

**CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2014**

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Officials

Name	Title	Term Expires
Elected Officials (Before January, 2014)		
Allen Snooks Bouska	Mayor	December 31, 2015
Kim Etzel	Council Member - First Ward	December 31, 2015
Joe Spinks	Council Member - Second Ward	December 31, 2013
Cody Crawford	Council Member - Third Ward	December 31, 2015
Nicolas AbouAssaly	Council Member - Fourth Ward	December 31, 2013
Craig Adamson	Council Member - At-Large	December 31, 2013
Paul Draper	Council Member - At-Large	December 31, 2015
(After January, 2014)		
Allen Snooks Bouska	Mayor	December 31, 2015
Kim Etzel	Council Member - First Ward	December 31, 2015
Joe Spinks	Council Member - Second Ward	December 31, 2017
Cody Crawford	Council Member - Third Ward	December 31, 2015
Nicolas AbouAssaly	Council Member - Fourth Ward	December 31, 2017
Mary Lou Pazour	Council Member - At-Large	December 31, 2017
Paul Draper	Council Member - At-Large	December 31, 2015
Appointed Officials		
Lon Pluckhahn	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Donald C. Hoskins	City Attorney	Indefinite
Tom Treharne	Director of Planning and Development	Indefinite
Harry Daugherty	Chief of Police	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Terry Jackson	Fire Chief (retired June 2, 2014)	Civil Service
Deb Krebill	Acting Fire Chief (June 3, 2014)	Civil Service
Doug Raber	Library Director	Indefinite
Mike Carolan	Director of Parks and Recreation	Indefinite
Ryan Miller	Public Services Director	Indefinite
Robert A. Anderson	Marion Municipal Water Department - Trustee	December 31, 2014
Gregory O. Hapgood	Marion Municipal Water Department - Trustee	December 31, 2016
Mary Ann McComas	Marion Municipal Water Department - Trustee 2013 Chairperson	December 31, 2018
John D. McIntosh	Marion Municipal Water Department - Trustee	December 31, 2017
John C. Bender	Marion Municipal Water Department - Trustee 2014 Chairperson	December 31, 2015
Todd Steigerwaldt	Marion Municipal Water Department - General Manager	Indefinite

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Certified Public Accountants and Consultants

Independent Auditor's Report

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

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, 2014, 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.

Opinion

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, 2014, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with the 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 and the schedule of funding progress for the retiree health plan on pages 4 through 10 and 46 through 48 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 seven years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The financial statements for the two years ended June 30, 2006 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unmodified opinions on those financial statements. The supplementary information included on pages 49 through 54, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2014 on our consideration of the City of Marion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Marion's internal control over financial reporting and compliance.

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Cedar Rapids, Iowa
December 19, 2014

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, 2014. This section should be read in conjunction with the financial statements and the accompanying notes that follow. It should also be noted that the information contained here will provide information on both the governmental operations and the business activities of the City.

FINANCIAL HIGHLIGHTS

The assets of the City of Marion's governmental activities exceeded its liabilities at the close of June 30, 2014 by \$204.3 million (net position). Of this amount, \$10.0 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net position for governmental activities increased by \$8.6 million.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7.5 million, or 44.1% of the total General Fund expenditures. For the purpose of these financial statements, the General Fund also includes the Equipment Replacement, the Tax Stabilization and the Police Retirement Trust and Agency Funds.

Total general obligation bonds and capital leases increased by \$16,450,000. There were \$19,290,000 of general obligation bonds and capital leases issued during the year and repayment of bond principal of \$2,840,000.

USING THIS ANNUAL REPORT

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

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

Government-wide financial statements consist of a statement of net 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 statements by providing information about the most significant funds.

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

Required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary information provides detailed information about the nonmajor governmental 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 and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

The statement of net 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 and the Friends of the Marion Carnegie Library (Friends). The City is financially accountable for the Water Department and Friends 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 Tax Increment Financing, Community Development Block Grant 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 and Sewer Rent Replacement Funds 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 net position and a statement of cash flows.

3. Fiduciary Funds

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

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.

	Net Position at End of Year					
	(in thousands)					
	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
	(As Restated)					
Current and other assets	\$ 69,234	\$ 60,716	\$ 8,029	\$ 7,225	\$ 77,263	\$ 67,941
Capital assets	<u>202,737</u>	<u>185,486</u>	<u>19,840</u>	<u>19,425</u>	<u>222,577</u>	<u>204,911</u>
Total Assets	<u>271,971</u>	<u>246,202</u>	<u>27,869</u>	<u>26,650</u>	<u>299,840</u>	<u>272,852</u>
Long-term liabilities	44,371	28,092	—	(354)	44,371	27,738
Other liabilities	<u>5,510</u>	<u>5,125</u>	<u>1,071</u>	<u>431</u>	<u>6,581</u>	<u>5,556</u>
Total Liabilities	<u>49,881</u>	<u>33,217</u>	<u>1,071</u>	<u>77</u>	<u>50,952</u>	<u>33,294</u>
Deferred Inflows of Resources	<u>17,753</u>	<u>17,210</u>	<u>—</u>	<u>—</u>	<u>17,753</u>	<u>17,210</u>
Net Position						
Net investment in capital assets	160,401	159,001	19,840	19,425	180,241	178,426
Restricted	33,950	26,308	—	—	33,950	26,308
Unrestricted	<u>9,986</u>	<u>10,466</u>	<u>6,958</u>	<u>7,148</u>	<u>16,944</u>	<u>17,614</u>
Total Net Position	<u>\$ 204,337</u>	<u>\$ 195,775</u>	<u>\$ 26,798</u>	<u>\$ 26,573</u>	<u>\$ 231,135</u>	<u>\$ 222,348</u>

Net position of governmental activities increased approximately \$8.6 million for the fiscal year 2014. Net position of business-type activities increased approximately \$0.2 million for the fiscal year 2014. 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 \$10.0 million as of the end of this year for governmental activities and \$7.0 million for business-type activities.

A summary version of the statement of activities follows:

Changes in Net Position for the Year Ended June 30,						
(in thousands)						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	(As Restated)		(As Restated)			
Revenue						
Program Revenue						
Charges for service	\$ 1,561	\$ 1,262	\$ 6,760	\$ 6,131	\$ 8,321	\$ 7,393
Operating grants and contributions	522	689	76	59	598	748
Capital grants and contributions	9,908	5,911	—	83	9,908	5,994
General Revenue						
Property tax	17,401	16,926	—	—	17,401	16,926
Other tax and special assessments	6,091	6,194	—	—	6,091	6,194
Franchise fees	333	328	—	—	333	328
Road use tax	3,455	3,371	—	—	3,455	3,371
Investment income	575	689	100	111	675	800
Miscellaneous	15	8	—	—	15	8
Loss on sale of assets	(43)	(64)	—	—	(43)	(64)
Total Revenue	<u>39,818</u>	<u>35,314</u>	<u>6,936</u>	<u>6,384</u>	<u>46,754</u>	<u>41,698</u>
Program Expenses						
Public safety	8,903	8,893	—	—	8,903	8,893
Public works	11,223	10,857	—	—	11,223	10,857
Culture and recreation	5,956	3,802	—	—	5,956	3,802
Community and economic development	2,559	1,838	—	—	2,559	1,838
General government	2,057	1,909	—	—	2,057	1,909
Interest and other charges on long-term debt	1,120	819	—	—	1,120	819
Sanitary sewer	—	—	4,367	4,072	4,367	4,072
Solid waste management	—	—	1,662	1,601	1,662	1,601
City communication and utility	—	—	40	238	40	238
Urban forest	—	—	80	60	80	60
Total Expenses	<u>31,818</u>	<u>28,118</u>	<u>6,149</u>	<u>5,971</u>	<u>37,967</u>	<u>34,089</u>
Transfers	<u>562</u>	<u>1,137</u>	<u>(562)</u>	<u>(1,137)</u>	<u>—</u>	<u>—</u>
Change in Net Position	<u>8,562</u>	<u>8,333</u>	<u>225</u>	<u>(724)</u>	<u>8,787</u>	<u>7,609</u>
Beginning net position	195,775	187,442	26,573	27,297	222,348	214,739
Ending Net Position	<u>\$ 204,337</u>	<u>\$ 195,775</u>	<u>\$ 26,798</u>	<u>\$ 26,573</u>	<u>\$ 231,135</u>	<u>\$ 222,348</u>

Governmental Activities

Charges for service make up 3.9% of governmental revenue. Operating and capital grants, primarily for street projects and building improvement projects, make up another 26.2% of governmental revenue. The remaining revenue comes from taxes, primarily property and other taxes and interest income.

Business-Type Activities

As expected, charges for service is the primary revenue source for business-type activities. Sanitary sewer fees, urban forest fees and solid waste fees are the primary charges for service that make up 97.5% of total revenue. Investment income accounts for an additional 1.4% 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 \$46,524,593, which is greater than the \$38,533,675 total fund balance as of June 30, 2013. 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 an increase in fund balance of \$40,457 from the prior year to \$12,266,433. Revenue increased 6.5% over the prior year to \$13,685,533 and expenditures increased 9.3% to \$17,113,714. Net other financing sources totaled \$3,468,638.

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 an increase in fund balance of \$76,287 from the prior year to \$531,454.

The Debt Service Fund ended fiscal year 2014 with a \$158,846 balance compared to the prior year ending balance of \$163,291. Property tax revenue decreased \$447,299 while bond principal and interest payments decreased \$2,425,610 in fiscal year 2014.

The Capital Projects Fund ended fiscal year 2014 with a \$29,252,954 balance compared to the prior year ending balance of \$21,803,623. The City issued general obligation bonds and capital leases of \$19.3 million to finance various capital projects and facilities acquisition.

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 2014 with a net position of \$15,800,812 compared to the prior year ending net position of \$15,678,375.

The Enterprise, Sewer Rent Replacement Fund accounts for the capital needs for the City's sanitary sewer system including repairs and the City's share of sewer extension and/or oversizing projects. This fund ended fiscal year 2014 with a net position of \$4,662,804 compared to the prior year ending net position of \$4,619,356.

Budgetary Highlights

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$202,737,406 (net of accumulated depreciation) as of June 30, 2014. Capital assets for business-type activities totaled \$19,840,113 (net of accumulated depreciation) as of June 30, 2014. See Note 3 to the financial statements for more information about the City's capital assets.

Construction in progress as of June 30, 2014 for governmental activities consists primarily of street projects, communication system and amphitheater.

Long-Term Debt

As of June 30, 2014, the City had \$30,686,101 of outstanding general obligation bonds and notes 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 \$114 million. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

During the year ended June 30, 2014, the City issued a total of \$7,640,000 of general obligation bonds to pay the costs of construction of improvements to streets, storm sewers, city parks and city cemeteries, acquisition of equipment for the police department, installation of traffic signals, improvements to the City Hall and a fire training facility and urban renewal projects in the Central Corridor Urban Renewal Area consisting of constructing improvements to Sixth and Seventh Avenues.

The City also issued \$11,650,000 of general obligation certificates of participation for the police station capital lease.

ECONOMIC FACTORS

The unemployment rate for Linn County is currently at 4.5%, which is below where it was the previous year at 4.9% and less than the national unemployment rate of 6.1%.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2013, the most recent available (April 1, 2012 to March 31, 2013), retail sales for Marion were \$339.7 million and \$3.585 billion for Linn County. For fiscal year 2012, retail sales were \$341 million for Marion and \$3.528 billion for Linn County.

The total value of all building permits for fiscal year 2014 was approximately \$48.2 million, which is up slightly from the fiscal year 2013 amount of \$46.3 million. Building activity continues to remain strong in the Marion area.

NEXT YEAR'S BUDGET AND RATES

The adopted fiscal year 2014-2015 budget calls for an increase in tax receipts of 3.2% and accomplishes all of the Council's long-standing objectives including maintaining the current level of services, maintaining adequate levels of cash reserves and complying with all of the City's financial policies.

The City again anticipates an increase in wastewater treatment payments to the City of Cedar Rapids for fiscal year 2014-2015. Increased customer accounts and a rate increase that went into effect July 1, 2014 hopefully will be sufficient to provide the revenue needed to cover that cost increase. Additionally, the projected local option sales tax collections have eliminated the need for a rate increase to cover the first phase of the trunk sewer project. No additional rate increase is proposed at this time.

The City also had an increase in the solid waste fees effective January 1, 2014. This increase was needed to offset the costs to add an additional driver and route to stay on a five-day collection schedule.

The total City tax levy rate for fiscal year 2014-2015 is 13.12594 per taxable valuation compared to 13.15637 for fiscal year 2013-2014. Net taxable valuation for fiscal year 2014-2015 is \$1,359.2 million, which was an increase of \$44.7 million from the fiscal year 2013-2014 level which was \$1,314.5 million.

FINANCIAL INFORMATION CONTACT

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

Basic Financial Statements

Statement of Net Position

As of June 30, 2014

	Primary Government			Component Unit	
	Governmental Activities	Business-Type Activities	Total	Water	Library
Assets					
Cash	\$ 27,334,667	\$ 4,441,969	\$ 31,776,636	\$ 3,106,933	\$ 134,200
Pooled investments	23,641,089	2,004,199	25,645,288	—	892,268
Receivables					
Property Tax					
Delinquent	102,986	—	102,986	—	—
Succeeding year	17,753,316	—	17,753,316	—	—
Unbilled usage	—	647,744	647,744	344,781	—
Accounts	138,437	374,094	512,531	236,296	—
Accrued interest	40,507	6,653	47,160	312	—
Other	631	—	631	—	—
Due from other governments	643,717	—	643,717	—	—
Internal loans - portion due within one year	(51,337)	51,337	—	—	—
Inventories	132,678	—	132,678	131,112	—
Internal loans - portion due after one year	(502,749)	502,749	—	—	—
Restricted Assets					
Cash and investments	—	—	—	125,485	455,987
Capital assets, net of accumulated depreciation	202,737,406	19,840,113	222,577,519	18,724,595	—
Total Assets	\$ 271,971,348	\$ 27,868,858	\$ 299,840,206	\$ 22,669,514	\$ 1,482,455
Liabilities, Deferred Inflows of Resources and Net Position					
Liabilities					
Accounts payable	\$ 1,767,497	\$ 961,894	\$ 2,729,391	\$ 226,114	\$ —
Accrued interest payable	109,427	—	109,427	4,090	—
Salaries and benefits payable	453,197	76,905	530,102	49,179	—
Self-insured estimated claims	211,937	—	211,937	22,068	—
Reinsurance premiums payable	46,995	—	46,995	—	—
Payable from restricted assets	—	—	—	125,485	—
Long-Term Liabilities					
Portion Due or Payable Within One Year					
General obligation bonds	2,850,000	—	2,850,000	—	—
General obligation notes	39,329	—	39,329	—	—
SRF loan	—	—	—	115,000	—
Compensated absences	6,477	31,623	38,100	74,193	—
Nonbonded indebtedness	24,991	—	24,991	—	—
Portion Due or Payable After One Year					
General obligation bonds	27,735,000	—	27,735,000	—	—
Unamortized premium on general obligation bonds	560,797	—	560,797	—	—
General obligation notes	61,772	—	61,772	—	—
Capital lease	11,650,000	—	11,650,000	—	—
SRF loan	—	—	—	2,437,000	—
Compensated absences	3,024,027	—	3,024,027	—	—
Nonbonded indebtedness	139,949	—	139,949	—	—
Net OPEB liability	1,200,000	—	1,200,000	84,000	—
Total Liabilities	49,881,395	1,070,422	50,951,817	3,137,129	—
Deferred Inflows of Resources					
Unavailable Revenue					
Succeeding year property tax	17,753,316	—	17,753,316	—	—
Net Position					
Net investment in capital assets	160,401,305	19,840,113	180,241,418	16,172,595	—
Restricted for					
Benefits	531,454	—	531,454	—	—
Debt service	158,846	—	158,846	—	—
Capital projects	29,435,178	—	29,435,178	—	—
Cemetery perpetual care	158,945	—	158,945	—	—
Streets	3,580,589	—	3,580,589	—	—
Other	84,858	—	84,858	—	—
Unrestricted	9,985,462	6,958,323	16,943,785	3,359,790	1,482,455
Total Net Position	204,336,637	26,798,436	231,135,073	19,532,385	1,482,455
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 271,971,348	\$ 27,868,858	\$ 299,840,206	\$ 22,669,514	\$ 1,482,455

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2014

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	Library
Primary Government									
Governmental Activities									
Public safety.....	\$ 8,903,438	\$ 275,037	\$ 188,888	\$ 10,750	\$ (8,428,763)	\$ —	\$ (8,428,763)	\$ —	\$ —
Public works.....	11,223,005	18,389	6,040	8,590,002	(2,608,574)	—	(2,608,574)	—	—
Culture and recreation.....	5,956,290	643,390	300,096	74,802	(4,938,002)	—	(4,938,002)	—	—
Community and economic development.....	2,558,515	595,460	300	1,232,845	(729,910)	—	(729,910)	—	—
General government.....	2,056,659	29,023	26,297	—	(2,001,339)	—	(2,001,339)	—	—
Interest and other charges on long-term debt.....	1,120,661	—	—	—	(1,120,661)	—	(1,120,661)	—	—
Total Governmental Activities.....	31,818,568	1,561,299	521,621	9,908,399	(19,827,249)	—	(19,827,249)	—	—
Business-Type Activities									
Sewer.....	4,366,932	4,781,767	76,108	—	—	490,943	490,943	—	—
Solid waste.....	1,662,442	1,652,070	—	—	—	(10,372)	(10,372)	—	—
City communication and utility.....	39,622	50,165	—	—	—	10,543	10,543	—	—
Urban forest.....	79,807	275,612	—	—	—	195,805	195,805	—	—
Total Business-Type Activities.....	6,148,803	6,759,614	76,108	—	—	686,919	686,919	—	—
Total Primary Government.....	\$ 37,967,371	\$ 8,320,913	\$ 597,729	\$ 9,908,399	(19,827,249)	686,919	(19,140,330)	—	—
Component Unit - Water.....	\$ 2,813,954	\$ 3,695,728	\$ —	\$ 808,355	—	—	—	1,690,129	—
Component Unit - Library.....	\$ 43,113	\$ —	\$ 27,167	\$ —	—	—	—	—	(15,946)
General Revenue									
Property Tax Levied for									
General purposes.....					14,620,693	—	14,620,693	—	—
Debt service.....					2,780,163	—	2,780,163	—	—
Tax increment financing.....					1,360,005	—	1,360,005	—	—
Other Tax									
Cable television franchise.....					333,211	—	333,211	—	—
Hotel/motel.....					154,999	—	154,999	—	—
Road use tax.....					3,455,236	—	3,455,236	—	—
Local option sales tax.....					4,563,326	—	4,563,326	—	—
Unrestricted investment income.....					575,198	100,267	675,465	33,459	175,200
Special assessments.....					12,159	154	12,313	—	—
Miscellaneous.....					14,972	—	14,972	41,858	—
Loss on sale of capital assets.....					(42,965)	—	(42,965)	—	—
Transfers.....					561,706	(561,706)	—	—	—
Total General Revenue and Transfers.....					28,388,703	(461,285)	27,927,418	75,317	175,200
Change in Net Position.....					8,561,454	225,634	8,787,088	1,765,446	159,254
Net Position - Beginning of Year, as restated (Note 19).....					195,775,183	26,572,802	222,347,985	17,766,939	1,323,201
Net Position - End of Year.....					\$ 204,336,637	\$ 26,798,436	\$ 231,135,073	\$ 19,532,385	\$ 1,482,455

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of June 30, 2014

	General	Special Revenue Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor	Total
Assets						
Cash.....	\$ 8,397,867	\$ 533,820	\$ 239,839	\$ 11,467,156	\$ 4,854,032	\$ 25,492,714
Pooled investments	4,176,730	—	7,868	18,329,488	242,750	22,756,836
Receivables						
Property Tax						
Delinquent	62,600	18,188	15,225	—	6,973	102,986
Succeeding year	11,552,975	3,038,647	3,161,694	—	—	17,753,316
Accounts.....	121,693	—	—	—	6,118	127,811
Accrued interest.....	4,702	—	—	31,660	—	36,362
Other	631	—	—	—	—	631
Due from other governments	—	—	—	375,469	268,248	643,717
Due from other funds.....	2,934	—	—	—	—	2,934
Inventories.....	132,678	—	—	—	—	132,678
Total Assets	<u>\$ 24,452,810</u>	<u>\$ 3,590,655</u>	<u>\$ 3,424,626</u>	<u>\$ 30,203,773</u>	<u>\$ 5,378,121</u>	<u>\$ 67,049,985</u>
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts payable	\$ 231,020	\$ 20,554	\$ —	\$ 950,819	\$ 559,466	\$ 1,761,859
Salaries and benefits payable.....	402,382	—	—	—	50,815	453,197
Due to other funds.....	—	—	—	—	2,934	2,934
Interfund loan	—	—	104,086	—	450,000	554,086
Total Liabilities.....	<u>633,402</u>	<u>20,554</u>	<u>104,086</u>	<u>950,819</u>	<u>1,063,215</u>	<u>2,772,076</u>
Deferred Inflows of Resources						
Unavailable Revenue						
Succeeding year property tax.....	<u>11,552,975</u>	<u>3,038,647</u>	<u>3,161,694</u>	<u>—</u>	<u>—</u>	<u>17,753,316</u>
Fund Balances						
Nonspendable						
Inventories.....	132,678	—	—	—	—	132,678
Cemetery perpetual care	—	—	—	—	158,945	158,945
Restricted for						
Benefits	—	531,454	—	—	—	531,454
Debt service	—	—	158,846	—	—	158,846
Capital projects.....	—	—	—	29,252,954	—	29,252,954
Streets.....	—	—	—	—	3,580,589	3,580,589
Tax increment financing.....	—	—	—	—	101,179	101,179
Committed for						
Pension	720,509	—	—	—	—	720,509
Capital projects.....	—	—	—	—	308,290	308,290
Assigned for						
Equipment reserve	3,280,798	—	—	—	—	3,280,798
Tax stabilization.....	290,653	—	—	—	—	290,653
Census reserve	301,673	—	—	—	—	301,673
Capital projects.....	—	—	—	—	182,224	182,224
Unassigned	7,540,122	—	—	—	(16,321)	7,523,801
Total Fund Balances.....	<u>12,266,433</u>	<u>531,454</u>	<u>158,846</u>	<u>29,252,954</u>	<u>4,314,906</u>	<u>46,524,593</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances.....	<u>\$ 24,452,810</u>	<u>\$ 3,590,655</u>	<u>\$ 3,424,626</u>	<u>\$ 30,203,773</u>	<u>\$ 5,378,121</u>	<u>\$ 67,049,985</u>

See accompanying notes to the financial statements.

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

As of June 30, 2014

Total Fund Balances for Governmental Funds (Page 13)....		\$ 46,524,593
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
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 \$265,834,014 and the accumulated depreciation is \$63,096,608		202,737,406
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.		2,476,407
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.....		(109,427)
Long-term liabilities are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		
General obligation bonds	\$ (30,585,000)	
Unamortized premium on general obligation bonds.....	(560,797)	
General obligation notes	(101,101)	
Capital lease	(11,650,000)	
Compensated absences.....	(3,030,504)	
Nonbonded indebtedness	(164,940)	
NET OPEB liability	(1,200,000)	(47,292,342)
 Net Position of Governmental Activities (Page 12)		 <u>\$ 204,336,637</u>

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

Year Ended June 30, 2014

	General	Special Revenue Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor	Total
Revenue						
Property tax	\$ 11,305,739	\$ 3,314,954	\$ 2,780,163	\$ —	\$ —	\$ 17,400,856
Tax increment financing	—	—	—	—	1,360,005	1,360,005
Other tax	488,210	—	—	4,563,326	—	5,051,536
Licenses and permits.....	546,547	—	—	—	—	546,547
Use of money and property	109,029	354	4,702	406,803	3,638	524,526
Intergovernmental	306,743	208,538	—	1,232,845	3,461,576	5,209,702
Charges for service	917,823	36,946	—	43,900	16,083	1,014,752
Special assessments.....	—	—	12,159	—	—	12,159
Miscellaneous.....	11,442	3,531	—	—	—	14,973
Total Revenue	<u>13,685,533</u>	<u>3,564,323</u>	<u>2,797,024</u>	<u>6,246,874</u>	<u>4,841,302</u>	<u>31,135,056</u>
Expenditures						
Operating						
Public safety	9,161,762	80,121	—	—	—	9,241,883
Public works	936,693	—	—	—	2,231,630	3,168,323
Culture and recreation	3,784,983	94,474	—	—	—	3,879,457
Community and economic development	1,255,778	—	—	—	1,259,646	2,515,424
General government.....	1,974,498	—	—	—	1,995	1,976,493
Debt Service						
Principal.....	—	—	2,902,593	—	—	2,902,593
Interest and other charges.....	—	—	929,055	134,345	—	1,063,400
Capital projects.....	—	—	—	17,908,153	268,647	18,176,800
Total Expenditures	<u>17,113,714</u>	<u>174,595</u>	<u>3,831,648</u>	<u>18,042,498</u>	<u>3,761,918</u>	<u>42,924,373</u>
Revenue Over (Under) Expenditures	<u>(3,428,181)</u>	<u>3,389,728</u>	<u>(1,034,624)</u>	<u>(11,795,624)</u>	<u>1,079,384</u>	<u>(11,789,317)</u>
Other Financing Sources (Uses)						
Operating transfers in	3,449,942	—	1,030,179	175,000	236,951	4,892,072
Operating transfers out.....	(35,591)	(3,313,441)	—	(220,045)	(887,047)	(4,456,124)
Sale of capital assets.....	54,287	—	—	—	—	54,287
General obligation bonds issued	—	—	—	7,640,000	—	7,640,000
Capital lease proceeds	—	—	—	11,650,000	—	11,650,000
Total Other Financing Sources (Uses).....	<u>3,468,638</u>	<u>(3,313,441)</u>	<u>1,030,179</u>	<u>19,244,955</u>	<u>(650,096)</u>	<u>19,780,235</u>
Net Change in Fund Balances	<u>40,457</u>	<u>76,287</u>	<u>(4,445)</u>	<u>7,449,331</u>	<u>429,288</u>	<u>7,990,918</u>
Fund Balances - Beginning of Year	12,225,976	455,167	163,291	21,803,623	3,885,618	38,533,675
Fund Balances - End of Year	<u>\$ 12,266,433</u>	<u>\$ 531,454</u>	<u>\$ 158,846</u>	<u>\$ 29,252,954</u>	<u>\$ 4,314,906</u>	<u>\$ 46,524,593</u>

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, 2014

Net Change in Fund Balances - Total Governmental Funds (Page 15) \$ 7,990,918

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

In the statement of activities, the loss on the disposal of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. The net book value of capital assets disposed of during the year. (97,252)

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	\$ 14,233,701	
Contributed capital assets	8,675,554	
Depreciation expense.....	<u>(5,560,254)</u>	17,349,001

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 and bond issue costs follows:

General obligation bonds issued	\$ (7,640,000)	
Capital lease proceeds.....	(11,650,000)	
Repayment of general obligation bonds	2,840,000	
Increase in nonbonded indebtedness.....	(3,150)	
Repayment of general obligation notes	37,593	
Repayment of nonbonded indebtedness	<u>25,000</u>	(16,390,557)

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:

Interest on long-term debt	\$ (57,261)	
Compensated absences.....	(210,497)	
Other post-employment benefits.....	<u>(50,000)</u>	(317,758)

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 with governmental activities in the statement of activities. 27,102

Change in Net Position of Governmental Activities (Page 12) \$ 8,561,454

Statement of Net Position - Proprietary Funds

As of June 30, 2014

	Enterprise				Internal Service		
	Sewer Rental	Sewer Rent Replacement	Nonmajor	Total	Employee Benefit	Health Insurance	Total
Assets							
Current Assets							
Cash.....	\$ 371,169	\$ 2,388,345	\$ 1,682,455	\$ 4,441,969	\$ 140,030	\$ 1,701,923	\$ 1,841,953
Pooled investments	351,177	846,017	807,005	2,004,199	884,253	—	884,253
Receivables							
Unbilled usage.....	381,520	—	266,224	647,744	—	—	—
Accounts.....	202,827	375	170,892	374,094	—	10,626	10,626
Accrued interest.....	—	2,801	3,852	6,653	4,145	—	4,145
Interfund loan	51,337	—	—	51,337	—	—	—
Total Current Assets	<u>1,358,030</u>	<u>3,237,538</u>	<u>2,930,428</u>	<u>7,525,996</u>	<u>1,028,428</u>	<u>1,712,549</u>	<u>2,740,977</u>
Noncurrent Assets							
Interfund loan	52,749	250,000	200,000	502,749	—	—	—
Capital assets, net of accumulated depreciation	14,645,571	1,837,272	3,357,270	19,840,113	—	—	—
Total Noncurrent Assets ...	<u>14,698,320</u>	<u>2,087,272</u>	<u>3,557,270</u>	<u>20,342,862</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Assets	<u>\$ 16,056,350</u>	<u>\$ 5,324,810</u>	<u>\$ 6,487,698</u>	<u>\$ 27,868,858</u>	<u>\$ 1,028,428</u>	<u>\$ 1,712,549</u>	<u>\$ 2,740,977</u>
Liabilities and Net Position							
Current Liabilities							
Accounts payable	\$ 196,960	\$ 662,006	\$ 102,928	\$ 961,894	\$ 5,638	\$ —	\$ 5,638
Salaries and benefits payable..	26,955	—	49,950	76,905	—	—	—
Self-insurance estimated claims	—	—	—	—	—	211,937	211,937
Reinsurance premium payable	—	—	—	—	—	46,995	46,995
Compensated absences.....	31,623	—	—	31,623	—	—	—
Total Current Liabilities.....	<u>255,538</u>	<u>662,006</u>	<u>152,878</u>	<u>1,070,422</u>	<u>5,638</u>	<u>258,932</u>	<u>264,570</u>
Net Position							
Net investment in capital assets.....	14,645,571	1,837,272	3,357,270	19,840,113	—	—	—
Unrestricted	1,155,241	2,825,532	2,977,550	6,958,323	1,022,790	1,453,617	2,476,407
Total Net Position	<u>15,800,812</u>	<u>4,662,804</u>	<u>6,334,820</u>	<u>26,798,436</u>	<u>1,022,790</u>	<u>1,453,617</u>	<u>2,476,407</u>
Total Liabilities and Net Position	<u>\$ 16,056,350</u>	<u>\$ 5,324,810</u>	<u>\$ 6,487,698</u>	<u>\$ 27,868,858</u>	<u>\$ 1,028,428</u>	<u>\$ 1,712,549</u>	<u>\$ 2,740,977</u>

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

Year Ended June 30, 2014

	Enterprise				Internal Service		
	Sewer Rental	Sewer Rent Replacement	Nonmajor	Total	Employee Benefit	Health Insurance	Total
Operating Revenue							
Licenses and permits.....	\$ —	\$ —	\$ 1,770	\$ 1,770	\$ —	\$ —	\$ —
Charges for service	3,512,168	387,146	2,858,530	6,757,844	—	—	—
Miscellaneous.....	—	—	154	154	—	2,354,008	2,354,008
Total Operating Revenue	<u>3,512,168</u>	<u>387,146</u>	<u>2,860,454</u>	<u>6,759,768</u>	<u>—</u>	<u>2,354,008</u>	<u>2,354,008</u>
Operating Expenses							
Personal services	881,951	—	1,489,620	2,371,571	—	—	—
Services and commodities.....	2,376,070	3,300	696,245	3,075,615	284,233	2,219,103	2,503,336
Depreciation	459,651	—	241,966	701,617	—	—	—
Total Operating Expenses	<u>3,717,672</u>	<u>3,300</u>	<u>2,427,831</u>	<u>6,148,803</u>	<u>284,233</u>	<u>2,219,103</u>	<u>2,503,336</u>
Operating Income (Loss)	<u>(205,504)</u>	<u>383,846</u>	<u>432,623</u>	<u>610,965</u>	<u>(284,233)</u>	<u>134,905</u>	<u>(149,328)</u>
Nonoperating Revenue							
Intergovernmental	—	—	76,108	76,108	—	—	—
Investment income	4,743	42,938	52,586	100,267	50,672	—	50,672
Total Nonoperating Revenue.....	<u>4,743</u>	<u>42,938</u>	<u>128,694</u>	<u>176,375</u>	<u>50,672</u>	<u>—</u>	<u>50,672</u>
Income (Loss) Before Transfers	<u>(200,761)</u>	<u>426,784</u>	<u>561,317</u>	<u>787,340</u>	<u>(233,561)</u>	<u>134,905</u>	<u>(98,656)</u>
Transfers							
Transfers in	356,430	—	79,605	436,035	125,758	—	125,758
Transfers out	(33,232)	(383,336)	(581,173)	(997,741)	—	—	—
Total Transfers.....	<u>323,198</u>	<u>(383,336)</u>	<u>(501,568)</u>	<u>(561,706)</u>	<u>125,758</u>	<u>—</u>	<u>125,758</u>
Change in Net Position	122,437	43,448	59,749	225,634	(107,803)	134,905	27,102
Net Position - Beginning of Year.....	15,678,375	4,619,356	6,275,071	26,572,802	1,130,593	1,318,712	2,449,305
Net Position - End of Year.....	<u>\$ 15,800,812</u>	<u>\$ 4,662,804</u>	<u>\$ 6,334,820</u>	<u>\$ 26,798,436</u>	<u>\$ 1,022,790</u>	<u>\$ 1,453,617</u>	<u>\$ 2,476,407</u>

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2014

	Enterprise				Internal Service		
	Sewer Rental	Sewer Rent Replacement	Nonmajor	Total	Employee Benefit	Health Insurance	Total
Cash Flows From Operating Activities							
Cash received from customers and users.....	\$ 3,488,791	\$ 387,059	\$ 2,792,700	\$ 6,668,550	\$ —	\$ 2,352,192	\$ 2,352,192
Cash paid to employees for services	(864,664)	—	(1,437,552)	(2,302,216)	—	—	—
Cash paid to suppliers for goods and services.....	(2,373,553)	(3,299)	(790,932)	(3,167,784)	(281,011)	(2,215,240)	(2,496,251)
Net Cash Provided by (Used in) Operating Activities	250,574	383,760	564,216	1,198,550	(281,011)	136,952	(144,059)
Cash Flows From Noncapital Financing Activities							
Net transfers.....	323,198	(383,336)	(501,568)	(561,706)	125,758	—	125,758
State and federal grants received.....	—	—	84,658	84,658	—	—	—
Repayment of advances from other funds	—	—	(54,802)	(54,802)	—	—	—
Net Cash Provided by (Used in) Noncapital Activities	323,198	(383,336)	(471,712)	(531,850)	125,758	—	125,758
Cash Flows From Capital and Related Financing Activities							
Interfund loan	—	(250,000)	—	(250,000)	—	—	—
Repayment received on interfund loan.....	49,963	—	—	49,963	—	—	—
Acquisition of capital assets.....	(356,431)	—	(98,587)	(455,018)	—	—	—
Net Cash Used in Capital and Related Financing Activities ...	(306,468)	(250,000)	(98,587)	(655,055)	—	—	—
Cash Flows From Investing Activities							
Interest on investments.....	4,743	42,617	52,194	99,554	50,251	—	50,251
Purchase of investments	(35)	(45,108)	—	(45,143)	—	—	—
Net Cash Provided by (Used in) Investing Activities	4,708	(2,491)	52,194	54,411	50,251	—	50,251
Net Increase (Decrease) in Cash	272,012	(252,067)	46,111	66,056	(105,002)	136,952	31,950
Cash - Beginning of Year	99,157	2,640,412	1,636,344	4,375,913	245,032	1,564,971	1,810,003
Cash - End of Year.....	\$ 371,169	\$ 2,388,345	\$ 1,682,455	\$ 4,441,969	\$ 140,030	\$ 1,701,923	\$ 1,841,953
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities							
Operating income (loss).....	\$ (205,504)	\$ 383,846	\$ 432,623	\$ 610,965	\$ (284,233)	\$ 134,905	\$ (149,328)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities							
Depreciation	459,651	—	241,966	701,617	—	—	—
Change in Assets and Liabilities							
Increase in receivables	(23,377)	(87)	(67,754)	(91,218)	—	(1,816)	(1,816)
Increase (decrease) in payables	2,517	1	(55,065)	(52,547)	3,222	3,863	7,085
Increase in salaries and benefits payable.....	5,886	—	12,446	18,332	—	—	—
Increase in compensated absences	11,401	—	—	11,401	—	—	—
Net Cash Provided by (Used in) Operating Activities	\$ 250,574	\$ 383,760	\$ 564,216	\$ 1,198,550	\$ (281,011)	\$ 136,952	\$ (144,059)

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position - Trust Fund

As of June 30, 2014

	Cemetery Memorial
Assets	
Pooled investments	<u>\$ 2,004</u>
Liabilities and Net Position	
Liabilities	
Due to others.....	<u>\$ 631</u>
Net Position	
Held in trust	<u>1,373</u>
Total Liabilities and Net Position	<u>\$ 2,004</u>

Statement of Changes in Fiduciary Net Position - Trust Fund

Year Ended June 30, 2014

	Cemetery Memorial
Additions	
Interest income.....	\$ 2
Net Position - Beginning of Year.....	<u>1,371</u>
Net Position - End of Year.....	<u>\$ 1,373</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The City of Marion, Iowa, (City) is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1865 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the 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 its operational or financial relationship with the City. Certain disclosures about the Marion Water Department 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 Marion Water Department is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City. Its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Water Department is governed by a five-member board appointed by the City Council and the Water Department's operating budget is subject to the approval of the City Council.

The Friends of Marion Carnegie Library (Friends) is presented in a separate column to emphasize that it is legally separate from the City, but it 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.

(1) Summary of Significant Accounting Policies

Excluded Component Units

The Marion Parks and Recreation Foundation, Inc. and Marion Firefighter's Association (Iowa nonprofit corporations) are legally separate from the City. The Foundation and Association are both governed by their own boards, but were both formed for the direct benefit of City departments. Economic resources received by the Foundation and Association are used for the direct benefit of the Parks and Recreation Department and Fire Department, respectively. The Foundation and Association have December year ends and do not prepare financial statements; therefore, audited financial statements are not available. Management has elected to exclude the transactions of the Foundation and Association from the City's financial statements as they are not material.

Jointly Governed Organizations

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

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. Likewise, the City is reported separately from its component units.

The statement of net position presents the City's nonfiduciary assets, deferred inflows of resources, liabilities and deferred outflows 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 that are attributed 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.

(1) Summary of Significant Accounting Policies

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those 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 that are 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 funds, major individual 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 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, 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 Debt Service Fund is used to account for property tax and other revenue to be used for the payment of interest and principal on the City's general long-term debt.

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

The City 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, Sewer Rent Replacement Fund accounts for the capital needs for the City's sanitary sewer system including repairs and the City's share of sewer extension and/or oversizing projects.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost-reimbursement basis.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Additionally, the City reports a trust fund which is used to account for outside donations held by the City as a trustee.

Measurement Focus and Basis of Accounting

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property 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 associated with the current fiscal period 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.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Property 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, 2014 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.

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, 2012 assessed property valuations, is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2013.

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, 2014, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Capital Assets - Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net 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 equipment and \$5,000 for intangible assets. The City had no intangible assets as of June 30, 2014.

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

Asset Class	Estimated Useful Lives
Buildings	40 - 50 Years
Improvements other than buildings	5 - 50 Years
Equipment.....	2 - 20 Years
Infrastructure (distribution and storm sewer system)	5 - 80 Years
Intangibles.....	50 Years

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, 2014. 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 10.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Deferred Inflows of Resources - 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 receivable not collected within 60 days after year end.

Deferred inflows of resources in the statement of net position consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or 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, 2014, disbursements did not exceed the amounts budgeted.

Notes to the Financial Statements

(2) Cash and Pooled Investments

Primary Government

The City's deposits as of June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

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

On June 30, 2014, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$4,910,045 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The City's cash and investments as of June 30, 2014 were as follows:

Cash.....	\$ 31,893,300
Pooled cash investments - Iowa Public Agency Investment Trust.....	4,910,045
Money market accounts	8,294,074
U.S. Instrumentalities	
Original maturities 5 years or less	1,758
Original maturities 6 to 10 years.....	109,086
Original maturities 10+ years.....	<u>12,330,325</u>
Total	<u>\$ 57,538,588</u>

Interest Rate Risk

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

Credit Risk

The City's U.S. Instrumentalities investments as of June 30, 2014 are rated Aaa or better by Moody's Investors service. The investment in the Iowa Public Agency Investment Trust is unrated.

Discretely Presented Component Unit - Friends of Marion Carnegie Library

The Friends of Marion Carnegie Library's investments as of June 30, 2014 consist of mutual funds and other investments with a fair value of \$1,348,255.

Notes to the Financial Statements

(3) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

Primary Government	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 74,649,437	\$ 755,102	\$ 19,245	\$ 75,385,294
Construction in progress	10,527,818	16,703,144	20,658,626	6,572,336
Total Capital Assets Not Being Depreciated.....	<u>85,177,255</u>	<u>17,458,246</u>	<u>20,677,871</u>	<u>81,957,630</u>
Capital Assets Being Depreciated				
Buildings	18,896,419	11,344,037	49,259	30,191,197
Improvements other than buildings.....	127,971,994	13,548,138	342,463	141,177,669
Equipment.....	<u>11,653,029</u>	<u>1,236,705</u>	<u>382,216</u>	<u>12,507,518</u>
Total Capital Assets Being Depreciated.....	<u>158,521,442</u>	<u>26,128,880</u>	<u>773,938</u>	<u>183,876,384</u>
Less Accumulated Depreciation for				
Buildings	5,093,441	646,470	34,119	5,705,792
Improvements other than buildings.....	46,328,638	3,926,487	341,667	49,913,458
Equipment.....	<u>6,790,961</u>	<u>987,297</u>	<u>300,900</u>	<u>7,477,358</u>
Total Accumulated Depreciation	<u>58,213,040</u>	<u>5,560,254</u>	<u>676,686</u>	<u>63,096,608</u>
Net Capital Assets Being Depreciated.....	<u>100,308,402</u>	<u>20,568,626</u>	<u>97,252</u>	<u>120,779,776</u>
Net Governmental Activities Capital Assets	<u>\$ 185,485,657</u>	<u>\$ 38,026,872</u>	<u>\$ 20,775,123</u>	<u>\$ 202,737,406</u>

Notes to the Financial Statements

(3) Capital Assets

Primary Government	Balance Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 464,658	\$ —	\$ —	\$ 464,658
Construction in progress	1,491,551	791,609	315,841	1,967,319
Total Capital Assets Not Being Depreciated.....	<u>1,956,209</u>	<u>791,609</u>	<u>315,841</u>	<u>2,431,977</u>
Capital Assets Being Depreciated				
Buildings	8,300	—	—	8,300
Equipment.....	3,090,010	158,261	—	3,248,271
Distribution system.....	28,319,403	277,774	—	28,597,177
Storm sewer system.....	2,011,086	205,220	—	2,216,306
Total Capital Assets Being Depreciated.....	<u>33,428,799</u>	<u>641,255</u>	<u>—</u>	<u>34,070,054</u>
Less Accumulated Depreciation for				
Buildings	1,356	332	—	1,688
Equipment.....	1,667,735	277,711	—	1,945,446
Distribution system.....	14,166,479	393,740	—	14,560,219
Storm sewer system.....	124,731	29,834	—	154,565
Total Accumulated Depreciation	<u>15,960,301</u>	<u>701,617</u>	<u>—</u>	<u>16,661,918</u>
Net Capital Assets Being Depreciated.....	<u>17,468,498</u>	<u>(60,362)</u>	<u>—</u>	<u>17,408,136</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 19,424,707</u>	<u>\$ 731,247</u>	<u>\$ 315,841</u>	<u>\$ 19,840,113</u>

Depreciation expense was charged to functions of the primary government as follows for the year ended June 30, 2014:

Governmental Activities	
Public safety.....	\$ 605,526
Public works.....	3,871,402
Culture and recreation.....	838,644
General government	244,682
Total Governmental Activities Depreciation Expense	<u>\$ 5,560,254</u>
Business-Type Activities	
Sewer rental.....	\$ 459,651
Solid waste.....	212,132
Storm water management	29,834
Total Business-Type Activities Depreciation Expense	<u>\$ 701,617</u>

Notes to the Financial Statements

(4) Long-Term Debt Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2014:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year	Due Within One Year	Range of Interest Rates
Governmental Activities						
General obligation bonds	\$ 25,785,000	\$ 7,640,000	\$ 2,840,000	\$ 30,585,000	\$ 2,850,000	2.00 - 4.00%
Unamortized premium on general obligation bonds.....	560,797	—	—	560,797	—	N/A
General obligation notes	138,694	—	37,593	101,101	39,329	4.375 - 5.20
Capital lease	—	11,650,000	—	11,650,000	—	1.15 - 4.15
Compensated absences	2,820,007	466,093	255,596	3,030,504	6,477	N/A
Nonbonded indebtedness	186,790	3,150	25,000	164,940	24,991	2.00
Net OPEB liability.....	1,150,000	50,000	—	1,200,000	—	N/A
Totals.....	\$ 30,641,288	\$ 19,809,243	\$ 3,158,189	\$ 47,292,342	\$ 2,920,797	
Business-Type Activities						
Compensated absences	\$ 20,222	\$ 12,753	\$ 1,352	\$ 31,623	\$ 31,623	

General Obligation Bonds

Eight issues of unmatured general obligation bonds totaling \$30,585,000 were outstanding as of June 30, 2014. General obligation bonds bear interest at rates ranging from 2% to 4% per annum and mature in varying annual amounts ranging from \$100,000 to \$775,000, with the final maturities due in the year ending June 30, 2029.

Details of the City's general obligation bonds payable as of June 30, 2014 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-14
Governmental Activities						
Corporate purpose	12-15-07	3.65 - 3.80%	6-1-18	\$ 540,000 - \$ 610,000	\$ 5,000,000	\$ 2,295,000
Corporate purpose	12-15-09	2.00 - 3.13	6-1-20	205,000 - 245,000	2,120,000	1,340,000
Corporate purpose	12-15-09	3.00 - 4.00	6-1-25	370,000 - 535,000	6,285,000	4,890,000
Corporate purpose	2-13-12	2.00 - 3.00	6-1-28	520,000 - 710,000	9,270,000	8,320,000
Corporate purpose	2-13-12	2.00 - 2.13	6-1-23	440,000 - 515,000	4,570,000	4,240,000
Refunding corporate purpose.....	3-6-13	2.00 - 3.00	6-1-17	370,000 - 775,000	2,610,000	1,860,000
Corporate purpose	1-7-14	2.00 - 3.75	6-1-29	440,000 605,000	6,575,000	6,575,000
Corporate purpose	1-7-14	2.00 - 2.75	6-1-25	100,000 120,000	1,065,000	1,065,000
						\$ 30,585,000

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
2015	\$ 2,850,000	\$ 910,621	\$ 3,760,621
2016	2,930,000	755,244	3,685,244
2017	3,095,000	675,124	3,770,124
2018	2,790,000	593,136	3,383,136
2019	2,220,000	520,006	2,740,006
2020-2024	10,520,000	1,778,088	12,298,088
2025-2029	6,180,000	508,863	6,688,863
	<u>\$ 30,585,000</u>	<u>\$ 5,741,082</u>	<u>\$ 36,326,082</u>

General Obligation Notes

Two issues of unmatured general obligation notes totaling \$101,101 were outstanding as of June 30, 2014. General obligation notes bear interest at rates ranging from 4.375% to 5.2% per annum and mature in monthly and annual amounts ranging from \$367 to \$33,638, with the final maturities due in the year ending June 30, 2017.

Details of the City's general obligation notes payable as of June 30, 2014 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-14
Government Activities						
Geo-Thermal note	7-20-06	5.200%	7-1-16	\$ 367 - \$ 7,508	\$ 60,255	\$ 15,003
Geo-Thermal note	12-28-06	4.375	1-1-17	20,258 - 33,638	285,577	86,098
						<u>\$ 101,101</u>

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 39,329	\$ 3,738	\$ 43,067
2016	41,146	1,921	43,067
2017	20,626	297	20,923
	<u>\$ 101,101</u>	<u>\$ 5,956</u>	<u>\$ 107,057</u>

Notes to the Financial Statements

(4) Long-Term Liabilities

Interfund Loans

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

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-14
Enterprise - Sewer Rental	Debt Service	\$ 250,000	\$ 104,086

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

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

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-14
Enterprise - Solid Waste	Tax Increment Financing	\$ 200,000	\$ 200,000

In March, 2014, the City approved an interfund loan from the Enterprise - Sewer Rent Replacement 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 6-30-14
Enterprise - Sewer Rent Replacement	Tax Increment Financing	\$ 250,000	\$ 250,000

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 1.15% - 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.

Notes to the Financial Statements

(4) Long-Term Liabilities

The City paid \$216,664 of interest under the capital lease agreement during the year ended June 30, 2014.

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

Year Ending June 30,	
2015	\$ 397,954
2016	632,954
2017	660,251
2018	790,481
2019	816,681
2020-2024	4,470,351
2025-2029	4,874,463
2030-2033	<u>4,279,763</u>
Total Minimum Lease Payments.....	16,922,898
Less amount representing interest.....	<u>(5,272,898)</u>
Present Value of Net Minimum Lease Payments.....	<u>\$ 11,650,000</u>

(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 2%, an estimated liability of \$164,940 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, a one-year extension of the lease was approved.

Notes to the Financial Statements

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer From	Amount
General	Special Revenue	
	Trust and Agency (Employee Benefits)	\$ 3,313,441
	Enterprise	
	Solid Waste	<u>136,501</u>
		<u>3,449,942</u>
Special Revenue		
Road Use Tax	Enterprise	
	Storm Water Management	90,000
	Urban Forest Utility	<u>75,000</u>
		<u>165,000</u>
Tax Increment Financing	Capital Projects	<u>71,951</u>
Debt Service	General	7,500
	Special Revenue	
	Tax Increment Financing	837,637
	Enterprise	
	Sewer Rental	21,314
	Storm Water Management	<u>163,728</u>
		<u>1,030,179</u>
Capital Projects	Enterprise	
	Sewer Rent Replacement	<u>175,000</u>
Enterprise		
Sewer Rental	Capital Projects	148,094
	Enterprise	
	Sewer Rent Replacement	<u>208,336</u>
		<u>356,430</u>
Solid Waste	Enterprise	
	Solid Waste Replacement	<u>79,605</u>
Internal Service		
Employee Benefit	General	28,091
	Special Revenue	
	Road Use Tax	49,410
	Enterprise	
	Sewer Rental	11,918
	Solid Waste	35,331
	Storm Water Management	<u>1,008</u>
		<u>125,758</u>
		<u>\$ 5,453,865</u>

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

Notes to the Financial Statements

(7) Due From and Due to Other Funds

The detail of interfund receivables and payables as of June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue	
	Community Development Block Grant	<u>\$ 2,934</u>

This balance results from interfund loans to cover expenses in the fund. Repayments will be made from future revenue.

(8) Pension and Retirement Benefits

The City offers City employees the following retirement plans:

Municipal Fire and Police Retirement System of Iowa

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

Plan members are required to contribute 9.4% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, may not be less than 30.12% of earnable compensation. Contribution rates are established by State statute. The City's contributions to the Plan for the years ended June 30, 2014, 2013 and 2012 were \$1,414,872, \$1,184,641 and \$1,091,493, respectively, which met the required minimum contribution for the year.

Iowa Public Employees Retirement System

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$576,709, \$511,969 and \$460,652, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(9) 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 157 active and 22 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.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 297,011
Interest on net OPEB obligation.....	28,716
Adjustment to annual required contribution.....	<u>(149,795)</u>
Annual OPEB Cost	175,932
Contributions made	<u>(125,932)</u>
Increase in Net OPEB Obligation	50,000
Net OPEB Obligation - Beginning of Year.....	<u>1,150,000</u>
Net OPEB Obligation - End of Year	<u>\$ 1,200,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the City contributed \$125,932 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, 2014 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 337,962	4.2%	\$ 1,115,000
2013	181,464	80.7	1,150,000
2014	175,932	71.6	1,200,000

Notes to the Financial Statements

(9) Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$1,672,700 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,672,700. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,858,000 and the ratio of the UAAL to covered payroll was 15.4%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions

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

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

As of the July 1, 2012 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 an open basis over 30 years.

(10) Compensated Absences

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

Notes to the Financial Statements

(10) Compensated Absences

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 6-30-14
Primary Government	
Sick leave	\$ 898,360
Vacation and personal leave	1,429,990
Compensatory time	733,777
	<u>\$ 3,062,127</u>

The above liabilities have been computed based on rates of pay as of June 30, 2014.

(11) Conduit Debt

The City has issued \$30,353,515 of industrial development revenue and health care facility revenue bonds under provisions of Chapter 419 of the Code of Iowa, of which \$19,631,289 is outstanding. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(12) Employee Health Care Plan

The City self-funds for health insurance claims to a stop-loss insured amount of \$30,000 per participant and a 125% aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The following is a summary of claims paid during the year and an estimate of the claims incurred, but not reported as of June 30, 2014:

	Primary Government	Discretely Presented Component Unit - Marion Water Department	Total
Claims paid during the year	\$ 1,729,470	\$ 108,260	\$ 1,837,730
Estimated claims incurred but unpaid at June 30, 2014	211,937	18,063	230,000

Notes to the Financial Statements

(12) Employee Health Care Plan

The City has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The risk financing is accounted for as an internal service fund where assets are set aside for claim settlements. The cost of these benefits is charged to each department and fund based upon the number of employees whose salary is charged to the department and fund and the type of plan (single or family) chosen by the employee. Amounts charged are \$457 per month single or \$1,142 per month family which is an actuarially determined amount with a reasonable provision for future unexpected claims. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

(13) Related Party Transactions

The Marion Water Department bills and collects for sewer, garbage and urban forestry services provided for the City of Marion to its residents. During the year ended June 30, 2014, the Marion Water Department collected and remitted to the City \$4,561,373 for sewer, \$1,502,786 for garbage service and \$272,043 for urban forest. Fees paid to the Water Department by the City during the year to pay for this service totaled \$102,976 of which \$8,939 was payable as of June 30, 2014.

The City applied for and received a grant from the Iowa Homeland Security and Emergency Management Division on behalf of the Marion Water Department for an emergency backup generator at Well Sites #4 and #5. The total grant award was \$386,960. The project was completed during the year ended June 30, 2014. The Marion Water Department paid the City \$59,341 for the local match portion of the grant.

(14) Risk Management

The City became a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa in the current fiscal year. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 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 total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

(14) Risk Management

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, 2014 were approximately \$208,000.

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 \$350,000 per claim. Claims exceeding \$350,000 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 \$150,000 each occurrence, each location. Property risks exceeding \$150,000 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 reinsurance 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, 2014, no liability has been recorded in the City's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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.

Settled claims resulting from these risks have not exceeded insurance coverage in the past fiscal year.

(14) Risk Management

Iowa Municipalities Workers' Compensation Association

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

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

The City's premium contributions to the Association are recorded as expenditures from its operating funds at the time of payment to the risk pool. Premiums paid to the Association for the year ended June 30, 2014 were \$123,346.

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

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

(15) Deficit Balances

The Special Revenue, Local Option Sales Tax and Community Development Block Grant Funds had deficit balances of \$1,995 and \$14,326, respectively, as of June 30, 2014. The deficit balances were a result of various costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of grant proceeds, local option sales tax or transfers from other funds.

(16) 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, 2014 was \$1,245,020. The estimated outstanding balance of the agreements as of June 30, 2014 was \$3,125,953.

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 \$3,125,953 which requires an annual appropriation by the City Council.

(17) Commitments and Contingencies

Risk Management

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

Component Unit

The Water Department provides single premium health insurance coverage for a period not to exceed two years for retirees who qualify under an early separation agreement.

(18) Construction Commitments and Subsequent Events

As of June 30, 2014, the City had entered into several construction contracts and agreements to purchase equipment and supplies totaling approximately \$3.4 million for various street projects, equipment and supplies. The City also committed \$250,000 as the local match on a grant and \$100,000 for community branding.

As of June 30, 2014, the City had committed approximately \$650,000 to the authorization of internal loans for development agreements.

Subsequent to June 30, 2014, the City entered into the following transactions:

- Approved several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$3.8 million.
- Approved \$2.36 million in general obligation urban renewal bonds.
- Approved several development agreements totaling approximately \$2.8 million.
- Received an estate gift of approximately \$900,000 through the Marion Firefighter's Association, a potential component unit of the City.

Management has evaluated subsequent events through December 19, 2014, the date which the financial statements were available to be issued.

Notes to the Financial Statements

(19) Accounting Change/Restatement

Government Accounting Standards Board Statement No. 65, *Financial Reporting on Items Previously Reported as Assets and Liabilities*, was implemented during the year ended June 30, 2014. In adopting GASB Statement No. 65, the City has reclassified bond issuance costs from an asset to a nonoperating expense. The financial statements have been restated to reflect retroactive application of this reclassification as follows:

Government-Wide Statement of Activities

Net position - beginning of year, as previously reported	\$ 196,046,153
Change in treatment of bond issuance costs due to implementation of GASB Statement No. 65	(270,970)
Net Position - Beginning of Year, as Restated	<u>\$ 195,775,183</u>

(20) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented during the year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the statement of net position may include a significant liability for the City's proportionate share of the IPERS employee pension plan unfunded pension liability.

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, 2014

	Actual			Original Budget	Final Budget	Over (Under) Budget
	Governmental Funds	Enterprise Funds	Total			
Receipts						
Property tax	\$ 17,429,410	\$ —	\$ 17,429,410	\$ 17,210,034	\$ 17,210,034	\$ 219,376
Tax increment financing ...	1,361,996	—	1,361,996	1,296,237	1,296,237	65,759
Other tax	5,047,684	—	5,047,684	5,123,414	5,123,414	(75,730)
Licenses and permits	565,259	—	565,259	559,650	559,650	5,609
Use of money and property	718,425	93,721	812,146	523,163	523,163	288,983
Intergovernmental	4,860,640	84,658	4,945,298	4,134,938	4,522,938	422,360
Charges for service	867,772	10,307,159	11,174,931	10,587,013	10,587,013	587,918
Special assessments	12,159	—	12,159	12,200	12,200	(41)
Miscellaneous	2,808,560	—	2,808,560	3,253,361	3,253,361	(444,801)
Total Receipts	<u>33,671,905</u>	<u>10,485,538</u>	<u>44,157,443</u>	<u>42,700,010</u>	<u>43,088,010</u>	<u>1,069,433</u>
Disbursements						
Public safety	9,412,038	—	9,412,038	9,633,095	9,983,095	(571,057)
Public works	3,300,387	—	3,300,387	3,357,701	3,707,701	(407,314)
Culture and recreation	3,766,582	—	3,766,582	3,973,847	4,323,847	(557,265)
Community and economic development	2,188,947	—	2,188,947	2,106,604	2,431,604	(242,657)
General government	4,218,493	—	4,218,493	4,369,999	4,709,999	(491,506)
Debt service	3,827,411	—	3,827,411	3,651,522	3,951,522	(124,111)
Capital projects	7,972,113	—	7,972,113	26,375,565	29,402,565	(21,430,452)
Business-type activities	—	9,030,819	9,030,819	11,791,370	12,391,370	(3,360,551)
Total Disbursements ..	<u>34,685,971</u>	<u>9,030,819</u>	<u>43,716,790</u>	<u>65,259,703</u>	<u>70,901,703</u>	<u>(27,184,913)</u>
Receipts Over (Under) Disbursements	(1,014,066)	1,454,719	440,653	(22,559,693)	(27,813,693)	28,254,346
Other Financing Sources (Uses), Net	<u>9,440,484</u>	<u>(874,010)</u>	<u>8,566,474</u>	<u>18,018,000</u>	<u>18,018,000</u>	<u>(9,451,526)</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	8,426,418	580,709	9,007,127	(4,541,693)	(9,795,693)	18,802,820
Balances - Beginning of Year	<u>42,726,169</u>	<u>8,586,147</u>	<u>51,312,316</u>	<u>44,416,566</u>	<u>51,312,315</u>	<u>1</u>
Balances - End of Year ..	<u>\$ 51,152,587</u>	<u>\$ 9,166,856</u>	<u>\$ 60,319,443</u>	<u>\$ 39,874,873</u>	<u>\$ 41,516,622</u>	<u>\$ 18,802,821</u>

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 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, one budget amendment increased budgeted disbursements by \$5,642,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2014

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue.....	\$ 33,671,905	\$ (2,536,849)	\$ 31,135,056
Expenditures	<u>34,685,971</u>	<u>8,238,402</u>	<u>42,924,373</u>
Net	(1,014,066)	(10,775,251)	(11,789,317)
Other financing sources (uses), net.....	9,440,484	10,339,751	19,780,235
Beginning fund balances	<u>42,726,169</u>	<u>(4,192,494)</u>	<u>38,533,675</u>
Ending Fund Balances.....	<u>\$ 51,152,587</u>	<u>\$ (4,627,994)</u>	<u>\$ 46,524,593</u>

	Proprietary Fund Types			
	Cash Basis	Adjustment for Component Unit	Accrual Adjustments	GAAP Basis
Revenue.....	\$ 10,485,538	\$ (3,705,124)	\$ 155,729	\$ 6,936,143
Expenses	<u>9,030,819</u>	<u>(3,382,537)</u>	<u>500,521</u>	<u>6,148,803</u>
Net	1,454,719	(322,587)	(344,792)	787,340
Other financing sources (uses), net.....	(874,010)	(31,590)	343,894	(561,706)
Beginning net position	<u>8,586,147</u>	<u>(2,403,201)</u>	<u>20,389,856</u>	<u>26,572,802</u>
Ending Net Position	<u>\$ 9,166,856</u>	<u>\$ (2,757,378)</u>	<u>\$ 20,388,958</u>	<u>\$ 26,798,436</u>

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 2,614,066	\$ 2,614,066	0%	\$ 9,119,000	28.7%
2010	7-1-08	—	2,614,066	2,614,066	0	9,543,000	27.4
2011	7-1-10	—	2,820,489	2,820,489	0	9,915,000	28.5
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	10,858,495	15.4

See Note 9 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet Schedule - Nonmajor Governmental Funds

As of June 30, 2014

	Special Revenue				Capital Projects			Permanent Cemetery Perpetual Care	Total
	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Community Development Block Grant	Park Development	Maintenance Bond	Subdivision Development		
Assets									
Cash.....	\$ 3,486,351	\$ —	\$ 841,006	\$ —	\$ 169,373	\$ 308,290	\$ 12,851	\$ 36,161	\$ 4,854,032
Pooled investments	119,966	—	—	—	—	—	—	122,784	242,750
Receivables									
Property Tax									
Delinquent.....	—	—	6,973	—	—	—	—	—	6,973
Accounts	2,918	—	3,200	—	—	—	—	—	6,118
Due from other governments.....	268,248	—	—	—	—	—	—	—	268,248
Total Assets	\$ 3,877,483	\$ —	\$ 851,179	\$ —	\$ 169,373	\$ 308,290	\$ 12,851	\$ 158,945	\$ 5,378,121
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ 246,079	\$ 1,995	\$ 300,000	\$ 11,392	\$ —	\$ —	\$ —	\$ —	\$ 559,466
Salaries and benefits payable.....	50,815	—	—	—	—	—	—	—	50,815
Due to other funds.....	—	—	—	2,934	—	—	—	—	2,934
Interfund loan	—	—	450,000	—	—	—	—	—	450,000
Total Liabilities	296,894	1,995	750,000	14,326	—	—	—	—	1,063,215
Fund Balances									
Nonspendable									
Cemetery perpetual care.....	—	—	—	—	—	—	—	158,945	158,945
Restricted for									
Streets	3,580,589	—	—	—	—	—	—	—	3,580,589
Tax increment financing	—	—	101,179	—	—	—	—	—	101,179
Committed for									
Capital projects	—	—	—	—	—	308,290	—	—	308,290
Assigned for									
Capital projects	—	—	—	—	169,373	—	12,851	—	182,224
Unassigned	—	(1,995)	—	(14,326)	—	—	—	—	(16,321)
Total Fund Balances	3,580,589	(1,995)	101,179	(14,326)	169,373	308,290	12,851	158,945	4,314,906
Total Liabilities and Fund Balances	\$ 3,877,483	\$ —	\$ 851,179	\$ —	\$ 169,373	\$ 308,290	\$ 12,851	\$ 158,945	\$ 5,378,121

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

Year Ended June 30, 2014

	Special Revenue				Capital Projects			Permanent Cemetery Perpetual Care	Total
	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Community Development Block Grant	Park Development	Maintenance Bond	Subdivision Development		
Revenue									
Tax increment financing	\$ —	\$ —	\$ 1,360,005	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,360,005
Use of money and property	1,967	—	—	—	599	1,072	—	—	3,638
Intergovernmental	3,455,236	—	—	300	—	—	—	6,040	3,461,576
Charges for service	—	—	—	—	—	16,083	—	—	16,083
Total Revenue	3,457,203	—	1,360,005	300	599	17,155	—	6,040	4,841,302
Expenditures									
Operating									
Public works.....	2,231,630	—	—	—	—	—	—	—	2,231,630
Community and economic development.....	—	—	1,245,020	14,626	—	—	—	—	1,259,646
General government	—	1,995	—	—	—	—	—	—	1,995
Capital projects.....	268,647	—	—	—	—	—	—	—	268,647
Total Expenditures	2,500,277	1,995	1,245,020	14,626	—	—	—	—	3,761,918
Revenue Over (Under) Expenditures	956,926	(1,995)	114,985	(14,326)	599	17,155	—	6,040	1,079,384
Other Financing Sources (Uses)									
Operating transfers in	165,000	—	71,951	—	—	—	—	—	236,951
Operating transfers out.....	(49,410)	—	(837,637)	—	—	—	—	—	(887,047)
Total Other Financing Sources (Uses)	115,590	—	(765,686)	—	—	—	—	—	(650,096)
Net Change in Fund Balances	1,072,516	(1,995)	(650,701)	(14,326)	599	17,155	—	6,040	429,288
Fund Balances - Beginning of Year	2,508,073	—	751,880	—	168,774	291,135	12,851	152,905	3,885,618
Fund Balances (Deficit) - End of Year	\$ 3,580,589	\$ (1,995)	\$ 101,179	\$ (14,326)	\$ 169,373	\$ 308,290	\$ 12,851	\$ 158,945	\$ 4,314,906

Combining Schedule of Net Position - Nonmajor Enterprise Funds

As of June 30, 2014

	City Communication and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Storm Water Management	Total
Assets						
Current Assets						
Cash.....	\$ 476,486	\$ 126,963	\$ 115,061	\$ 245,935	\$ 718,010	\$ 1,682,455
Pooled investments.....	—	405,005	402,000	—	—	807,005
Receivables						
Unbilled usage.....	—	152,708	—	27,098	86,418	266,224
Accounts.....	—	105,107	256	17,709	47,820	170,892
Accrued interest.....	—	1,842	2,010	—	—	3,852
Total Current Assets.....	<u>476,486</u>	<u>791,625</u>	<u>519,327</u>	<u>290,742</u>	<u>852,248</u>	<u>2,930,428</u>
Noncurrent Assets						
Interfund loan.....	—	200,000	—	—	—	200,000
Capital assets, net of accumulated depreciation.....	—	1,165,483	—	—	2,191,787	3,357,270
Total Noncurrent Assets.....	<u>—</u>	<u>1,365,483</u>	<u>—</u>	<u>—</u>	<u>2,191,787</u>	<u>3,557,270</u>
Total Assets.....	<u>\$ 476,486</u>	<u>\$ 2,157,108</u>	<u>\$ 519,327</u>	<u>\$ 290,742</u>	<u>\$ 3,044,035</u>	<u>\$ 6,487,698</u>
Liabilities and Net Position						
Current Liabilities						
Accounts payable.....	\$ 309	\$ 79,910	\$ —	\$ 11,663	\$ 11,046	\$ 102,928
Salaries and benefits payable.....	—	30,603	—	2,086	17,261	49,950
Total Current Liabilities.....	<u>309</u>	<u>110,513</u>	<u>—</u>	<u>13,749</u>	<u>28,307</u>	<u>152,878</u>
Net Position						
Net investment in capital assets.....	—	1,165,483	—	—	2,191,787	3,357,270
Unrestricted.....	476,177	881,112	519,327	276,993	823,941	2,977,550
Total Net Position.....	<u>476,177</u>	<u>2,046,595</u>	<u>519,327</u>	<u>276,993</u>	<u>3,015,728</u>	<u>6,334,820</u>
Total Liabilities and Net Position.....	<u>\$ 476,486</u>	<u>\$ 2,157,108</u>	<u>\$ 519,327</u>	<u>\$ 290,742</u>	<u>\$ 3,044,035</u>	<u>\$ 6,487,698</u>

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

Year Ended June 30, 2014

	City Communication and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Storm Water Management	Total
Operating Revenue						
Licenses and permits	\$ —	\$ 1,770	\$ —	\$ —	\$ —	\$ 1,770
Charges for service	50,165	1,424,932	225,369	275,612	882,452	2,858,530
Miscellaneous.....	—	154	—	—	—	154
Total Operating Revenue	<u>50,165</u>	<u>1,426,856</u>	<u>225,369</u>	<u>275,612</u>	<u>882,452</u>	<u>2,860,454</u>
Operating Expenses						
Personal services	39,622	931,695	—	2,086	516,217	1,489,620
Services and commodities.....	—	518,615	—	77,721	99,909	696,245
Depreciation	—	212,132	—	—	29,834	241,966
Total Operating Expenses.....	<u>39,622</u>	<u>1,662,442</u>	<u>—</u>	<u>79,807</u>	<u>645,960</u>	<u>2,427,831</u>
Operating Income (Loss)	<u>10,543</u>	<u>(235,586)</u>	<u>225,369</u>	<u>195,805</u>	<u>236,492</u>	<u>432,623</u>
Nonoperating Revenue						
Intergovernmental	—	—	—	—	76,108	76,108
Investment income	1,598	23,107	24,306	734	2,841	52,586
Total Nonoperating Revenue	<u>1,598</u>	<u>23,107</u>	<u>24,306</u>	<u>734</u>	<u>78,949</u>	<u>128,694</u>
Income (Loss) Before Transfers and Capital Assets	<u>12,141</u>	<u>(212,479)</u>	<u>249,675</u>	<u>196,539</u>	<u>315,441</u>	<u>561,317</u>
Transfers						
Transfers in	—	79,605	—	—	—	79,605
Transfers out	—	(171,832)	(79,605)	(75,000)	(254,736)	(581,173)
Total Transfers.....	<u>—</u>	<u>(92,227)</u>	<u>(79,605)</u>	<u>(75,000)</u>	<u>(254,736)</u>	<u>(501,568)</u>
Change in Net Position	12,141	(304,706)	170,070	121,539	60,705	59,749
Net Position - Beginning of Year	464,036	2,351,301	349,257	155,454	2,955,023	6,275,071
Net Position - End of Year	<u>\$ 476,177</u>	<u>\$ 2,046,595</u>	<u>\$ 519,327</u>	<u>\$ 276,993</u>	<u>\$ 3,015,728</u>	<u>\$ 6,334,820</u>

Combining Schedule of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2014

	City Communication and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Storm Water Management	Total
Cash Flows From Operating Activities						
Cash received from customers and users	\$ 50,165	\$ 1,418,421	\$ 225,367	\$ 271,798	\$ 826,949	\$ 2,792,700
Cash paid to employees for services	—	(926,214)	—	—	(511,338)	(1,437,552)
Cash paid to suppliers for goods and services.....	(46,546)	(490,648)	—	(67,588)	(186,150)	(790,932)
Net Cash Provided by Operating Activities.....	3,619	1,559	225,367	204,210	129,461	564,216
Cash Flows From Noncapital Financing Activities						
Net transfers.....	—	(92,227)	(79,605)	(75,000)	(254,736)	(501,568)
State and federal grants received.....	—	—	—	—	84,658	84,658
Repayment of advance from other funds.....	—	—	(54,802)	—	—	(54,802)
Net Cash Used in Noncapital Financing Activities.....	—	(92,227)	(134,407)	(75,000)	(170,078)	(471,712)
Cash Flows From Capital and Related Financing Activities						
Acquisition of capital assets.....	—	(79,605)	—	—	(18,982)	(98,587)
Cash Flows From Investing Activities						
Interest on investments	1,598	22,920	24,101	734	2,841	52,194
Net Increase (Decrease) in Cash.....	5,217	(147,353)	115,061	129,944	(56,758)	46,111
Cash - Beginning of Year	471,269	274,316	—	115,991	774,768	1,636,344
Cash - End of Year	\$ 476,486	\$ 126,963	\$ 115,061	\$ 245,935	\$ 718,010	\$ 1,682,455
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating income (loss).....	\$ 10,543	\$ (235,586)	\$ 225,369	\$ 195,805	\$ 236,492	\$ 432,623
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities						
Depreciation.....	—	212,132	—	—	29,834	241,966
Change in Assets and Liabilities						
Increase in receivables.....	—	(8,435)	(2)	(3,814)	(55,503)	(67,754)
Increase (decrease) in payables ..	(6,924)	27,967	—	10,133	(86,241)	(55,065)
Increase in salaries and benefits payable.....	—	5,481	—	2,086	4,879	12,446
Net Cash Provided by Operating Activities.....	\$ 3,619	\$ 1,559	\$ 225,367	\$ 204,210	\$ 129,461	\$ 564,216

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

Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenue										
Property tax.....	\$ 17,400,856	\$ 16,925,535	\$ 16,298,027	\$ 15,638,561	\$ 14,857,708	\$ 14,436,527	\$ 12,820,700	\$ 12,512,678	\$ 11,826,079	\$ 10,914,028
Tax increment financing and other city tax	6,411,541	6,506,192	5,386,752	5,238,300	4,531,109	925,485	856,874	822,768	869,887	694,740
Licenses and permits.....	546,547	512,372	502,751	573,802	541,439	542,547	532,826	528,180	592,713	604,373
Use of money and property	524,526	641,024	657,236	658,559	715,090	874,905	1,135,512	1,198,796	1,089,406	916,855
Intergovernmental	5,209,702	4,906,177	5,024,346	7,951,255	5,677,970	3,693,796	3,752,935	2,943,735	3,946,362	3,139,845
Charges for service	1,014,752	747,635	842,441	808,083	432,527	408,310	367,322	394,383	388,304	357,767
Special assessments.....	12,159	17,085	13,910	18,069	19,323	21,446	22,848	23,716	24,340	59,444
Miscellaneous.....	14,973	10,815	244,913	53,871	365,070	318,639	377,097	287,072	409,139	375,854
Total Revenue	\$ 31,135,056	\$ 30,266,835	\$ 28,970,376	\$ 30,940,500	\$ 27,140,236	\$ 21,221,655	\$ 19,866,114	\$ 18,711,328	\$ 19,146,230	\$ 17,062,906
Expenditures										
Operating										
Public safety	\$ 9,241,883	\$ 8,632,337	\$ 8,199,484	\$ 7,989,669	\$ 7,907,480	\$ 7,225,455	\$ 7,443,939	\$ 6,870,973	\$ 6,766,956	\$ 6,246,486
Public works.....	3,168,323	2,697,064	3,383,641	3,177,611	3,206,090	2,988,781	2,969,549	2,563,142	2,597,935	2,375,455
Culture and recreation.....	3,879,457	3,477,272	3,349,677	3,375,571	3,304,388	3,025,885	2,854,777	2,612,677	2,541,376	2,277,750
Community and economic development...	2,515,424	1,832,185	1,819,707	1,566,522	1,631,865	1,784,298	1,319,293	1,437,522	1,523,641	1,061,538
General government	1,976,493	1,670,946	1,876,773	1,720,425	1,784,151	1,660,215	1,494,061	1,776,781	1,281,742	1,248,325
Debt service	3,965,993	6,257,258	3,390,626	3,110,244	2,715,648	3,761,247	4,106,061	1,853,090	1,902,207	1,970,226
Capital projects.....	18,176,800	10,727,089	12,198,330	11,862,997	4,853,756	5,540,965	2,380,396	4,209,427	6,899,597	4,666,646
Total Expenditures	\$ 42,924,373	\$ 35,294,151	\$ 34,218,238	\$ 32,803,039	\$ 25,403,378	\$ 25,986,846	\$ 22,568,076	\$ 21,323,612	\$ 23,513,454	\$ 19,846,426

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

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

We have audited, 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 unit, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2014, 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 19, 2014.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Marion's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying schedule of findings as items 14-I-R-1, 14-I-R-2, 14-I-R-3 and 14-I-R-4 to be material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 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. 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 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 19, 2014

Schedule of Findings

Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

14-I-R-1 Segregation of Duties

Prior Year Finding and Recommendation - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that incompatible duties are being performed by the same person. We realize that with a limited number of employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The potential effect of this material weakness is an error occurring or fraudulent activity being committed and not detected.

Current Year Finding - We found that the same condition still exists.

Auditor's Recommendation - The internal control processes should be reviewed to assure that appropriate controls are in place or implemented.

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

Auditor's Conclusion - Response accepted.

14-I-R-2 Financial Statement Preparation

Prior Year Finding and Recommendation - The City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with accounting principles generally accepted in the United States of America. As is inherent in many entities of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully prepare the financial statements and the related disclosures. The potential effect of this material weakness is financial statements and related disclosures may not be prepared in accordance with generally accepted accounting principles. We recommend that City staff obtain additional knowledge through reading relevant accounting literature and attending local professional education courses.

Current Year Finding - We found that the same condition still exists.

Auditor's Recommendation - We reiterate our prior year recommendation.

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

Auditor's Conclusion - Response accepted.

Schedule of Findings

Year Ended June 30, 2014

14-I-R-3 Asset Capitalization

Prior Year Finding and Recommendation - The City does not have a system of internal controls that can identify assets that should be capitalized in accordance with the City's policy. In addition, the engineering department tracks asset additions on a calendar year basis rather than a fiscal year basis. The potential effect of this material weakness is assets not being capitalized or not being capitalized in the proper period. The City should review expenditures to ensure that assets over the capitalization threshold are properly recorded and the City should place assets in service when accepted by the City Council and completed during the fiscal year.

Current Year Finding - We found the same condition still exists except the engineering department began tracking asset additions on a fiscal year basis as required and the City is placing assets in service when accepted by the City Council and completed during the fiscal year.

Auditor's Recommendations - The City should review expenditures to ensure assets over the capitalization threshold are properly recorded.

City's Response - The City is reviewing its capitalization procedures to better identify when assets can be capitalized.

Auditor's Conclusion - Response accepted.

14-I-R-4 Recording of Bond Certificate Proceeds and Escrow Account

Auditor's Finding - Through our testing of cash and bonds payable, we noted that the City had not recorded proceeds of the Series 2013A and 2013B certificates that are being held in escrow at Bankers Trust. The potential effect of this material weakness is assets and liabilities are not being recorded.

Auditor's Recommendation - The City should implement procedures to ensure all assets and liabilities of the City are recorded in the City's general ledger.

City's Response - The City prepares its budget and conducts daily operations on the cash basis of accounting and since the bond proceeds, when sold were placed directly into an escrow account not controlled by the City, we felt we lacked the constructive receipt to record the transaction.

Auditor's Conclusion - Response accepted.

Schedule of Findings

Year Ended June 30, 2014

Part II: Other Findings Related to Statutory Reporting

14-II-A Certified Budget - Disbursements during the year ended June 30, 2014 did not exceed the amounts in the amended budget.

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

Paid to	Purpose	Amount
Hy-Vee	Funeral plant	\$ 56
Hy-Vee	Meeting refreshments	43
Hy-Vee	Coffee for City Hall	38
Various restaurants	Meal expenses of the City Manager and department heads	378

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

Auditor's Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments.

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

Auditor's Conclusion - Response accepted.

14-II-C Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

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

14-II-E Bond Coverage - Surety bond coverage of the City of Marion officials and employees is in accordance with statutory provisions and was reviewed and updated during the year. We recommend that the amount of coverage continue to be reviewed annually to insure that the coverage is adequate for current operations.

14-II-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. Council minutes were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

14-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.

Schedule of Findings

Year Ended June 30, 2014

14-II-H Tax Increment Financing - The City's tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed November, 2013 certified only debt payments required in fiscal year 2014 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.

14-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 annual urban renewal report beginning and ending cash did not reconcile to the audit report and 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 audit report has not been available to reconcile to by the filing deadline but we are now reconciling to the year-end internal financial statements.

Auditor's Conclusion - Response accepted.

14-II-J Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

Auditor's Recommendation - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

City's Response - The City will contact the bank and request that the back of the checks be copied as well as the front.

Auditor's Conclusion - Response accepted.