables	(1,414)	—	(45,079)	177	(5,694)	(52,010)
Increase in deferred outflows of resources.....	—	—	(92,011)	—	(19,858)	(111,869)
Increase (decrease) in payables	(31,268)	(70)	13,474	—	(3,099)	(20,963)
Decrease in salaries and benefits payable .....	—	—	(32,422)	—	(4,371)	(36,793)
Increase in net pension liability	—	—	139,308	—	22,771	162,079
Decrease in deferred inflows of resources.....	—	—	(32,513)	—	(497)	(33,010)
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b>\$ 375,261</b>	<b>\$ (19,147)</b>	<b>\$ (24,569)</b>	<b>\$ 279,024</b>	<b>\$ 66,981</b>	<b>\$ 677,550</b>

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

Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Revenue</b>										
Property tax .....	\$ 19,965,855	\$ 19,390,867	\$ 18,279,551	\$ 17,400,856	\$ 16,925,535	\$ 16,298,027	\$ 15,638,561	\$ 14,857,708	\$ 14,436,527	\$ 12,820,700
Tax increment financing and other city tax .....	3,792,850	3,131,594	2,374,264	6,411,541	6,506,192	5,386,752	5,238,300	4,531,109	925,485	856,874
Licenses and permits.....	706,589	732,894	680,770	546,547	512,372	502,751	573,802	541,439	542,547	532,826
Use of money and property .....	684,358	578,032	546,900	524,526	641,024	657,236	658,559	715,090	874,905	1,135,512
Intergovernmental .....	11,558,481	10,065,390	8,389,101	5,209,702	4,906,177	5,024,346	7,951,255	5,677,970	3,693,796	3,752,935
Charges for service .....	1,475,946	1,180,883	1,131,847	1,014,752	747,635	842,441	808,083	432,527	408,310	367,322
Special assessments.....	4,197	556	11,754	12,159	17,085	13,910	18,069	19,323	21,446	22,848
Miscellaneous.....	441,346	161,179	486,160	14,973	10,815	244,913	53,871	365,070	318,639	377,097
<b>Total Revenue .....</b>	<b>\$ 38,629,622</b>	<b>\$ 35,241,395</b>	<b>\$ 31,900,347</b>	<b>\$ 31,135,056</b>	<b>\$ 30,266,835</b>	<b>\$ 28,970,376</b>	<b>\$ 30,940,500</b>	<b>\$ 27,140,236</b>	<b>\$ 21,221,655</b>	<b>\$ 19,866,114</b>
<b>Expenditures</b>										
Operating										
Public safety .....	\$ 12,250,645	\$ 9,480,056	\$ 9,628,508	\$ 9,241,883	\$ 8,632,337	\$ 8,199,484	\$ 7,989,669	\$ 7,907,480	\$ 7,225,455	\$ 7,443,939
Public works.....	3,867,715	3,321,888	3,591,277	3,168,323	2,697,064	3,383,641	3,177,611	3,206,090	2,988,781	2,969,549
Culture and recreation.....	4,259,120	3,822,840	3,861,382	3,879,457	3,477,272	3,349,677	3,375,571	3,304,388	3,025,885	2,854,777
Community and economic development...	2,089,286	1,962,244	2,242,743	2,515,424	1,832,185	1,819,707	1,566,522	1,631,865	1,784,298	1,319,293
General government .....	2,458,668	2,263,973	2,310,282	1,976,493	1,670,946	1,876,773	1,720,425	1,784,151	1,660,215	1,494,061
Debt service .....	5,772,530	5,764,400	6,261,762	3,965,993	6,257,258	3,390,626	3,110,244	2,715,648	3,761,247	4,106,061
Capital projects.....	15,724,032	14,575,014	16,847,966	18,176,800	10,727,089	12,198,330	11,862,997	4,853,756	5,540,965	2,380,396
<b>Total Expenditures .....</b>	<b>\$ 46,421,996</b>	<b>\$ 41,190,415</b>	<b>\$ 44,743,920</b>	<b>\$ 42,924,373</b>	<b>\$ 35,294,151</b>	<b>\$ 34,218,238</b>	<b>\$ 32,803,039</b>	<b>\$ 25,403,378</b>	<b>\$ 25,986,846</b>	<b>\$ 22,568,076</b>

## **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**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 21, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Marion's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Marion's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Marion's internal control.

Our consideration of internal control 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 and questioned costs as items 17-I-R-1 and 17-I-R-2 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying schedule of findings and questioned costs as item 17-I-R-3 to be a significant deficiency.

### **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 and questioned costs as items 17-II-B, 17-II-H and 17-II-I.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 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.

### **City of Marion's Responses to Findings**

The City of Marion's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Marion's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report, a public record by law, is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*HOGAN - HANSEN*

HOGAN - HANSEN

Cedar Rapids, Iowa  
December 21, 2017

# Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2017

## **Part I: Findings Related to the Financial Statements**

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Internal Control Deficiencies**

#### **17-I-R-1 Segregation of Duties**

**Criteria** - Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

**Condition** - Incompatible duties are being performed by the same person.

**Cause** - The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

**Effect or Potential Effect** - Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

**Identification of Repeat Finding** - 16-II-R-1

**Auditor's Recommendation** - The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

**Views of Responsible Officials and Planned Corrective Action** - The City is aware of the lack of segregation of duties and will consider alternatives to improve this situation.

**Auditor's Conclusion** - Response accepted.

#### **17-I-R-2 Financial Statement Preparation**

**Criteria** - A properly designed system of internal control over financial reporting includes the preparation of a City's financial statements and accompanying notes to the financial statements by internal personnel of the City.

**Condition** - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles.



## Schedule of Findings and Questioned Costs

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Year Ended June 30, 2017

**Cause** - As is inherent in many organizations 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 apply generally accepted accounting principles in preparing the financial statements and the related disclosures.

**Effect or Potential Effect** - The financial statements and related disclosures may not be prepared in accordance with the generally accepted accounting principles.

**Identification of Repeat Finding** - 16-II-R-2

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

**Views of Responsible Officials and Planned Corrective Action** - The City staff will research available educational courses regarding financial statement preparation as well as continue to attend the work session held annually by the League of Cities.

**Auditor's Conclusion** - Response accepted.

### 17-I-R-3 Credit Cards

**Criteria** - The City's credit card policy requires employees to submit receipts to support purchases and the department heads to approve the expenditures.

**Condition** - Credit card statements are not being approved by department heads consistently causing transactions to be reimbursed without proper supporting documentation.

**Cause** - Inconsistent approval processes between departments and employee error.

**Effect or Potential Effect** - Improper or unapproved charges could be paid.

**Context** - We noted three transactions were missing supporting documentation.

**Auditor's Recommendation** - All receipts should be accounted for, detail what was purchased and be attached to the credit card statement for review by department head to ensure that costs are proper before being given to the accounting department for payment approval. Indication of approval should be applied consistently using a signature or using the approval system in the New World software.

**View of Responsible Officials and Planned Correction Action** - The City will review its process requiring the department heads to approve the credit card statement electronically in the New World software.

**Auditor's Conclusion** - Response accepted.

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

## Part II: Findings Related to Statutory Reporting

**17-II-A Certified Budget** - Disbursements during the year ended June 30, 2017 did not exceed the amounts in the amended budget.

**17-II-B Questionable Expenditures** - Certain expenditures 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 expenditures are detailed as follows:

<b>Paid to</b>	<b>Purpose</b>	<b>Amount</b>
Jimmy John's	Training event	\$ 94
Hy-Vee	Coffee supplies	78
Zombie Burger	ILEA graduation	88
VISA	Truck committee meeting	59
Bruegger's Bagels	Foundation meeting	34
Various restaurants	Meal expenses of the City Manager and department heads	79

According to an Attorney General's opinion, it is possible for such expenditures 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 City Council should determine and document the public purpose served by these expenditures before authorizing any further payments.

**City's Response** - The City Council has reviewed these types of expenditures and feels that they do serve a public purpose and have passed policies addressing these for staff to follow.

**Auditor's Conclusion** - Response accepted.

**17-II-C Travel Expense** - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

**17-II-D Business Transactions** - No business transactions were noted between the City and City officials or employees.

**17-II-E Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

**17-II-F City Council Minutes** - No transactions were found that we believe should have been approved in the City Council minutes but were not.

## Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2017

**17-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.

**17-II-H Tax Increment Financing** - The City's tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed in November, 2016 certified only debt payments required in fiscal year 2017 rather than the actual debt incurred. Certifications should certify actual indebtedness.

**Auditor's Recommendation** - The City should follow Iowa Code Chapter 403.19 in completing the annual TIF certification to the County Auditor.

**City's Response** - Because many of our TIF parcels are based on rebate agreements and not a fixed debt amount, it is difficult to calculate future rebate amounts with changing assessed valuation numbers and tax levies; therefore, when filing the report, we ask for enough revenue to satisfy the following year's known debt. The filings have been discussed with the County and they feel the current method is acceptable.

**Auditor's Conclusion** - Response accepted.

**17-II-I Annual Urban Renewal Report** - The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1. However, during our testing, we noted that the TIF debt outstanding was not reported correctly.

**Auditor's Recommendation** - The City should reconcile the data back to the audit report. The annual urban renewal report should be reviewed to ensure that errors are caught before filing.

**City's Response** - The City will review procedures to ensure that the outstanding TIF debt is reported correctly.

**Auditor's Conclusion** - Response accepted.