

**CITY OF MARION, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013**

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Officials

Name	Title	Term Expires
Elected Officials		
Allen Snooks Bouska	Mayor	December 31, 2015
Kim Etzel	Council Member - First Ward	December 31, 2015
Joe Spinks	Council Member - Second Ward	December 31, 2013
Cody Crawford	Council Member - Third Ward	December 31, 2015
Louis Stark	Council Member - Fourth Ward (resigned June 1, 2013)	December 31, 2013
Nicolas AbouAssaly	Council Member - Fourth Ward (appointed June 20, 2013)	December 31, 2013
Craig Adamson	Council Member - At-Large	December 31, 2013
Paul Draper	Council Member - At-Large	December 31, 2015
Appointed Officials		
Lon Pluckhahn	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Donald C. Hoskins	City Attorney	Indefinite
Tom Treharne	Director of Planning and Development	Indefinite
Harry Daugherty	Chief of Police	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Terry Jackson	Fire Chief	Civil Service
Doug Raber	Library Director	Indefinite
Richard Fox	Director of Parks and Recreation (retired September 28, 2012)	Indefinite
Mike Carolan	Director of Parks and Recreation (February 22, 2013)	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 2012 Chairperson	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	December 31, 2015
Todd Steigerwaldt	Marion Municipal Water Department - General Manager	Indefinite

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2013, 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 entity'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 entity'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 unit, each major fund and the aggregate remaining fund information of the City of Marion as of June 30, 2013, 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 43 through 45 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 six years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the three years ended June 30, 2006 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements. The supplementary information included on pages 46 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 our report dated February 20, 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* and should be considered in assessing the results of our audit.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
February 20, 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, 2013. 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, 2013 by \$196.0 million (net position). Of this amount, \$10.7 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net position increased by \$8.3 million.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$7.6 million, or 49% of the total general fund expenditures. For the purpose of these financial statements, the General Fund also includes the Equipment Replacement and the Tax Stabilization Funds.

Total general obligation debt decreased by \$2,670,000. There were \$2,610,000 of general obligation bonds issued during the year and repayment of bond principal of \$5,280,000.

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 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 all of the City's assets and liabilities, with the difference between the two 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 unit includes the activities of the Marion Water Department. The City is financially accountable for the Water Department and has included it in the financial statements and notes.

Fund Financial Statements

The City has three kinds of funds:

1. Governmental Funds

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

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

2. Proprietary Funds

Proprietary funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the statement of net 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. The enterprise funds include the Sewer Rental, Sewer Rent Replacement and Health Insurance which are considered to be major funds of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

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

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

3. Fiduciary Funds

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

Government-Wide Financial Analysis

As noted earlier, net 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	
	2013	2012 (Restated - Note 17)	2013	2012 (Restated - Note 17)	2013	2012 (Restated - Note 17)
Cash and pooled investments	\$ 42,222	\$ 45,376	\$ 6,335	\$ 8,559	\$ 48,557	\$ 53,935
Other assets	18,765	17,991	890	1,374	19,655	19,365
Capital assets	<u>185,486</u>	<u>178,518</u>	<u>19,425</u>	<u>17,693</u>	<u>204,911</u>	<u>196,211</u>
Total Assets	<u>246,473</u>	<u>241,885</u>	<u>26,650</u>	<u>27,626</u>	<u>273,123</u>	<u>269,511</u>
Current liabilities	22,335	23,370	431	329	22,766	23,699
Noncurrent liabilities	<u>28,092</u>	<u>30,802</u>	(354)	—	<u>27,738</u>	<u>30,802</u>
Total Liabilities	<u>50,427</u>	<u>54,172</u>	<u>77</u>	<u>329</u>	<u>50,504</u>	<u>54,501</u>
Net Position						
Net investment in capital assets	159,001	149,403	19,425	17,693	178,426	167,096
Restricted	26,308	28,039	—	—	26,308	28,039
Unrestricted	<u>10,737</u>	<u>10,271</u>	<u>7,148</u>	<u>9,604</u>	<u>17,885</u>	<u>19,875</u>
Total Net Position	<u>\$ 196,046</u>	<u>\$ 187,713</u>	<u>\$ 26,573</u>	<u>\$ 27,297</u>	<u>\$ 222,619</u>	<u>\$ 215,010</u>

Net position of governmental activities increased approximately \$8.3 million for the fiscal year 2013. Net position of business-type activities decreased approximately \$0.7 million for the fiscal year 2013. 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 \$11.0 million as of the end of this year for governmental activities and \$7.1 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>2013</u>	<u>2012</u> (Restated - Note 17)	<u>2013</u>	<u>2012</u> (Restated - Note 17)	<u>2013</u>	<u>2012</u> (Restated - Note 17)
Revenue						
Charges for service	\$ 1,262	\$ 1,459	\$ 6,131	\$ 5,354	\$ 7,393	\$ 6,813
Operating grants and contributions	689	431	59	119	748	550
Capital grants and contributions	5,911	5,164	83	10	5,994	5,174
General Revenue						
Property tax	16,926	16,298	—	—	16,926	16,298
Other tax	6,194	5,073	—	—	6,194	5,073
Franchise fees	328	328	—	—	328	328
Road use tax	3,371	3,271	—	—	3,371	3,271
Investment income	689	709	111	129	800	838
Miscellaneous	8	24	—	—	8	24
Loss on sale of assets	(64)	(426)	—	—	(64)	(426)
Total Revenue	<u>35,314</u>	<u>32,331</u>	<u>6,384</u>	<u>5,612</u>	<u>41,698</u>	<u>37,943</u>
Program Expenses						
Public safety	8,893	9,186	—	—	8,893	9,186
Public works	10,857	6,353	—	—	10,857	6,353
Culture and recreation	3,802	3,173	—	—	3,802	3,173
Community and economic development	1,838	1,908	—	—	1,838	1,908
General government	1,909	2,169	—	—	1,909	2,169
Interest on long-term debt	819	633	—	—	819	633
Sanitary sewer	—	—	4,072	3,058	4,072	3,058
Solid waste management	—	—	1,601	1,439	1,601	1,439
City communication and utility	—	—	238	49	238	49
Urban forest	—	—	60	55	60	55
Total Expenses	<u>28,118</u>	<u>23,422</u>	<u>5,971</u>	<u>4,601</u>	<u>34,089</u>	<u>28,023</u>
Transfers	<u>1,137</u>	<u>880</u>	<u>(1,137)</u>	<u>(880)</u>	<u>—</u>	<u>—</u>
Changes in Net Position	8,333	9,789	(724)	131	7,609	9,920
Beginning net position, as restated (Note 17)	187,713	177,924	27,297	27,166	215,010	205,090
Ending Net Position	<u>\$ 196,046</u>	<u>\$ 187,713</u>	<u>\$ 26,573</u>	<u>\$ 27,297</u>	<u>\$ 222,619</u>	<u>\$ 215,010</u>

Governmental Activities

Charges for services make up 3.6% of governmental revenue. Operating and capital grants, primarily for street projects and building improvement projects, make up another 18.7% of governmental revenue. The remaining revenue comes from taxes, primarily property tax and interest revenue.

Business-Type Activities

As expected, charges for services is the primary revenue source for business-type activities. Sanitary sewer fees, urban forest fees and solid waste fees are the primary charges for services that make up 96.0% of total revenue. Investment income accounts for an additional 1.7% 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 \$38,533,675, which is less than the \$39,804,624 total fund balance as of June 30, 2012. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a modest increase in fund balance of \$834,603 from the prior year to \$12,225,976. Revenue increased 2.3% over the prior year to \$12,844,492 and expenditures decreased 0.5% to \$15,656,013. Net other financing sources totaled \$3,646,124.

The Road Use Fund is used to account for the maintenance of the City's infrastructure. This fund ended fiscal year 2013 with a balance of \$1,942,145 compared to the prior year ending balance of \$1,113,439. Revenue increased \$100,247 or 3.1% over the prior period.

The 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 of \$148,434 from the prior year to \$455,167.

The Debt Service Fund ended fiscal year 2013 with a \$163,291 balance compared to the prior year ending deficit balance of (\$89,680). Property tax revenue increased \$372,776 while bond principal and interest payments increased \$3,124,163 in fiscal year 2013.

The Capital Projects Fund ended fiscal year 2013 with a \$21,803,623 balance compared to the prior year ending balance of \$25,758,692.

Proprietary Fund Highlights

The Sewer Rental Fund accounts for the operation and maintenance of the City's sanitary sewer system. This fund ended fiscal year 2013 with a net position of \$15,678,375 compared to the prior year ending net position of \$16,412,164.

The 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 2013 with a net position of \$4,619,356 compared to the prior year ending net position of \$4,463,694.

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. Also, there were additional overtime costs, various grant expenses, extra street repair costs and higher storm sewer costs. There was also offsetting revenue increases from the receipt of additional local option sales tax revenue, various additional grant proceeds, additional charges for services and bond proceeds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$185,485,657 (net of accumulated depreciation) as of June 30, 2013. Capital assets for business-type activities totaled \$19,424,707 (net of accumulated depreciation) as of June 30, 2013. See Note 3 to the financial statements for more information about the City's capital assets.

Construction in progress as of June 30, 2013 for governmental activities consists primarily of street projects, communication system and police station.

Long-Term Debt

As of June 30, 2013, the City had \$25,923,649 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 \$110 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, 2013, the City issued a total of \$2,610,000 of general obligation bonds to pay costs of refunding the outstanding balances of the City's General Obligation Corporate Purpose Bonds, Series 2003, General Obligation City Hall/Community Center Bonds, Series 2004, and General Obligation Corporate Purpose Bonds, Series 2005.

ECONOMIC FACTORS

The unemployment rate for Linn County is currently at 4.9%, which is below where it was the previous year at 5.4% and less than the national unemployment rate of 7.6%.

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

The total value of building permits for fiscal year 2013 was approximately \$30.0 million, which is down slightly from the fiscal year 2012 amount of \$36.7 million. We did not have as many big projects in either fiscal years 2012 and 2013 as we have had in previous fiscal years.

NEXT YEAR'S BUDGET AND RATES

The adopted fiscal year 2013-2014 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 2013-2014. Increased customer accounts and a rate increase that went into effect July 1, 2013 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, 2013. 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 2013-2014 is 13.15637 per taxable valuation compared to 13.62416 for fiscal year 2012-2013. Net taxable valuation for fiscal year 2013-2014 is \$1,314.5 million, which was an increase of \$87.1 million from the fiscal year 2012-2013 level which was \$1,227.4 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, 2013

	Primary Government			Component Unit Water
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets				
Cash	\$ 18,534,596	\$ 4,375,913	\$ 22,910,509	\$ 2,669,048
Pooled investments	23,687,068	1,959,056	25,646,124	—
Receivables				
Accounts (net of allowance for uncollectible accounts)	142,114	344,826	486,940	169,773
Unbilled usage	—	585,794	585,794	346,944
Accrued interest	38,227	5,940	44,167	—
Property Tax				
Delinquent	133,531	—	133,531	—
Succeeding year	17,210,034	—	17,210,034	—
Due from other governments	658,267	8,550	666,817	—
Internal balances	54,802	(54,802)	—	—
Due from others	631	—	631	—
Inventories	257,420	—	257,420	241,077
Total Current Assets	60,716,690	7,225,277	67,941,967	3,426,842
Noncurrent Assets				
Bond issue costs (net of accumulated amortization)	270,970	—	270,970	—
Capital assets (net of accumulated depreciation)	100,308,402	17,468,498	117,776,900	16,872,120
Capital assets not being depreciated	85,177,255	1,956,209	87,133,464	612,254
Total Noncurrent Assets	185,756,627	19,424,707	205,181,334	17,484,374
Restricted Assets				
Cash	—	—	—	112,603
Bond issuance costs (net of accumulated amortization - \$5,250)	—	—	—	29,750
Total Restricted Assets	—	—	—	142,353
Total Assets	\$ 246,473,317	\$ 26,649,984	\$ 273,123,301	\$ 21,053,569

See accompanying notes to the financial statements.

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Water
Liabilities				
Current Liabilities				
Accounts payable.....	\$ 1,516,420	\$ 352,436	\$ 1,868,856	\$ 261,314
Salary and benefits payable.....	405,701	58,573	464,274	32,539
Accrued interest payable	52,166	—	52,166	4,268
Sales tax payable.....	—	—	—	10,157
Deferred Revenue				
Succeeding year property tax.....	17,210,034	—	17,210,034	—
Self-insured estimated claims	202,723	—	202,723	21,094
Reinsurance premiums payable	44,783	—	44,783	—
Due to primary government	—	—	—	26,500
Long-Term Liabilities				
Portion Due or Payable Within One Year				
General obligation bonds.....	2,840,000	—	2,840,000	—
General obligation notes.....	37,593	—	37,593	—
SRF loan	—	—	—	111,000
Compensated absences	735	20,222	20,957	49,405
Nonbonded indebtedness.....	24,990	—	24,990	—
Total Current Liabilities	22,335,145	431,231	22,766,376	516,277
Noncurrent Liabilities				
Long-Term Liabilities				
Portion Due or Payable After One Year				
General obligation bonds.....	22,945,000	—	22,945,000	—
General obligation notes.....	101,101	—	101,101	—
SRF loan	—	—	—	2,552,000
Compensated absences	2,819,272	—	2,819,272	—
Nonbonded indebtedness.....	161,800	—	161,800	—
Net OPEB liability	1,150,000	—	1,150,000	76,000
Premium on general obligation bonds	560,797	—	560,797	—
Internal loans	354,049	(354,049)	—	—
Total Noncurrent Liabilities	28,092,019	(354,049)	27,737,970	2,628,000
Liabilities Payable From Restricted Assets				
Customer deposits	—	—	—	112,603
Total Liabilities	50,427,164	77,182	50,504,346	3,256,880
Net Position				
Net investment in capital assets	159,001,166	19,424,707	178,425,873	14,821,374
Restricted for				
Streets	2,508,073	—	2,508,073	—
Benefits.....	455,167	—	455,167	—
Debt service.....	163,291	—	163,291	—
Capital projects.....	22,276,383	—	22,276,383	—
Cemetery perpetual care	152,905	—	152,905	—
Other.....	751,880	—	751,880	—
Unrestricted	10,737,288	7,148,095	17,885,383	2,975,315
Total Net Position	196,046,153	26,572,802	222,618,955	17,796,689
Total Liabilities and Net Position	\$ 246,473,317	\$ 26,649,984	\$ 273,123,301	\$ 21,053,569

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Change in Net Position			Component Unit
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
Public safety.....	\$ 8,892,494	\$ 258,426	\$ 136,012	\$ —	\$ (8,498,056)	\$ —	\$ (8,498,056)	\$ —
Public works.....	10,857,162	15,157	3,300	5,017,075	(5,821,630)	—	(5,821,630)	—
Culture and recreation.....	3,801,759	450,354	472,650	43,811	(2,834,944)	—	(2,834,944)	—
Community and economic development.....	1,838,248	516,195	—	849,896	(472,157)	—	(472,157)	—
General government	1,908,941	21,733	76,538	—	(1,810,670)	—	(1,810,670)	—
Interest on long-term debt	819,066	—	—	—	(819,066)	—	(819,066)	—
Total Governmental Activities.....	28,117,670	1,261,865	688,500	5,910,782	(20,256,523)	—	(20,256,523)	—
Business-Type Activities								
Sewer.....	4,072,185	3,687,885	58,574	82,738	—	(242,988)	(242,988)	—
Solid waste.....	1,600,896	1,549,074	—	1	—	(51,821)	(51,821)	—
City communication and utility	237,624	651,382	—	—	—	413,758	413,758	—
Urban forest	60,307	243,040	—	—	—	182,733	182,733	—
Total Business-Type Activities.....	5,971,012	6,131,381	58,574	82,739	—	301,682	301,682	—
Total Primary Government.....	\$ 34,088,682	\$ 7,393,246	\$ 747,074	\$ 5,993,521	(20,256,523)	301,682	(19,954,841)	—
Component Unit - Water.....	\$ 2,445,988	\$ 3,383,882	\$ —	\$ 281,548	—	—	—	1,219,442
General Revenue								
Property tax.....					16,925,535	—	16,925,535	—
Tax increment financing					1,635,686	—	1,635,686	—
Other Tax								
Cable television franchise					327,680	—	327,680	—
Hotel/motel.....					163,986	—	163,986	—
Road use tax.....					3,371,082	—	3,371,082	—
Local option sales tax.....					4,378,840	—	4,378,840	—
Investment income					689,499	110,413	799,912	35,016
Special assessments.....					17,085	115	17,200	—
Miscellaneous.....					7,513	—	7,513	35,301
Loss on sale of capital assets.....					(63,728)	—	(63,728)	—
Transfers.....					1,136,813	(1,136,813)	—	—
Total General Revenue and Transfers					28,589,991	(1,026,285)	27,563,706	70,317
Change in Net Position					8,333,468	(724,603)	7,608,865	1,289,759
Net Position - Beginning of Year, as Restated (Note 17)					187,712,685	27,297,405	215,010,090	16,506,930
Net Position - End of Year.....					\$ 196,046,153	\$ 26,572,802	\$ 222,618,955	\$ 17,796,689

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of June 30, 2013

	<u>Special Revenue</u>						Total
	General	Road Use Tax	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor	
Assets							
Cash.....	\$ 8,096,560	\$ 1,681,779	\$ 440,591	\$ 286,059	\$ 4,210,894	\$ 2,008,710	\$ 16,724,593
Pooled investments	4,204,502	119,954	—	7,867	18,347,893	122,599	22,802,815
Receivables							
Accounts.....	104,137	20,017	—	—	5,950	3,200	133,304
Accrued interest.....	4,613	—	—	—	29,890	—	34,503
Property Tax							
Delinquent	78,403	—	22,750	23,414	—	8,964	133,531
Succeeding year	11,180,253	—	3,278,033	2,751,748	—	—	17,210,034
Due from other governments	—	284,726	—	—	373,541	—	658,267
Due from other funds	55,433	—	—	—	—	—	55,433
Inventories.....	257,420	—	—	—	—	—	257,420
Total Assets	<u>\$ 23,981,321</u>	<u>\$ 2,106,476</u>	<u>\$ 3,741,374</u>	<u>\$ 3,069,088</u>	<u>\$ 22,968,168</u>	<u>\$ 2,143,473</u>	<u>\$ 58,009,900</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 206,415	\$ 127,307	\$ 8,174	\$ —	\$ 1,164,545	\$ —	\$ 1,506,441
Salaries and benefits payable	368,677	37,024	—	—	—	—	405,701
Deferred Revenue							
Succeeding year property							
tax.....	11,180,253	—	3,278,033	2,751,748	—	—	17,210,034
Interfund loan	—	—	—	154,049	—	200,000	354,049
Total Liabilities.....	<u>11,755,345</u>	<u>164,331</u>	<u>3,286,207</u>	<u>2,905,797</u>	<u>1,164,545</u>	<u>200,000</u>	<u>19,476,225</u>
Fund Balances							
Nonspendable							
Inventories.....	257,420	—	—	—	—	—	257,420
Cemetery perpetual care	—	—	—	—	—	152,905	152,905
Restricted for							
Streets.....	—	1,942,145	—	—	—	565,928	2,508,073
Benefits	—	—	455,167	—	—	—	455,167
Debt service	—	—	—	163,291	—	—	163,291
Capital projects.....	—	—	—	—	21,803,623	—	21,803,623
Other purposes.....	—	—	—	—	—	751,880	751,880
Committed to							
Pension	737,705	—	—	—	—	—	737,705
Capital projects.....	—	—	—	—	—	291,135	291,135
Assigned for							
Equipment reserve	3,112,984	—	—	—	—	—	3,112,984
Tax stabilization.....	290,653	—	—	—	—	—	290,653
Census reserve	225,873	—	—	—	—	—	225,873
Capital projects.....	—	—	—	—	—	181,625	181,625
Unassigned	7,601,341	—	—	—	—	—	7,601,341
Total Fund Balances.....	<u>12,225,976</u>	<u>1,942,145</u>	<u>455,167</u>	<u>163,291</u>	<u>21,803,623</u>	<u>1,943,473</u>	<u>38,533,675</u>
Total Liabilities and Fund							
Balances.....	<u>\$ 23,981,321</u>	<u>\$ 2,106,476</u>	<u>\$ 3,741,374</u>	<u>\$ 3,069,088</u>	<u>\$ 22,968,168</u>	<u>\$ 2,143,473</u>	<u>\$ 58,009,900</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, 2013

Total Fund Balances for Governmental Funds (Page 13)....		\$ 38,533,675
 <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 \$243,698,697 and the accumulated depreciation is \$58,213,040		185,485,657
The Internal Service Fund is used by management to charge the costs of employee benefits and the partially self-funded insurance plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the statement of net position.....		2,449,305
Unamortized bond issue costs are not financial resources and, therefore, are not reported as assets in the governmental funds.....		270,970
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.....		(52,166)
Long-term liabilities are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		
Compensated absences.....	\$ (2,820,007)	
General obligation bonds	(25,785,000)	
NET OPEB liability	(1,150,000)	
Nonbonded indebtedness	(186,790)	
General obligation notes	(138,694)	
Premium on general obligation bonds	(560,797)	
	(30,641,288)	
Net Position of Governmental Activities (Page 12)		<u>\$ 196,046,153</u>

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

Year Ended June 30, 2013

	<u>Special Revenue</u>						Total
	General	Road Use Tax	Trust and Agency (Employee Benefits)	Debt Service	Capital Projects	Nonmajor	
Revenue							
Property tax	\$ 10,599,005	\$ —	\$ 3,099,068	\$ 3,227,462	\$ —	\$ —	\$ 16,925,535
Tax increment financing	—	—	—	—	—	1,635,686	1,635,686
Other tax	491,666	—	—	—	4,378,840	—	4,870,506
Licenses and permits	512,372	—	—	—	—	—	512,372
Use of money and property ...	208,932	—	410	4,841	421,196	5,645	641,024
Intergovernmental	312,097	3,371,082	323,324	—	849,896	49,778	4,906,177
Charges for service	712,905	—	29,699	—	381	4,650	747,635
Special assessments	—	—	—	17,085	—	—	17,085
Miscellaneous	7,515	—	—	—	—	3,300	10,815
Total Revenue	<u>12,844,492</u>	<u>3,371,082</u>	<u>3,452,501</u>	<u>3,249,388</u>	<u>5,650,313</u>	<u>1,699,059</u>	<u>30,266,835</u>
Expenditures							
Operating							
Public safety	8,600,002	—	32,335	—	—	—	8,632,337
Public works	834,054	1,863,010	—	—	—	—	2,697,064
Culture and recreation	3,391,800	—	85,472	—	—	—	3,477,272
Community and economic development	1,159,211	—	—	—	—	672,974	1,832,185
General government	1,670,946	—	—	—	—	—	1,670,946
Debt Service							
Principal	—	—	—	5,340,933	—	—	5,340,933
Interest and other charges ...	—	—	—	916,325	—	—	916,325
Capital projects	—	353,167	—	—	9,828,882	545,040	10,727,089
Total Expenditures	<u>15,656,013</u>	<u>2,216,177</u>	<u>117,807</u>	<u>6,257,258</u>	<u>9,828,882</u>	<u>1,218,014</u>	<u>35,294,151</u>
Revenue Over (Under) Expenditures	<u>(2,811,521)</u>	<u>1,154,905</u>	<u>3,334,694</u>	<u>(3,007,870)</u>	<u>(4,178,569)</u>	<u>481,045</u>	<u>(5,027,316)</u>
Other Financing Sources (Uses)							
Operating transfers in	3,676,333	571,222	—	521,021	223,500	468,080	5,460,156
Operating transfers out	(35,151)	(897,421)	(3,186,260)	—	—	(329,719)	(4,448,551)
Sale of capital assets	4,942	—	—	—	—	—	4,942
General obligation bonds issued	—	—	—	2,610,000	—	—	2,610,000
Premium on general obligation bonds issued	—	—	—	129,820	—	—	129,820
Total Other Financing Sources (Uses)	<u>3,646,124</u>	<u>(326,199)</u>	<u>(3,186,260)</u>	<u>3,260,841</u>	<u>223,500</u>	<u>138,361</u>	<u>3,756,367</u>
Net Changes in Fund Balances	<u>834,603</u>	<u>828,706</u>	<u>148,434</u>	<u>252,971</u>	<u>(3,955,069)</u>	<u>619,406</u>	<u>(1,270,949)</u>
Fund Balances (Deficit) - Beginning of Year	11,391,373	1,113,439	306,733	(89,680)	25,758,692	1,324,067	39,804,624
Fund Balances - End of Year	<u>\$ 12,225,976</u>	<u>\$ 1,942,145</u>	<u>\$ 455,167</u>	<u>\$ 163,291</u>	<u>\$ 21,803,623</u>	<u>\$ 1,943,473</u>	<u>\$ 38,533,675</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, 2013

Net Changes in Fund Balances - Total Governmental Funds (Page 15) \$ (1,270,949)

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

In the statement of activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets disposed.

(68,670)

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	\$ 7,105,798	
Contributed capital assets	5,060,886	
Depreciation expense.....	<u>(5,129,835)</u>	7,036,849

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 or amortization of the long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Current year issues exceeded repayments, bond issue costs and amortization as follows:

Increase in nonbonded indebtedness.....	\$ (25,000)	
Repayment of nonbonded indebtedness	25,000	
General obligation bonds issued	(2,610,000)	
Repayment of bond principal.....	5,280,000	
Repayment of general obligation note principal	35,933	
Premium on general obligation bonds issued	(129,820)	
Amortization of premium on general obligation bonds	53,829	
General obligation bond issue costs.....	46,482	
Amortization of bond issue costs	<u>(24,984)</u>	2,651,440

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

Compensated absences.....	\$ (136,774)	
Other post-employment benefits.....	(35,000)	
Interest on long-term debt	<u>21,934</u>	(149,840)

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

134,638

Change in Net Position of Governmental Activities (Page 12) \$ 8,333,468

Statement of Net Position - Proprietary Funds

As of June 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds		
	Sewer Rental	Sewer Rent Replacement	Nonmajor	Total	Health Insurance	Nonmajor	Total
Assets							
Current Assets							
Cash.....	\$ 99,157	\$ 2,640,412	\$ 1,636,344	\$ 4,375,913	\$ 1,564,971	\$ 245,032	\$ 1,810,003
Pooled investments.....	351,142	800,909	807,005	1,959,056	—	884,253	884,253
Receivables							
Accounts.....	173,355	288	171,183	344,826	8,810	—	8,810
Unbilled usage.....	387,615	—	198,179	585,794	—	—	—
Accrued interest.....	—	2,480	3,460	5,940	—	3,724	3,724
Due from other governments	—	—	8,550	8,550	—	—	—
Interfund loan.....	49,963	—	—	49,963	—	—	—
Total Current Assets.....	1,061,232	3,444,089	2,824,721	7,330,042	1,573,781	1,133,009	2,706,790
Noncurrent Assets							
Interfund loan.....	104,086	—	200,000	304,086	—	—	—
Capital assets (net of accumulated depreciation).....	14,632,627	—	2,835,871	17,468,498	—	—	—
Capital assets not being depreciated.....	116,164	1,175,267	664,778	1,956,209	—	—	—
Total Noncurrent Assets ...	14,852,877	1,175,267	3,700,649	19,728,793	—	—	—
Total Assets.....	\$ 15,914,109	\$ 4,619,356	\$ 6,525,370	\$ 27,058,835	\$ 1,573,781	\$ 1,133,009	\$ 2,706,790
Liabilities and Net Position							
Current Liabilities							
Accounts payable.....	\$ 194,443	\$ —	\$ 157,993	\$ 352,436	\$ 7,563	\$ 2,416	\$ 9,979
Salaries and benefits payable	21,069	—	37,504	58,573	—	—	—
Due to other funds.....	—	—	54,802	54,802	—	—	—
Self-insured estimated claims	—	—	—	—	202,723	—	202,723
Reinsurance premiums payable.....	—	—	—	—	44,783	—	44,783
Compensated absences.....	20,222	—	—	20,222	—	—	—
Total Current Liabilities.....	235,734	—	250,299	486,033	255,069	2,416	257,485
Net Position							
Net investment in capital assets.....	14,748,791	1,175,267	3,500,649	19,424,707	—	—	—
Unrestricted.....	929,584	3,444,089	2,774,422	7,148,095	1,318,712	1,130,593	2,449,305
Total Net Position.....	15,678,375	4,619,356	6,275,071	26,572,802	1,318,712	1,130,593	2,449,305
Total Liabilities and Net Position.....	\$ 15,914,109	\$ 4,619,356	\$ 6,525,370	\$ 27,058,835	\$ 1,573,781	\$ 1,133,009	\$ 2,706,790

See accompanying notes to the financial statements.

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

Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds		
	Sewer Rental	Sewer Rent Replacement	Nonmajor	Total	Health Insurance	Nonmajor	Total
Operating Revenue							
Charges for service	\$ 2,761,102	\$ 402,440	\$ 2,967,839	\$ 6,131,381	\$ —	\$ —	\$ —
Miscellaneous.....	—	—	115	115	2,231,803	—	2,231,803
Total Operating Revenue	<u>2,761,102</u>	<u>402,440</u>	<u>2,967,954</u>	<u>6,131,496</u>	<u>2,231,803</u>	<u>—</u>	<u>2,231,803</u>
Operating Expenses							
Personal services	775,074	—	1,605,393	2,380,467	—	—	—
Services and commodities.....	2,243,012	—	652,907	2,895,919	1,922,995	349,709	2,272,704
Depreciation	459,412	—	235,214	694,626	—	—	—
Total Operating Expenses	<u>3,477,498</u>	<u>—</u>	<u>2,493,514</u>	<u>5,971,012</u>	<u>1,922,995</u>	<u>349,709</u>	<u>2,272,704</u>
Operating Income (Loss)	<u>(716,396)</u>	<u>402,440</u>	<u>474,440</u>	<u>160,484</u>	<u>308,808</u>	<u>(349,709)</u>	<u>(40,901)</u>
Nonoperating Revenue							
Investment income	7,482	44,386	58,545	110,413	—	50,331	50,331
Intergovernmental	—	—	58,574	58,574	—	—	—
Total Nonoperating Revenue.....	<u>7,482</u>	<u>44,386</u>	<u>117,119</u>	<u>168,987</u>	<u>—</u>	<u>50,331</u>	<u>50,331</u>
Income (Loss) Before Transfers and Capital Assets Received	<u>(708,914)</u>	<u>446,826</u>	<u>591,559</u>	<u>329,471</u>	<u>308,808</u>	<u>(299,378)</u>	<u>9,430</u>
Transfers and Capital Assets Received							
Capital assets received.....	82,738	—	1	82,739	—	—	—
Transfers in	116,164	—	647,814	763,978	—	125,208	125,208
Transfers out	(223,777)	(291,164)	(1,385,850)	(1,900,791)	—	—	—
Total Transfers and Capital Assets Received	<u>(24,875)</u>	<u>(291,164)</u>	<u>(738,035)</u>	<u>(1,054,074)</u>	<u>—</u>	<u>125,208</u>	<u>125,208</u>
Changes in Net Position	<u>(733,789)</u>	<u>155,662</u>	<u>(146,476)</u>	<u>(724,603)</u>	<u>308,808</u>	<u>(174,170)</u>	<u>134,638</u>
Net Position - Beginning of Year, as Restated (Note 17) ..	16,412,164	4,463,694	6,421,547	27,297,405	1,009,904	1,304,763	2,314,667
Net Position - End of Year.....	<u>\$ 15,678,375</u>	<u>\$ 4,619,356</u>	<u>\$ 6,275,071</u>	<u>\$ 26,572,802</u>	<u>\$ 1,318,712</u>	<u>\$ 1,130,593</u>	<u>\$ 2,449,305</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds		
	Sewer Rental	Sewer Rent Replacement	Nonmajor	Total	Health Insurance	Nonmajor	Total
Cash Flows From Operating Activities							
Cash received from customers	\$ 2,726,685	\$ 402,443	\$ 2,968,983	\$ 6,098,111	\$ 2,256,439	\$ —	\$ 2,256,439
Cash paid to employees for services	(763,954)	—	(1,350,197)	(2,114,151)	—	—	—
Cash paid to suppliers for goods and services	(2,064,497)	—	(986,374)	(3,050,871)	(1,915,673)	(353,369)	(2,269,042)
Net Cash Provided by (Used in) Operating Activities	(101,766)	402,443	632,412	933,089	340,766	(353,369)	(12,603)
Cash Flows From Noncapital Financing Activities							
Net transfers	(107,613)	(291,164)	(738,036)	(1,136,813)	—	125,208	125,208
State and federal grants received	—	—	64,999	64,999	—	—	—
Increase in due to other funds	—	—	54,802	54,802	—	—	—
Net Cash Provided by (Used in) Noncapital Activities	(107,613)	(291,164)	(618,235)	(1,017,012)	—	125,208	125,208
Cash Flows From Capital and Related Financing Activities							
Increase (decrease) in interfund loan	48,626	—	43,295	91,921	—	—	—
Purchase of capital assets	(190,143)	(1,083,161)	(1,070,179)	(2,343,483)	—	—	—
Net Cash Used in Capital and Related Financing Activities	(141,517)	(1,083,161)	(1,026,884)	(2,251,562)	—	—	—
Cash Flows From Investing Activities							
Interest received	7,482	45,470	58,688	111,640	—	50,485	50,485
Purchase of investments	(36)	—	—	(36)	—	—	—
Sale of investments	—	219,000	1,555	220,555	—	—	—
Net Cash Provided by Investing Activities	7,446	264,470	60,243	332,159	—	50,485	50,485
Net Increase (Decrease) in Cash	(343,450)	(707,412)	(952,464)	(2,003,326)	340,766	(177,676)	163,090
Cash - Beginning of Year	442,607	3,347,824	2,588,808	6,379,239	1,224,205	422,708	1,646,913
Cash - End of Year	\$ 99,157	\$ 2,640,412	\$ 1,636,344	\$ 4,375,913	\$ 1,564,971	\$ 245,032	\$ 1,810,003
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities							
Operating income (loss)	\$ (716,396)	\$ 402,440	\$ 474,440	\$ 160,484	\$ 308,808	\$ (349,709)	\$ (40,901)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities							
Depreciation	459,412	—	235,214	694,626	—	—	—
Change in Assets and Liabilities (Increase) decrease in							
receivables	(34,417)	3	1,029	(33,385)	24,636	—	24,636
Increase (decrease) in payables	178,515	—	(95,843)	82,672	7,322	(3,660)	3,662
Increase in salaries and benefits payable	8,160	—	17,572	25,732	—	—	—
Increase in compensated absences	2,960	—	—	2,960	—	—	—
Net Cash Provided by (Used in) Operating Activities	\$ (101,766)	\$ 402,443	\$ 632,412	\$ 933,089	\$ 340,766	\$ (353,369)	\$ (12,603)

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position - Trust Fund

As of June 30, 2013

	Cemetery Memorial
Assets	
Pooled Investments	<u>\$ 2,002</u>
Liabilities	
Due to others	\$ 631
Net Position	
Held in trust	<u>1,371</u>
Total Liabilities and Net Position	<u>\$ 2,002</u>

Statement of Changes in Fiduciary Net Position - Trust Fund

Year Ended June 30, 2013

	Cemetery Memorial
Additions	
Interest income.....	\$ 2
Net Position - Beginning of Year.....	<u>1,369</u>
Net Position - End of Year.....	<u>\$ 1,371</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, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

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

Discretely Presented Component Unit

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

Jointly Governed Organizations

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

(1) Summary of Significant Accounting Policies

Basis of Presentation

Government-Wide Financial Statements

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

The statement of net position presents the City's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three 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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants, contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as other nonmajor governmental and enterprise funds, respectively.

The City had the following major governmental funds:

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

The City had the following major proprietary fund:

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

The 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.

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 they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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.

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

Assets, Liabilities and Fund Equity

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

Cash 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.

(1) Summary of Significant Accounting Policies

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 Council 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, 2013 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property 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, 2011 assessed property valuations, is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2012.

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

Due From and Due to Other Funds - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets - Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect as of June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use Tax and Sewer Rental Funds.

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

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

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Unassigned - All amounts not included in other spendable classifications.

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, 2013, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits as of June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

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

On June 30, 2013, the City had investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$4,909,551 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The City's cash and investments as of June 30, 2013 were as follows:

Cash.....	\$ 22,999,069
Pooled cash investments - Iowa Public Agency Investment Trust.....	4,909,551
Money market accounts	8,143,220
U.S. Instrumentalities	
Original maturities 5 years or less	1,475
Original maturities 6 to 10 years.....	75
Original maturities 10+ years.....	<u>12,593,803</u>
Total	<u>\$ 48,647,193</u>

Notes to the Financial Statements

(2) Cash and Pooled Investments

Interest Rate Risk

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

Credit Risk

The City's U.S. Instrumentalities investments as of June 30, 2013 are rated Aaa or better by Moody's Investors service. The investment in the Iowa Public Agency Investment Trust is unrated.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year (Restated - Note 17)	Increases	Decreases	Balance - End of Year
Primary Government				
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 72,888,012	\$ 1,761,425	\$ —	\$ 74,649,437
Construction in progress	<u>21,706,715</u>	<u>8,686,459</u>	<u>19,865,356</u>	<u>10,527,818</u>
Total Capital Assets Not Being Depreciated.....	<u>94,594,727</u>	<u>10,447,884</u>	<u>19,865,356</u>	<u>85,177,255</u>
Capital Assets Being Depreciated				
Buildings	18,896,419	—	—	18,896,419
Improvements other than buildings.....	108,269,390	20,117,386	414,782	127,971,994
Equipment.....	<u>10,712,256</u>	<u>1,466,770</u>	<u>525,997</u>	<u>11,653,029</u>
Total Capital Assets Being Depreciated.....	<u>137,878,065</u>	<u>21,584,156</u>	<u>940,779</u>	<u>158,521,442</u>
Less Accumulated Depreciation for				
Buildings	4,635,154	458,287	—	5,093,441
Improvements other than buildings.....	42,964,795	3,755,590	391,747	46,328,638
Equipment.....	<u>6,355,365</u>	<u>915,958</u>	<u>480,362</u>	<u>6,790,961</u>
Total Accumulated Depreciation	<u>53,955,314</u>	<u>5,129,835</u>	<u>872,109</u>	<u>58,213,040</u>
Net Capital Assets Being Depreciated.....	<u>83,922,751</u>	<u>16,454,321</u>	<u>68,670</u>	<u>100,308,402</u>
Net Governmental Activities				
Capital Assets	<u>\$ 178,517,478</u>	<u>\$ 26,902,205</u>	<u>\$ 19,934,026</u>	<u>\$ 185,485,657</u>

Notes to the Financial Statements

(3) Capital Assets

	Beginning of Year (Restated - Note 17)	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	\$ —	\$ 464,658	\$ —	\$ 464,658
Construction in progress	<u>886,899</u>	<u>1,326,979</u>	<u>722,327</u>	<u>1,491,551</u>
Total Capital Assets Not Being Depreciated.....	<u>886,899</u>	<u>1,791,637</u>	<u>722,327</u>	<u>1,956,209</u>
Capital Assets Being Depreciated				
Buildings	8,300	—	—	8,300
Equipment.....	2,711,534	551,847	173,371	3,090,010
Distribution system.....	28,236,665	82,738	—	28,319,403
Storm sewer system.....	<u>1,288,759</u>	<u>722,327</u>	<u>—</u>	<u>2,011,086</u>
Total Capital Assets Being Depreciated.....	<u>32,245,258</u>	<u>1,356,912</u>	<u>173,371</u>	<u>33,428,799</u>
Less Accumulated Depreciation for				
Buildings	1,024	332	—	1,356
Equipment.....	1,563,442	277,664	173,371	1,667,735
Distribution system.....	13,774,988	391,491	—	14,166,479
Storm sewer system.....	<u>99,592</u>	<u>25,139</u>	<u>—</u>	<u>124,731</u>
Total Accumulated Depreciation	<u>15,439,046</u>	<u>694,626</u>	<u>173,371</u>	<u>15,960,301</u>
Net Capital Assets Being Depreciated.....	<u>16,806,212</u>	<u>662,286</u>	<u>—</u>	<u>17,468,498</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 17,693,111</u>	<u>\$ 2,453,923</u>	<u>\$ 722,327</u>	<u>\$ 19,424,707</u>

Depreciation expense was charged by the City as follows for the year ended June 30, 2013:

Governmental Activities	
Public safety.....	\$ 384,914
Public works.....	3,701,590
Culture and recreation.....	829,714
General government	<u>213,617</u>
Total Governmental Activities Depreciation Expense	<u>\$ 5,129,835</u>
Business-Type Activities	
Sewer rental.....	\$ 459,412
Solid waste.....	210,075
Storm water management	<u>25,139</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 694,626</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, 2013:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year	Due Within One Year	Range of Interest Rates
Governmental Activities						
General obligation bonds	\$ 28,455,000	\$ 2,610,000	\$ 5,280,000	\$ 25,785,000	\$ 2,840,000	2.000 - 4.00%
General obligation notes	174,627	—	35,933	138,694	37,593	4.375 - 5.20
Compensated absences	2,683,233	455,378	318,604	2,820,007	735	N/A
Nonbonded indebtedness	186,790	25,000	25,000	186,790	24,990	2.00
Net OPEB liability.....	1,115,000	35,000	—	1,150,000	—	N/A
Premium on general obligation bonds	484,806	129,820	53,829	560,797	—	N/A
Totals.....	<u>\$ 33,099,456</u>	<u>\$ 3,255,198</u>	<u>\$ 5,713,366</u>	<u>\$ 30,641,288</u>	<u>\$ 2,903,318</u>	
Business-Type Activities						
Compensated absences	<u>\$ 17,262</u>	<u>\$ 2,960</u>	<u>\$ —</u>	<u>\$ 20,222</u>	<u>\$ 20,222</u>	

Bonds Payable

Seven issues of unmatured general obligation bonds totaling \$25,785,000 were outstanding as of June 30, 2013. General obligation bonds bear interest at rates ranging from 2% to 4% and mature in varying annual amounts ranging from \$200,000 to \$775,000, with the final maturities due in the year ending June 30, 2028.

Details of the City's general obligation bonds payable as of June 30, 2013 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-13
Governmental Activities						
Corporate purpose	12-15-07	3.55 - 3.80%	6-1-18	\$ 515,000 - \$ 610,000	\$ 5,000,000	\$ 2,810,000
Refunding corporate purpose.....	4-30-09	2.35 - 2.70	6-1-14	275,000	1,310,000	275,000
Corporate purpose	12-15-09	2.00 - 3.13	6-1-20	200,000 - 245,000	2,120,000	1,540,000
Corporate purpose	12-15-09	3.00 - 4.00	6-1-25	360,000 - 535,000	6,285,000	5,250,000
Corporate purpose	2-13-12	2.00 - 3.00	6-1-28	510,000 - 710,000	9,270,000	8,830,000
Corporate purpose	2-13-12	2.00 - 2.13	6-1-23	230,000 - 515,000	4,570,000	4,470,000
Refunding corporate purpose.....	3-6-13	2.00 - 3.00	6-1-17	750,000 - 775,000	2,610,000	<u>2,610,000</u>
						<u>\$ 25,785,000</u>

Notes to the Financial Statements

(4) Long-Term Liabilities

Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,840,000	\$ 697,681	\$ 3,537,681
2015	2,850,000	612,229	3,462,229
2016	2,830,000	542,106	3,372,106
2017	2,555,000	463,986	3,018,986
2018	2,245,000	392,799	2,637,799
2019-2023	8,095,000	1,237,825	9,332,825
2024-2028	4,370,000	327,756	4,697,756
	<u>\$ 25,785,000</u>	<u>\$ 4,274,382</u>	<u>\$ 30,059,382</u>

General Obligation Notes

Two issues of unmatured general obligation notes totaling \$138,694 were outstanding as of June 30, 2013. General obligation notes bear interest at rates ranging from 4.375% to 5.2% and mature in monthly and annual amounts ranging from \$369 to \$33,638, with the final maturities due in the year ending June 30, 2017.

Details of the City's general obligation notes payable as of June 30, 2013 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 6-30-13
General Obligation Notes						
Geo-Thermal note	7-20-06	5.200%	7-1-16	\$ 369 - \$ 7,508	\$ 60,255	\$ 21,771
Geo-Thermal note	12-28-06	4.375	1-1-17	20,258 - 33,638	285,577	116,923
						<u>\$ 138,694</u>

Year Ending June 30,	Principal	Interest	Total
2014	\$ 37,593	\$ 5,474	\$ 43,067
2015	39,329	3,738	43,067
2016	41,146	1,921	43,067
2017	20,626	297	20,923
	<u>\$ 138,694</u>	<u>\$ 11,430</u>	<u>\$ 150,124</u>

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

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-13
Enterprise - Sewer Rental	Capital Projects	\$ 250,000	\$ 154,049

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.

Notes to the Financial Statements

(4) Long-Term Liabilities

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

Lending Fund	Borrowing Fund	Original Loan	Outstanding 6-30-13
Enterprise - Solid Waste	Tax Increment Financing	\$ 200,000	\$ 200,000

Capital Lease Obligations

Police Station - 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 has subleased the land to V & K Development, LLC to provide for the engineering, design, development, construction, furnishing and equipping of the facility. The City will then lease the facility back from Bankers under a lease purchase agreement being accounted for as a capital lease by the City. The capital lease agreement requires payments in amounts necessary to pay Bankers for the total proceeds of principal payments not to exceed \$12,000,000 that Bankers will obtain by selling Certificates of Participation in the lease to investors. Once the Certificates of Participation are repaid, ownership of the building transfers to the City. The Certificates of Participation were issued subsequent to the year ended June 30, 2013. (Note 16)

During the year ended June 30, 2013, no principal or interest payments were made as the project was not completed.

(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 \$186,790 was calculated. This annuity liability is revalued annually based upon changes in life expectancy and discount rates.

Since the development of this land for park purposes is not expected to be fully completed for many years, the agreement with the donors allows the City to lease this land or any part of it for farming purposes pending full development. The City has entered into a three-year agreement to lease 66 acres of cropland at \$150 per acre per year. In October, 2011, a one-year lease agreement increased the lease rate to \$200 per acre. In October, 2012, a one-year lease agreement increased the lease rate to \$250 per acre, subject to proportionate reduction as land is developed.

Notes to the Financial Statements

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer From	Amount
General	Special Revenue	
	Road Use	\$ 559,931
	Trust and Agency (Employee Benefits)	2,690,038
	Proprietary	
	Sewer Rental	193,987
	Solid Waste	95,876
	Storm Water Management	<u>136,501</u>
		<u>3,676,333</u>
Special Revenue	Special Revenue	
Road Use Tax	Trust and Agency (Employee Benefits)	496,222
	Proprietary	
	Urban Forest	<u>75,000</u>
		<u>571,222</u>
Road Use Replacement	Special Revenue	
	Road Use	288,080
	Proprietary	
	Storm Water Management	<u>180,000</u>
		<u>468,080</u>
Debt Service	General Fund	7,500
	Special Revenue	
	Tax Increment Financing	329,719
	Proprietary	
	Sewer Rental	17,872
	Storm Water Management	<u>165,930</u>
		<u>521,021</u>
Capital Projects	Proprietary	
	Sewer Rent Replacement	175,000
	Storm Water Management	<u>48,500</u>
		<u>223,500</u>
Proprietary	Proprietary	
Sewer Rental	Sewer Rent Replacement	<u>116,164</u>
Proprietary	Proprietary	
Solid Waste	Solid Waste Replacement	<u>647,814</u>
Proprietary	General Fund	27,651
Employee Benefits	Special Revenue	
	Road Use	49,410
	Proprietary	
	Sewer Rental	11,918
	Solid Waste	35,331
	Storm Water Management	<u>898</u>
		<u>125,208</u>
		<u>\$ 6,349,342</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, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
General	Proprietary	
	Nonmajor Proprietary Funds	\$ 54,802
	Fiduciary	
	Cemetery Memorial	<u>631</u>
		<u>\$ 55,433</u>

These balances result 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 that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.4% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, may not be less than 26.12% of earnable compensation. Contribution rates are established by State statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012 and 2011 were \$1,184,641, \$1,091,493 and \$862,844 respectively, which met the required minimum contribution for the year.

Iowa Public Employees Retirement System

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

Most plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$511,969, \$460,652 and \$391,774 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 and retirees and their spouses. There are 157 active and 22 retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 286,390
Interest on net OPEB obligation.....	27,877
Adjustment to annual required contribution.....	<u>(132,803)</u>
Annual OPEB Cost	181,464
Contributions made	<u>(146,464)</u>
Increase in Net OPEB Obligation	35,000
Net OPEB Obligation - Beginning of Year.....	<u>1,115,000</u>
Net OPEB Obligation - End of Year	<u>\$ 1,150,000</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, 2013.

For the year ended June 30, 2013, the City contributed \$146,464 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, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 286,535	0.0%	\$ 579,399
2011	243,318	12.9	791,350
2012	337,962	4.2	1,115,000
2013	181,464	80.7	1,150,000

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, 2012 through June 30, 2013, 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 \$10,429,000 and the ratio of the UAAL to covered payroll was 16.04%. As of June 30, 2013, 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 0.0% 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 6-30-13
Primary Government	
Sick leave	\$ 861,607
Vacation and personal leave	1,311,563
Compensatory time	667,059
	<u>\$ 2,840,229</u>

The above liabilities have been computed based on rates of pay as of June 30, 2013.

(11) Conduit Debt

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

The amounts of these bonds which were still outstanding as of June 30, 2013 are not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

(12) Employee Health Care Plan

The City self-funds for health insurance claims to a stop-loss insured amount of \$30,000 per participant and a 125% aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The following is a summary of claims paid during the year and an estimate of the claims incurred, but not reported as of June 30, 2013:

	Primary Government	Discretely Presented Component Unit	Total
Claims paid during the year	\$ 1,455,249	\$ 80,850	\$ 1,536,099
Estimated claims incurred but unpaid at June 30, 2013	202,723	17,277	220,000

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 \$425 per month single or \$1,131 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, 2013, the Marion Water Department collected and remitted to the City \$3,578,820 for sewer, \$1,405,691 for garbage service and \$259,085 for urban forest. Fees paid to the Water Department by the City during the year to pay for this service totaled \$100,697 of which \$8,534 was payable as of June 30, 2013.

(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 679 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.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual 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 due and payable in the current 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.

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 and reinsurance premiums, all of which are due and payable in the current 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.

(14) Risk Management

The City's property and casualty contributions to the risk pool are recorded as expenses at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were approximately \$180,000.

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 in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. 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, 2013, no liability has been recorded in the Department's financial statements. As of June 30, 2013, 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. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

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.

Notes to the Financial Statements

(14) Risk Management

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, 2013 were \$143,003.

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

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

(15) Commitments and Contingencies

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.

(16) Construction Commitments and Subsequent Events

As of June 30, 2013, the City had entered into several construction contracts and agreements to purchase equipment totaling approximately \$14.5 million for various street projects and equipment.

As of June 30, 2013, the City had committed approximately \$1.65 million to various development agreements, economic development incentives and financial support agreements.

Subsequent to June 30, 2013, the City entered into the following transactions:

- Approved several agreements to purchase equipment and construct capital improvements. These agreements totaled approximately \$2.1 million.
- Approved \$6.575 million in general obligation corporate purpose bonds and \$1.065 million in general obligation urban renewal street improvement bonds.
- Issued \$11.7 million in Certificates of Participation for the Police Station capital lease described in Note 4.

Notes to the Financial Statements

(16) Construction Commitments and Subsequent Events

- Approved several development agreements totaling approximately \$5.6 million as well as a \$100,000 internal loan.
- Committed \$250,000 as a local match on a grant.

Management has evaluated subsequent events through February 20, 2014, the date which the financial statements were available to be issued.

(17) Prior Period Restatement

During the year ended June 30, 2013, management determined that fund balances were incorrect due to an understatement of capital assets being depreciated. As of June 30, 2012, capital assets being depreciated were understated by \$10,908 in the governmental activities and \$15,643 in the business-type activities. This correction had the following effect on net position as of June 30, 2012.

	Government-Wide Statement of Activities			Business-Type Activities - Enterprise Funds	
	Governmental Activities	Business- Type Activities	Total	Sewer Rental	Solid Waste
Net Position - Beginning of Year, as previously reported	\$ 187,701,777	\$ 27,281,762	\$ 214,983,539	\$ 16,405,098	\$ 2,064,503
Restatement for capital asset	10,908	15,643	26,551	7,066	8,577
Net Position - Beginning of Year, as Restated..	<u>\$ 187,712,685</u>	<u>\$ 27,297,405</u>	<u>\$ 215,010,090</u>	<u>\$ 16,412,164</u>	<u>\$ 2,073,080</u>
	Governmental Activities		Business-Type Activities		
	Capital Assets Being Depreciated - Equipment	Less Accumulated Depreciation for Equipment	Capital Assets Being Depreciated - Equipment	Less Accumulated Depreciation for Equipment	
Balances - June 30, 2012, as previously reported.	\$ 10,701,256	\$ (6,355,273)	\$ 2,695,760	\$ (1,563,311)	
Restatement for capital asset	11,000	(92)	15,774	(131)	
Balances - July 1, 2012, as Restated	<u>\$ 10,712,256</u>	<u>\$ (6,355,365)</u>	<u>\$ 2,711,534</u>	<u>\$ (1,563,442)</u>	

Required Supplementary Information

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

Year Ended June 30, 2013

	Actual			Original Budget	Amended Budget	Over (Under) Budget
	Governmental Funds	Enterprise Funds	Total			
Receipts						
Property tax	\$ 16,959,207	\$ —	\$ 16,959,207	\$ 16,658,459	\$ 16,658,459	\$ 300,748
Tax increment financing...	1,683,612	—	1,683,612	1,112,898	1,112,898	570,714
Other tax	4,810,675	—	4,810,675	5,136,477	5,136,477	(325,802)
Licenses and permits	526,336	—	526,336	561,375	561,375	(35,039)
Use of money and property	681,490	103,497	784,987	529,473	529,473	255,514
Intergovernmental	4,713,029	64,999	4,778,028	3,536,120	3,536,120	1,241,908
Charges for service	637,530	8,986,936	9,624,466	10,334,847	10,334,847	(710,381)
Special assessments	17,085	—	17,085	20,525	20,525	(3,440)
Miscellaneous	3,068,206	—	3,068,206	2,848,055	2,848,055	220,151
Total Receipts	33,097,170	9,155,432	42,252,602	40,738,229	40,738,229	1,514,373
Disbursements						
Public safety	8,871,274	—	8,871,274	8,960,797	9,210,797	(339,523)
Public works	3,211,527	—	3,211,527	3,329,915	3,529,915	(318,388)
Culture and recreation	3,630,003	—	3,630,003	3,887,614	4,112,614	(482,611)
Community and economic development	1,879,069	—	1,879,069	2,034,729	2,159,729	(280,660)
General government	3,625,463	—	3,625,463	4,160,054	4,290,054	(664,591)
Debt service	6,235,039	—	6,235,039	3,578,295	6,278,295	(43,256)
Capital projects	12,121,044	—	12,121,044	30,597,750	30,722,750	(18,601,706)
Business-type activities	—	10,472,796	10,472,796	10,256,039	11,706,039	(1,233,243)
Total Disbursements ..	39,573,419	10,472,796	50,046,215	66,805,193	72,010,193	(21,963,978)
Receipts Under Disbursements	(6,476,249)	(1,317,364)	(7,793,613)	(26,066,964)	(31,271,964)	23,478,351
Other Financing Sources, Net	3,760,110	(995,211)	2,764,899	12,020,000	14,630,000	(11,865,101)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(2,716,139)	(2,312,575)	(5,028,714)	(14,046,964)	(16,641,964)	11,613,250
Balances - Beginning of Year	45,442,308	10,898,722	56,341,030	49,572,452	56,341,030	—
Balances - End of Year ..	\$ 42,726,169	\$ 8,586,147	\$ 51,312,316	\$ 35,525,488	\$ 39,699,066	\$ 11,613,250

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, one budget amendment increased budgeted disbursements by \$5,205,000. This budget amendment is reflected in the final budgeted amounts.

Schedule of Budgetary Comparison - Budget to GAAP Reconciliation ▬

Year Ended June 30, 2013

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	GAAP Basis
Revenue.....	\$ 33,097,170	\$ (2,830,335)	\$ 30,266,835
Expenditures	<u>39,573,419</u>	<u>(4,279,268)</u>	<u>35,294,151</u>
Net.....	(6,476,249)	1,448,933	(5,027,316)
Other financing sources (uses), net.....	3,760,110	(3,743)	3,756,367
Beginning fund balances	<u>45,442,308</u>	<u>(5,637,684)</u>	<u>39,804,624</u>
Ending Fund Balances.....	<u>\$ 42,726,169</u>	<u>\$ (4,192,494)</u>	<u>\$ 38,533,675</u>

	Proprietary Fund Types			
	Cash Basis	Adjustment for Component Unit	Accrual Adjustments	GAAP Basis
Revenue.....	\$ 9,155,432	\$ (3,523,888)	\$ 668,939	\$ 6,300,483
Expenses	<u>10,472,796</u>	<u>(3,267,554)</u>	<u>(1,234,230)</u>	<u>5,971,012</u>
Net.....	(1,317,364)	(256,334)	1,903,169	329,471
Other financing sources (uses), net.....	(995,211)	(33,920)	(24,943)	(1,054,074)
Beginning net position, as restated.....	<u>10,898,722</u>	<u>(2,112,947)</u>	<u>18,511,630</u>	<u>27,297,405</u>
Ending Net Position	<u>\$ 8,586,147</u>	<u>\$ (2,403,201)</u>	<u>\$ 20,389,856</u>	<u>\$ 26,572,802</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

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, 2013

	Special Revenue		Capital Projects			Permanent	Total
	Road Use Replace- ment	Tax Increment Financing	Park Development	Mainten- ance Bond	Subdivision Development	Cemetery Perpetual Care	
Assets							
Cash.....	\$ 565,928	\$ 939,716	\$ 168,774	\$ 291,135	\$ 12,851	\$ 30,306	\$ 2,008,710
Pooled investments	—	—	—	—	—	122,599	122,599
Receivables							
Accounts.....	—	3,200	—	—	—	—	3,200
Property Tax							
Delinquent	—	8,964	—	—	—	—	8,964
Total Assets	<u>\$ 565,928</u>	<u>\$ 951,880</u>	<u>\$ 168,774</u>	<u>\$ 291,135</u>	<u>\$ 12,851</u>	<u>\$ 152,905</u>	<u>\$ 2,143,473</u>
Liabilities and Fund Balances							
Liabilities							
Interfund loan	\$ —	\$ 200,000	\$ —	\$ —	\$ —	\$ —	\$ 200,000
Fund Balances							
Nonspendable							
Cemetery perpetual care	—	—	—	—	—	152,905	152,905
Restricted for							
Streets.....	565,928	—	—	—	—	—	565,928
Other purposes.....	—	751,880	—	—	—	—	751,880
Committed for							
Capital projects.....	—	—	—	291,135	—	—	291,135
Assigned for							
Capital projects.....	—	—	168,774	—	12,851	—	181,625
Total Fund Balances.....	<u>565,928</u>	<u>751,880</u>	<u>168,774</u>	<u>291,135</u>	<u>12,851</u>	<u>152,905</u>	<u>1,943,473</u>
Total Liabilities and Fund							
Balances.....	<u>\$ 565,928</u>	<u>\$ 951,880</u>	<u>\$ 168,774</u>	<u>\$ 291,135</u>	<u>\$ 12,851</u>	<u>\$ 152,905</u>	<u>\$ 2,143,473</u>

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

Year Ended June 30, 2013

	Special Revenue		Capital Projects			Permanent	Total
	Road Use Replace- ment	Tax Increment Financing	Park Development	Mainten- ance Bond	Subdivision Development	Cemetery Perpetual Care	
Revenue							
Tax increment financing	\$ —	\$ 1,635,686	\$ —	\$ —	\$ —	\$ —	\$ 1,635,686
Use of money and property	1,822	—	723	1,242	1,858	—	5,645
Intergovernmental	—	49,778	—	—	—	—	49,778
Charges for service	—	—	—	4,650	—	—	4,650
Miscellaneous.....	—	—	—	—	—	3,300	3,300
Total Revenue	<u>1,822</u>	<u>1,685,464</u>	<u>723</u>	<u>5,892</u>	<u>1,858</u>	<u>3,300</u>	<u>1,699,059</u>
Expenditures							
Operating							
Community and economic development.....	—	672,974	—	—	—	—	672,974
Capital projects.....	<u>545,040</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>545,040</u>
Total Expenditures	<u>545,040</u>	<u>672,974</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,218,014</u>
Revenue Over (Under)							
Expenditures.....	<u>(543,218)</u>	<u>1,012,490</u>	<u>723</u>	<u>5,892</u>	<u>1,858</u>	<u>3,300</u>	<u>481,045</u>
Other Financing Sources (Uses)							
Operating transfers in.....	468,080	—	—	—	—	—	468,080
Operating transfers out.....	—	(329,719)	—	—	—	—	(329,719)
Total Other Financing Sources (Uses).....	<u>468,080</u>	<u>(329,719)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>138,361</u>
Net Changes in Fund Balances.....							
	(75,138)	682,771	723	5,892	1,858	3,300	619,406
Fund Balances - Beginning of Year.....							
	<u>641,066</u>	<u>69,109</u>	<u>168,051</u>	<u>285,243</u>	<u>10,993</u>	<u>149,605</u>	<u>1,324,067</u>
Fund Balances - End of Year	<u>\$ 565,928</u>	<u>\$ 751,880</u>	<u>\$ 168,774</u>	<u>\$ 291,135</u>	<u>\$ 12,851</u>	<u>\$ 152,905</u>	<u>\$ 1,943,473</u>

Combining Schedule of Net Position - Nonmajor Enterprise Funds

As of June 30, 2013

	City Communication and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Storm Water Management	Total
Assets						
Current Assets						
Cash.....	\$ 471,269	\$ 274,316	\$ —	\$ 115,991	\$ 774,768	\$ 1,636,344
Pooled investments.....	—	405,005	402,000	—	—	807,005
Receivables						
Accounts.....	—	120,408	254	17,486	33,035	171,183
Unbilled usage.....	—	128,972	—	23,507	45,700	198,179
Accrued interest.....	—	1,655	1,805	—	—	3,460
Due from other governments.....	—	—	—	—	8,550	8,550
Total Current Assets.....	<u>471,269</u>	<u>930,356</u>	<u>404,059</u>	<u>156,984</u>	<u>862,053</u>	<u>2,824,721</u>
Noncurrent Assets						
Interfund loan.....	—	200,000	—	—	—	200,000
Capital assets (net of accumulated depreciation).....	—	949,516	—	—	1,886,355	2,835,871
Capital assets not being depreciated ..	—	348,494	—	—	316,284	664,778
Total Noncurrent Assets.....	<u>—</u>	<u>1,498,010</u>	<u>—</u>	<u>—</u>	<u>2,202,639</u>	<u>3,700,649</u>
Total Assets.....	<u>\$ 471,269</u>	<u>\$ 2,428,366</u>	<u>\$ 404,059</u>	<u>\$ 156,984</u>	<u>\$ 3,064,692</u>	<u>\$ 6,525,370</u>
Liabilities and Net Position						
Current Liabilities						
Accounts payable.....	\$ 7,233	\$ 51,943	\$ —	\$ 1,530	\$ 97,287	\$ 157,993
Salaries and benefits payable.....	—	25,122	—	—	12,382	37,504
Due to other funds.....	—	—	54,802	—	—	54,802
Total Current Liabilities.....	<u>7,233</u>	<u>77,065</u>	<u>54,802</u>	<u>1,530</u>	<u>109,669</u>	<u>250,299</u>
Net Position						
Net investment in capital assets.....	—	1,298,010	—	—	2,202,639	3,500,649
Unrestricted.....	464,036	1,053,291	349,257	155,454	752,384	2,774,422
Total Net Position.....	<u>464,036</u>	<u>2,351,301</u>	<u>349,257</u>	<u>155,454</u>	<u>2,955,023</u>	<u>6,275,071</u>
Total Liabilities and Net Position.....	<u>\$ 471,269</u>	<u>\$ 2,428,366</u>	<u>\$ 404,059</u>	<u>\$ 156,984</u>	<u>\$ 3,064,692</u>	<u>\$ 6,525,370</u>

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

Year Ended June 30, 2013

	City Communication and Utility	Solid Waste	Solid Waste Replace- ment	Urban Forest Utility	Storm Water Management	Total
Operating Revenue						
Charges for service	\$ 651,382	\$ 1,337,626	\$ 211,448	\$ 243,040	\$ 524,343	\$ 2,967,839
Miscellaneous.....	—	115	—	—	—	115
Total Operating Revenue	<u>651,382</u>	<u>1,337,741</u>	<u>211,448</u>	<u>243,040</u>	<u>524,343</u>	<u>2,967,954</u>
Operating Expenses						
Personal services	237,624	909,719	—	—	458,050	1,605,393
Services and commodities.....	—	480,381	721	60,307	111,498	652,907
Depreciation	—	210,075	—	—	25,139	235,214
Total Operating Expenses.....	<u>237,624</u>	<u>1,600,175</u>	<u>721</u>	<u>60,307</u>	<u>594,687</u>	<u>2,493,514</u>
Operating Income (Loss).....	<u>413,758</u>	<u>(262,434)</u>	<u>210,727</u>	<u>182,733</u>	<u>(70,344)</u>	<u>474,440</u>
Nonoperating Revenue						
Intergovernmental	—	—	—	—	58,574	58,574
Investment income	1,139	24,047	25,360	328	7,671	58,545
Total Nonoperating Revenue	<u>1,139</u>	<u>24,047</u>	<u>25,360</u>	<u>328</u>	<u>66,245</u>	<u>117,119</u>
Income (Loss) Before Transfers and Capital Assets	<u>414,897</u>	<u>(238,387)</u>	<u>236,087</u>	<u>183,061</u>	<u>(4,099)</u>	<u>591,559</u>
Transfers and Capital Assets Contributed						
Capital assets contributed.....	—	1	—	—	—	1
Transfers in	—	647,814	—	—	—	647,814
Transfers out	—	(131,207)	(647,814)	(75,000)	(531,829)	(1,385,850)
Total Transfers and Capital Assets Contributed.....	<u>—</u>	<u>516,608</u>	<u>(647,814)</u>	<u>(75,000)</u>	<u>(531,829)</u>	<u>(738,035)</u>
Changes in Net Position	414,897	278,221	(411,727)	108,061	(535,928)	(146,476)
Net Position - Beginning of Year, as Restated (Note 17)	49,139	2,073,080	760,984	47,393	3,490,951	6,421,547
Net Position - End of Year	<u>\$ 464,036</u>	<u>\$ 2,351,301</u>	<u>\$ 349,257</u>	<u>\$ 155,454</u>	<u>\$ 2,955,023</u>	<u>\$ 6,275,071</u>

Combining Schedule of Cash Flows - Nonmajor Enterprise Funds

Year Ended June 30, 2013

	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	\$ 651,382	\$ 1,318,364	\$ 211,379	\$ 259,074	\$ 528,784	\$ 2,968,983
Cash paid to employees for services	—	(904,529)	—	—	(445,668)	(1,350,197)
Cash paid to suppliers for goods and services.....	(259,252)	(461,050)	(1,096)	(59,653)	(205,323)	(986,374)
Net Cash Provided by (Used in) Operating Activities.....	392,130	(47,215)	210,283	199,421	(122,207)	632,412
Cash Flows From Noncapital Financing Activities						
Net transfers	—	516,607	(647,814)	(75,000)	(531,829)	(738,036)
State and federal grants received	—	—	—	—	64,999	64,999
Increase in due to other funds	—	—	54,802	—	—	54,802
Net Cash Provided by (Used in) Noncapital Financing Activities	—	516,607	(593,012)	(75,000)	(466,830)	(618,235)
Cash Flows From Capital and Related Financing Activities						
Increase (decrease) in interfund loan	—	—	—	(8,758)	52,053	43,295
Purchase of capital assets.....	—	(826,361)	—	—	(243,818)	(1,070,179)
Net Cash Used in Capital and Related Financing Activities....	—	(826,361)	—	(8,758)	(191,765)	(1,026,884)
Cash Flows From Investing Activities						
Interest received.....	1,139	24,115	25,435	328	7,671	58,688
Sale of investments	—	1,555	—	—	—	1,555
Net Cash Provided by Investing Activities	1,139	25,670	25,435	328	7,671	60,243
Net Increase (Decrease) in Cash.....	393,269	(331,299)	(357,294)	115,991	(773,131)	(952,464)
Cash - Beginning of Year	78,000	605,615	357,294	—	1,547,899	2,588,808
Cash - End of Year	\$ 471,269	\$ 274,316	\$ —	\$ 115,991	\$ 774,768	\$ 1,636,344
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Operating income (loss).....	\$ 413,758	\$ (262,434)	\$ 210,727	\$ 182,733	\$ (70,344)	\$ 474,440
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Depreciation.....	—	210,075	—	—	25,139	235,214
Change in Assets and Liabilities (Increase) decrease in						
receivables	—	(19,377)	(69)	16,034	4,441	1,029
Increase (decrease) in payables ..	(21,628)	19,331	(375)	654	(93,825)	(95,843)
Increase (decrease) in salaries and benefits payable	—	5,190	—	—	12,382	17,572
Net Cash Provided by (Used in) Operating Activities.....	\$ 392,130	\$ (47,215)	\$ 210,283	\$ 199,421	\$ (122,207)	\$ 632,412

Schedule of Net Position - Nonmajor Internal Service Fund

As of June 30, 2013

	Employee Benefit
Assets	
Current Assets	
Cash.....	\$ 245,032
Pooled investments	884,253
Receivables	
Accrued interest	<u>3,724</u>
Total Assets	<u>\$ 1,133,009</u>
Liabilities and Net Position	
Current Liabilities	
Accounts payable	\$ 2,416
Net Position	
Unrestricted	<u>1,130,593</u>
Total Liabilities and Net Position	<u>\$ 1,133,009</u>

**Schedule of Revenue, Expenses and Changes in Fund Net Position -
Nonmajor Internal Service Fund**

Year Ended June 30, 2013

	Employee Benefit
Operating Expenses	
Services and commodities.....	\$ 349,709
Nonoperating Revenue	
Investment income	<u>50,331</u>
Loss Before Transfers	(299,378)
Transfers in	<u>125,208</u>
Change in Net Position	(174,170)
Net Position - Beginning of Year.....	<u>1,304,763</u>
Net Position - End of Year	<u>\$ 1,130,593</u>

Schedule of Cash Flows - Nonmajor Internal Service Fund

Year Ended June 30, 2013

	Employee Benefit
Cash Flows From Operating Activities	
Cash paid to suppliers for goods and services.....	<u>\$ (353,369)</u>
Cash Flows From Noncapital Financing Activities	
Transfers in	<u>125,208</u>
Cash Flows From Investing Activities	
Interest received.....	<u>50,485</u>
Net Decrease in Cash	(177,676)
Cash - Beginning of Year	<u>422,708</u>
Cash - End of Year	<u>\$ 245,032</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss.....	\$ (349,709)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities	
Changes in Assets and Liabilities	
Decrease in payables	<u>(3,660)</u>
Net Cash Used in Operating Activities	<u>\$ (353,369)</u>

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

Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenue										
Property tax.....	\$ 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	\$ 10,241,000
Tax increment financing and other city tax	6,506,192	5,386,752	5,238,300	4,531,109	925,485	856,874	822,768	869,887	694,740	342,128
Licenses and permits.....	512,372	502,751	573,802	541,439	542,547	532,826	528,180	592,713	604,373	545,391
Use of money and property	641,024	657,236	658,559	715,090	874,905	1,135,512	1,198,796	1,089,406	916,855	657,703
Intergovernmental	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	3,423,035
Charges for service	747,635	842,441	808,083	432,527	408,310	367,322	394,383	388,304	357,767	384,108
Special assessments.....	17,085	13,910	18,069	19,323	21,446	22,848	23,716	24,340	59,444	12,795
Miscellaneous.....	10,815	244,913	53,871	365,070	318,639	377,097	287,072	409,139	375,854	306,974
Total Revenue	\$ 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	\$ 15,913,134
Expenditures										
Operating										
Public safety	\$ 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	\$ 5,655,995
Public works.....	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	2,189,523
Culture and recreation.....	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	2,235,656
Community and economic development...	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	1,090,282
General government	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	1,245,788
Debt service	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	1,769,025
Capital projects.....	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	2,118,065
Total Expenditures	\$ 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	\$ 16,304,334

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

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

We have audited, 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, 2013, 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 February 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 and other deficiencies we consider to be significant deficiencies.

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 13-I-R-1, 13-I-R-2, 13-I-R-3 and 13-I-R-4 to be material weaknesses.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying schedule of findings as items 13-I-R-5 and 13-I-R-6 to be significant deficiencies.

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, 2013 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
February 20, 2014

Schedule of Findings

Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

13-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.

13-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, 2013

13-I-R-3 Credit Cards

Prior Year Finding and Recommendation - The City has credit cards for use by various employees while on City business. The City has a policy related to credit cards for travel expenses in its personnel policy manual and a credit card use policy which was approved in May, 2013. Before the new policy was implemented, we found that supporting documentation was not always available to support credit card charges. The potential effect of this material weakness is that credit card charges may be used for personal or improper charges as well as lack of documentation to determine the public purpose.

Current Year Finding - We found that the same condition still existed prior to the passing of the new credit card use policy in May, 2013.

Auditor's Recommendation - The credit card use policy adopted in May, 2013 should be followed going forward.

City's Response - The City adopted a credit card use policy in May, 2013 which should address this finding going forward.

Auditor's Conclusion - Response accepted.

13-I-R-4 Asset Capitalization

Auditor's Finding - 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.

Auditor's Recommendation - 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.

City's Response - The City is reviewing its capitalization procedures to better identify when assets can be capitalized. The City is aware that the engineering department is tracking asset additions on a calendar year basis but limited staff time during the heavy summer construction season prevents them from changing to a fiscal year basis.

Auditor's Conclusion - Response accepted.

13-I-R-5 Finance/Late Charges

Auditor's Finding - During testing, we noted that the City paid finance/late charges on the City credit card statement. The payment of late charges does not appear to meet the public purpose doctrine. The potential effect of this significant deficiency is noncompliance with the Code of Iowa.

Auditor's Recommendation - The City should consider adopting a policy regarding the payment of public funds for finance/late charges.

Schedule of Findings

Year Ended June 30, 2013

City's Response - The City is evaluating the need for a policy at this time and will continue to monitor as we make internal efforts to minimize any finance/late charges.

Auditor's Conclusion - Response accepted.

13-I-R-6 Cell Phone Policy

Auditor's Finding - We noted during our audit that the City pays for City-owned cell phones. In addition, we noted that there is no policy in place governing the City-owned cell phones. The potential effect of this significant deficiency is possible personal use of City-owned cell phones.

Auditor's Recommendation - The City should consider adopting a policy regarding the City-owned cell phones. The policy should identify who has City cell phones and include an additional review of usage to ensure that cell phones are not being abused.

City's Response - The City is in the process of drafting a policy that addresses not only City-owned cell phones but also other mobile devices including tablets and iPads.

Auditor's Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting

13-II-A Certified Budget - Disbursements during the year ended June 30, 2013 did not exceed the amounts in the amended budget.

13-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
Wal-Mart	Food/supplies for meeting	\$ 76
Hy-Vee	Retirement party supplies	180
Hy-Vee	Alcohol	5
Visa	Finance charges	33
Various restaurants	Meal expenses of the City Manager and department heads	369
Various restaurants	Food expenses	130
UIHC Volunteer Services	Flowers	51
Staples	Coffee for public services	36

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.

Schedule of Findings

Year Ended June 30, 2013

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 City has had a flower policy on the books for many years and in April and May of 2013 passed additional policies on years of service awards, sales tax reimbursement, meal reimbursement, open houses and receptions which address most of the items noted here. The alcohol item was a one-time oversight.

Auditor's Conclusion - Response accepted.

- 13-II-C Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 13-II-D Business Transactions** - No business transactions were noted between the City and City officials or employees.
- 13-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.
- 13-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.
- 13-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.
- 13-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, 2012 certified only debt payments required in fiscal year 2013 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.

Schedule of Findings

Year Ended June 30, 2013

I3-II-I Urban Renewal Report - During our testing, we noted that the urban renewal report was filed after the deadline, 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 complete the urban renewal report by its due date and reconcile the data back to the audit report. The urban renewal report should be reviewed to ensure that errors are caught before filing.

City's Response - Last year was the first year the report was required. It took longer to accumulate the needed information required and the State was not holding cities to the due date in order to allow them more time to accurately file the report. The report filed in 2013 was timely filed.

Auditor's Conclusion - Response accepted.